

Chronology of financial markets

October 2002 - October 2003

October 2002

On October 15, the Central Bank announced a 30 bp cut in its interest rates, effective from October 21. After the cut, the Central Bank policy rate was 6.8%.

On October 21 it was announced that the Executive Committee on Privatisation and Samson eignarhaldsfélag ehf. had reached an agreement on the latter's acquisition of a 45.8% holding in Landsbanki Íslands hf. After this transaction, the state's holding in Landsbanki will be 2.5%. Following the agreement it was decided to continue the sales process for the state's holding in Búnaðarbanki. Two groups of investors were selected for further talks.

On October 22, Moody's Investors Service upgraded its foreign currency country ceiling for Iceland for bonds and bank deposits to its highest rating, Aaa, up from Aa3.

November 2002

On November 5, the Ministerial Committee on Privatisation announced its decision to begin talks with an investor group comprising Eignarhaldsfélagið Andvaka holding company, Eignarhaldsfélagið Samvinnutryggingar holding company, Vátryggingafélag Íslands hf. insurance company, Kaupfélag Skagfirðinga svf. cooperative, Ker hf. holding company and Samvinnulífeyrissjóðurinn pension fund, together with one or more foreign financial institutions, on their acquisition of a substantial shareholding in Búnaðarbanki Íslands hf. This decision was based on preconditions set by the Executive Committee on Privatisation and an evaluation by the British bank HSBC of documents submitted by the two parties with which the committee had held talks.

On November 6 the Central Bank announced a 50 bp cut in its interest rates, effective from November 11. After the cut, the Central Bank policy rate was 6.3%.

On November 12, Statistics Iceland began publica-

tion of two core indices to measure the underlying inflation trend. Under the joint declaration by the Government of Iceland and the Central Bank of Iceland from March 27, 2001 on an inflation target and a change in the exchange rate policy, Statistics Iceland was asked to calculate one or more indices which may be used to assess the underlying rate of inflation as further agreed by the Central Bank and Statistics Iceland. Core Indices 1 and 2 are the outcome of that work. Both use the same base as the Consumer Price Index, but the former excludes prices of vegetables, fruit, agricultural products and petrol, and the latter prices of public services as well.

On November 18, Standard & Poor's changed its outlook for the Republic of Iceland from negative to steady. It also affirmed both its ratings for the Republic of Iceland, at AA+/A-1+ for local currency and A+/A-1+ for foreign currency. The main reasons for the upgraded outlook were Iceland's improved external position, the successful privatisation of state-owned banks and ongoing good bank profitability at the end of a strong credit expansion phase.

December 2002

On December 10 the Swedish financial supervisory authority announced that it had approved Kaupþing banki's takeover of JP Nordiska bank of Stockholm. Kaupþing banki's takeover of JP Nordiska was thereby completed.

On December 12 the Central Bank announced a 50 bp cut in its interest rates, effective from December 17. After the cut, the Central Bank policy rate was 5.8%.

January 2003

On January 3 the Minister of Commerce and Minister of Finance, on behalf of the Treasury, signed an agreement with Samson eignarhaldsfélag ehf. holding company on the latter's acquisition of

the Treasury's 45.8% shareholding in Landsbanki Íslands hf.

On January 6, Iceland Stock Exchange revoked the membership of Fjárvernd-Verðbréf hf. securities house, effective from January 7, 2003. The reason was persistent defaults on payment of membership fees.

On January 16 the Minister of Commerce and Minister of Finance signed an agreement on behalf of the Treasury with Egla hf., Vátryggingafélag Íslands hf., Samvinnulífeyrissjóðurinn and Eignarhaldsfélagið Samvinnutryggingar on the investor group's acquisition of the Treasury's 45.8% shareholding in Búnaðarbanki Íslands hf. Egla is a limited company owned by Hauck & Aufhäuser Privatbankiers KGaA of Germany, Ker hf. and Vátryggingafélag Íslands hf.

February 2003

On February 4, the Financial Supervisory Authority (FME) confirmed that Samson eignarhaldsfélag ehf. was suitable to control a qualifying holding in Landsbanki Íslands hf.

On February 4, Moody's Investors Service affirmed its A3/P2/C credit rating for Landsbanki Íslands hf.

On February 6, the Central Bank began purchasing 1.5 million US dollars in the domestic interbank market on a daily basis, instead of the previous three times a week.

On February 7, it was announced that Kaupþing banki hf. had acquired the London-based financial company BMY Corporate Finance Limited, which it renamed Kaupthing Limited. The company is authorised by the UK Financial Supervisory Authority to conduct corporate finance activities.

On February 10, the Central Bank announced a 50 bp cut in its interest rates, effective from February 11 and 18. After the cut, the Central Bank policy rate was 5.3%.

On February 12, it was announced that the UK Financial Supervisory Authority (FSA) had approved the change of control of Heritable Bank Limited which is a result of Samson Holding ehf.'s acquisition of a 45.8% share in Landsbanki Íslands hf. The FSA thereby approved Samson Holding ehf.'s acquisition of Landsbanki Íslands hf. as regards Landsbanki's operations in the UK.

On February 25, the Government privatised its remaining 2.5% of the total share capital of Landsbanki Íslands hf. Following the sale, the Treasury no longer holds any stake in Landsbanki.

On February 28, the Central Bank announced a change in the required reserves of credit institutions. As of March 21 the required reserve ratios, i.e. as a proportion of total tied deposits, were reduced to 1% and 3% from 1.5% and 4% respectively. As of April 1, credit institutions' scope for using required reserves as collateral security for payment system settlements will be limited to half of the negotiated collateral amount. The aim behind this restriction is to ensure that credit institutions have scope on their required reserve accounts to meet swings in their liquidity positions.

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March 2003

On March 7, the Government privatised its remaining 9.11% of the total share capital of Búnaðarbanki Íslands hf. Following the sale, the Treasury no longer holds any stake in Búnaðarbanki.

On March 18, the FME confirmed that Egla hf., Eignarhaldsfélagið Samvinnutryggingar hf., Samvinnulífeyrissjóðurinn and Vátryggingafélag Íslands hf. were suitable to control a qualifying holding in Búnaðarbanki Íslands hf.

On March 27, the boards of directors of Kaupþing banki hf. and Búnaðarbanki Íslands hf. announced their decision to commence formal talks on cooperation or a merger between the banks.

On March 31, Fitch affirmed its credit rating of AA- for the Republic of Iceland for long-term obligations in foreign currency, AAA for domestic obligations and F1+ for short-term foreign debt. The outlook on the long-term ratings was changed from negative to stable. The main reasons for the upgrade are the strength of the Icelandic economy and the swift adjustment towards macroeconomic balance. Fitch said the main constraint on Iceland's ratings was its relatively high debt burden.

April 2003

On April 8, Moody's Investors Service announced that it had upgraded its credit ratings for Íslandsbanki hf. The long-term deposit and debt ratings were upgraded from A2 to A1, the subordinated debt rating from A3 to A2 and the financial strength rating from C+ to B-. The P-1 short-term rating was confirmed.

On April 10, Moody's Investors Service announced that it had upgraded its short-term credit rating for Búnaðarbanki Íslands hf. from P-2 to P-1. The long-term deposit and debt rating was affirmed at A3 and the financial strength rating at C.

On April 10, Moody's Investors Service announced that it had upgraded its short-term credit rating for Landsbanki Íslands hf. from P-2 to P-1. The long-term rating was affirmed at A3.

On April 14, it was announced that the Boards of Directors of Búnaðarbanki Íslands hf. and Kaupþing banki hf. had agreed to propose to their respective shareholders' meetings that the companies be merged. The proposed name of the merged bank is Kaupþing Búnaðarbanki hf.

On April 28, Búnaðarbanki Íslands hf. announced an agreement on the sale of its operation in Luxembourg to Landsbanki Íslands hf. The agreement is conditional on the merger between Búnaðarbanki Íslands hf. and Kaupþing banki hf. being realised no later than June 1, 2003.

May 2003

On May 8, Íslandsbanki hf. notified the Financial Supervisory Authority (FME) of its intention to open a branch in Luxembourg.

On May 22, it was announced that Búnaðarbanki Íslands hf. and Landsbanki Íslands hf. had signed a final agreement on the transfer of ownership of Búnaðarbanki International S.A., Luxembourg.

On May 26, preparation for the formal merger between Búnaðarbanki Íslands hf. and Kaupþing banki hf. was completed after it was approved by shareholders in the two banks. The following day the FME approved the merger, with reference to the appropriate act of law.

June 2003

On June 11, the Governors of the central banks of Denmark, Finland, Iceland, Norway and Sweden signed a Memorandum of Understanding on financial crisis management. The MoU is applicable when a severe problem occurs in a bank which is domiciled in a Nordic country and has cross-border establishments in other Nordic countries.

On June 19, Standard & Poor's affirmed all its ratings for the Republic of Iceland, at AA+/A-1+ for local currency and A+/A-1+ for foreign currency. Its outlook for the Republic of Iceland is steady.

July 2003

On July 4, a new currency basket was announced following the annual revision on the basis of Iceland's foreign trade in goods and services the preceding year. The new basket and changes from the previous year are shown on the next page.

On July 16, Iceland Stock Exchange announced a new method for selecting companies into the ICEX-15 Index. On March 10, 2004 it will announce the first ICEX-15 based on the new method. The index with that composition will be in effect from April 1, 2004 to June 30, 2004. The principal changes from the current method are:

- Introduction of a maximum spread requirement
- free-float adjustment for market capitalisation of companies
- ICEX-15 constituents are required to publish news concurrently in Icelandic and English

The purpose of these changes is to promote liquidity of equities.

August 2003

On August 26, Fjárfestingarfélagið Straumur hf. investment company announced an agreement to acquire a 34.72% holding in Framtak Fjárfestingarbanki hf. investment bank, further to its previous holding of 57.08%.

On August 28, it was announced that the Board of Directors of Landsbanki Íslands hf. had confirmed the issue of shares for a nominal value of 344,518,275 kr. in connection with the bank's pur-

New currency basket 2003 (%)

Based on foreign trade in 2002

<i>Region</i>	<i>Currency</i>	<i>Exports</i>	<i>Imports</i>	<i>Average</i>	<i>Change from previous basket</i>
USA.....	USD	22.17	27.29	24.73	-0.10
UK.....	GBP	14.10	10.59	12.35	-0.43
Canada.....	CAD	1.33	0.84	1.09	-0.14
Denmark.....	DKK	7.56	8.93	8.24	0.08
Norway.....	NOK	6.04	6.78	6.41	-0.37
Sweden.....	SEK	1.71	5.12	3.42	-0.06
Switzerland.....	CHF	1.51	0.91	1.21	-0.80
Euro area.....	EUR	42.38	35.76	39.07	1.99
Japan.....	JPY	3.20	3.78	3.48	-0.17
Total.....		100.00	100.00	100.00	0.00
<i>North America</i>		23.50	28.13	25.82	-0.24
<i>Europe</i>		73.30	68.09	70.70	0.41
<i>European Union</i>		65.75	60.40	63.08	1.58
<i>Japan</i>		3.20	3.78	3.48	-0.17
Total.....		100.00	100.00	100.00	0.00

chase of a stake in Fjárfestingarfélagið Straumur hf. investment company. At the same time the Board of Landsbanki announced a decision to increase its nominal share capital by a further 309,778,103 kr. Landsbanki's nominal share capital following these changes is 7,500,000,000 kr.

September 2003

On September 9, Kaupþing Búnaðarbanki hf. announced its acquisition of Tyren Holding AS, a Norwegian asset management company specialising in alternative asset management. After this acquisition, Kaupþing Búnaðarbanki operates in all five Nordic countries.

On September 18, it was announced that Íslandsbanki hf. had negotiated the acquisition of a 33% shareholding in Sjóvá-Almennar tryggingar hf. insurance company. Íslandsbanki also requested authorisation from the Financial Supervisory Authority (FME) to own a qualifying holding in the company, as provided for in Act No. 60/1994.

October 2003

On October 3, a shareholders' meeting of Íslandsbanki hf. authorised its board of directors to increase the company's share capital by a nominal value of up to 1,500,000,000 kr. with a new subscription issue. Part of this authorisation was exercised on October 6 when the bank's share capital was raised by a nominal 500 m.kr., from 9 b.kr. to 9.5 b.kr. Authorisation by the shareholders' meeting to raise share capital by up to an additional 1 b.kr. remains in effect.

On October 7, Landsbanki Íslands hf. made an agreement to increase its shareholding in Landsafl hf. property leasing and management company from 25.5% to 74.5%.

On October 10, the Treasury bond RIKB 03 1010 matured. The estimated settlement amount was 11 b.kr.

On October 15, Landsbanki Íslands hf. acquired a further 25.5% in Landsafl hf., bringing its total shareholding to 100%.

On October 16, the Swedish investment company Havsfrun AB announced that it had approved the sale of its shareholding in Finnish investment company Norvestia Oyj to Kaupþing Búnaðarbanki hf. The condition set for the acquisition to be able to go ahead was thereby fulfilled.

On October 20, it was announced that Fjárfestingarfélagið Straumur hf. had acquired a 99.3% shareholding in Framtak fjárfestingarbanki hf.

On October 20, Fjárfestingarfélagið Straumur hf. announced that it had applied to the FME for a licence to operate as an investment bank in accordance with Article 4, paragraph 3, item 1 of Act No. 161/2002 on Financial Undertakings.

On October 20, it was announced that Fjárfestingarfélagið Straumur hf. and Brú fjárfestingar hf. had signed an agreement on a merger between these two investment companies, effective retroactively from July 1, 2003.

On October 20, the Central Bank of Iceland announced changes to the payment amount limits and operating times of its RTGS system. The Board of Governors issued new Rules on Activities of

Netting Systems and Rules on the Central Bank of Iceland Real-Time Gross Settlement System which replace Rules No. 951 from December 29, 2000, on Access to Settlement Accounts in the Central Bank of Iceland, and enter into force on November 1, 2003.

The following change was made to the RTGS payment amount limits: The minimum amount of a payment handled in the Central Bank's RTGS system will be lowered from 25 m.kr to 10 m.kr. Payment orders amounting to 10 m.kr. or more will therefore be handled in the RTGS system. Payment orders for amounts up to 10 m.kr. will be handled in the netting system. However, all payment orders in connection

with settlements in a netting system and securities settlement system are handled in the RTGS system irrespective of their amount.

The following change was made to the RTGS operating times: The regular operating time of the RTGS system, which has been from 08.45 to 18.00 on regular banking days, will be shortened and be from 09.00 to 17.00 on regular banking days. From 08.45 to 09.00 the system will be open for payment orders in connection with the settlement of securities transactions. The system will also be open from 17.00 to 17.30 for banks to settle payments among themselves.