

# Economic and monetary chronicle 2007

## February

On February 6, Moody's Investors Service downgraded the financial strength rating of Glitnir from C+ to C, and affirmed the bank's A1/P-1 credit rating.

On February 20, the Central Bank of Iceland made króna-denominated bonds issued outside Iceland eligible as collateral for its loan facilities. Conditions include a minimum issue of 20 b.kr.

On February 23, Moody's Investor Service upgraded the credit ratings of Kaupthing Bank, Glitnir and Landsbanki due to changes in its joint default analysis (JDA) methodology. Long-term credit ratings were upgraded to Aaa, from A1 for Glitnir and Kaupthing Bank and from A2 for Landsbanki. Ratings for short-term obligations in local and foreign currencies and for financial strength were affirmed at P-1 and C, respectively. Shortly after the upgrade, Moody's announced that it would review its methodology and issue new ratings in April 2007.

## March

On March 1, the Housing Financing Fund raised its loan-to-value ratio from 80% to 90% and its maximum mortgage amount from 17 m.kr. to 18 m.kr.

On March 2, Landsbanki announced the sale of all its shares in Landsafl real estate investment company. The sale positively impacted Landsbanki's equity by approximately 3.5 b.kr.

On March 15, 2007 Fitch Ratings downgraded Iceland's foreign and local currency issuer default ratings to A+ and AA+ from AA- and AAA respectively. The outlook on both ratings was stable. The short-term foreign currency rating was also downgraded to F1 from F1+ and the country ceiling was lowered to AA- from AA.

On March 16, Parliament amended the Act on the Affairs of the Elderly whereby taxpayers paying only personal capital income tax now pay the same rate of contribution to the Senior Citizens' Building Fund as payers of personal income tax on wages.

On March 17, Parliament passed a government bill exempting companies from income tax on their gains on trading in equities that they have held for more than one year.

On March 16, Glitnir announced that it had completed the acquisition of 68.1% of shares in FIM Group Corporation of Finland. Glitnir planned to launch a tender offer for the remaining shares in FIM Group in early April. In all, Glitnir will pay 30 b.kr. to acquire FIM Group.

On March 29, the Board of Governors of the Central Bank of Iceland announced its decision to leave the Bank's policy rate unchanged.

## April

On April 10, Moody's Investor Service downgraded its credit ratings for Glitnir, Kaupthing Bank and Landsbanki following a review of its new Joint Default Analysis (JDA) rating methodology. The banks' longterm local currency ratings were lowered from Aaa to Aa3. Their ratings for short-term debt and financial strength remained unchanged at P-1 and C respectively.

On April 20, the Financial Supervisory Authority (FME) granted Saga Capital a licence to operate as an investment bank.

## May

On May 3, the Treasury sold its 15.2% shareholding in Hitaveita Suðurnesja (Suðurnes Regional Heating) to the privately owned Geysir Green Energy for 7.6 b.kr.

On May 16, the Board of Governors of the Central Bank of Iceland announced its decision to leave the Bank's policy rate unchanged.

On May 16, Glitnir completed its public tender offer for all issued and outstanding shares and option rights in FIM Group Corporation of Finland. Afterwards, Glitnir's total holding in FIM was 98.28%. FIM was included in Glitnir's consolidated statements as of April 1, 2007.

On May 22, Straumur-Burðarás investment bank announced its acquisition of a majority shareholding in the Finnish bank eQ Corporation and an offer for the outstanding shares and option rights in it. The combined value of the acquisitions and offer is €260 million.

From May 31 to June 11, an IMF mission visited Iceland for consultations with representatives of the authorities and the private sector. The mission's concluding statement was published on the websites of the IMF and Central Bank of Iceland on June 11.

## June

On June 6, Rating and Investment Information (R&I), a Japan-based rating agency, assigned an A+ credit rating to Kaupthing Bank, the agency's first rating for an Icelandic bank. The rating outlook is stable.

On June 6, R&I Rating of Japan announced its first rating for the Republic of Iceland, assigning it a foreign currency issuer rating of AA+. The outlook was stable. The rating was announced in connection with a formal request by Kaupthing Bank for a rating from the agency. R&I Ratings also decided to assign a rating to the Republic of Iceland, although this had not been requested by the authorities.

On June 13, parliament elected a new Supervisory Board for the Central Bank of Iceland, pursuant to Article 26 of the Central Bank Act no. 36 from May 22, 2001. At its first meeting, the Supervisory Board elected Halldór Blöndal as Chairman and Jón Sigurðsson as Deputy Chairman.

On June 13, parliament passed amendments to the Social Security Act and Act on the Affairs of the Elderly whereby basic pension payments from the Social Insurance Administration are no longer means-tested against earnings from employment of pensioners aged 70 and older. The reform is expected to cost the Treasury 6-700 m.kr. annually.

On June 21, new rules on Central Bank of Iceland facilities for financial undertakings entered into force. The amendments were largely of a technical nature but the Bank drew attention to two specific aspects of the changes. It was decided to rename the Central Bank's lending facility for financial companies to which the policy rate applies. This facility was known as repos but is now termed collateral loans, because strictly speaking it did not involve repurchase agreements. The second change relates to the numerical presentation of the policy interest rate. Until now, the Central Bank has announced its policy rate in terms of the annual rate of return and not the nominal interest rate. It was decided that all Central Bank interest rates will in future be stated and announced as nominal rates.

On June 26, Kaupthing Bank announced the issue of subordinated bonds in the amount of EUR 250 million or approximately 21 b.kr. The bonds are classified as Tier 1 capital.

## July

On July 5, the Board of Governors of the Central Bank of Iceland announced its decision to leave the Bank's policy interest rate unchanged.

On July 5, the Financial Supervisory Authority (FME) approved the merger of VBS Investment Bank Inc. and Fjárfestingarfélag sparisjóðanna (FSP) under the name VBS Investment Bank Inc.

On July 6, the government announced a one-third cut in the cod quota allocation for the coming fishing year and plans for offsetting policy actions. The actions are primarily designed to moderate the initial impact of the income reduction associated with a cut in the cod catch, to support the fishing communities and to bolster marine research. The government's offsetting policy actions call for approximately 6.5 b.kr. to be spent over the next three years on

new projects designed to support economic activity in the country, strengthen education, and provide alternative options for individuals who will suffer loss of income. In addition, expenditure of more than 4 b.kr. will be disbursed on an expedited basis for previously planned projects in the transportation and communications sector. Work on the projects involved is scheduled to be undertaken in 2008-2010.

On July 30, the National Debt Management Agency solicited tenders for Treasury Bills RIKV 07 1101. Bids were requested for the issue and the total amount was estimated to be in the 2,500-5,000 m.kr. range. The nominal value of all bids received was 8,500 m.kr. Bids were accepted for a nominal amount of 5,000 m.kr. at an average yield of 13.82%. The highest yield of bids accepted was 13.90% and the lowest was 13.58%.

On July 31, the Board of Directors of Landsbanki Íslands exercised its authorization to raise the share capital of Landsbanki Íslands by a nominal amount of 172,076,284 kr. in accordance with a resolution approved by its Annual General Meeting, held on February 9, 2007. The new shares will be used as payment for 90% of the total price payable for the takeover of the UK broker and investment bank Bridgewater Group plc. New shares in Landsbanki were issued on August 8 and registered in the OMX Nordic Stock Exchange Iceland on August 9. Bridgewater became part of the consolidated accounts of Landsbanki as of August 10, 2007. The operations of Bridgewater and Teather & Greenwood will be merged under the name of Landsbanki Securities UK.

### **August**

On August 15, Kaupthing Bank announced the signing of a purchase agreement for all the shares of the Dutch bank NIBC Holding BV for approximately EUR 3 billion or 270 b.kr. Kaupthing will pay the seller part of the purchase price with an issue of 110 million new shares, worth a total of EUR 1,360 million. EUR 1,625 million is to be paid in cash from disposable funds from a subordinated bond issue and the proceeds of 40 million new shares to be offered to pre-emptive right shareholders.

On August 29, the FME granted Straumur-Burdaras Investment Bank an operating licence as a commercial bank.

On August 30, the National Debt Management Agency solicited tenders for Treasury Bills RIKV 07 1203. Bids were requested for the issue and the total amount was estimated to be in the 2,500-5,000 m.kr. range. The nominal value of all bids received was 7,900 m.kr. Bids were accepted for a nominal amount of 4,450 m.kr. at an average yield of 14.13%. The highest yield of bids accepted was 14.31% and the lowest was 13.95%.

### **September**

On September 3, the Board of Directors of Straumur-Burdaras Investment Bank, acting under the company's resolution and the decision of a meeting of shareholders held on March 8, 2007, decided to record the Bank's share capital in euros instead of Icelandic krónas. Straumur's share capital will be EUR 109,493,129 instead of ISK 10,359,144,971. The conversion will not change shareholders' ownership proportions within the company and, as such, will not affect the value of each individual's holdings.

On September 4, it was announced that the Minister of Finance had decided to entrust the Central Bank of Iceland with the issue of government's domestic market securities, which had previously been handled by the National Debt Management Agency. This places the supervision of all Treasury's loan operations within a single agency.

On September 6, the Board of Governors of the Central Bank of Iceland announced its decision to leave the Bank's policy interest rate unchanged.

On September 19, tenders were solicited for the issue of 2-year Treasury Bills RIKB 09 0612. The nominal value of all bids received was 8,000 m.kr. and bids were accepted in the amount of 4,300 m.kr. The average required rate of return was 13.46%. In the non-competitive average price part of the tender conducted over the next two days, 430 m.kr. were on offer, all of which was taken up by Primary Dealers. At the end of September the outstanding amount under the issue was 15,505 m.kr. Under the program for the year 2007, it was planned to issue Treasury Bills in the nominal amount of 25 b.kr., and that target was achieved with this tender.

On September 20, the FME authorized the conversion of Sparisjóður Reykjavíkur og nágrennis (SPRON) to a limited liability company. SPRON is considered a limited liability company as of April 1, 2007. Shares of SPRON were accepted for trading on the main market of the OMX Nordic Stock Exchange Iceland on Tuesday, October 23. The number of SPRON shares issued is 5,004,000,000 and the nominal value of each share is one króna.

On September 27, the National Debt Management Agency solicited tenders for Treasury Bills RIKV 08 0103. Bids were requested for the issue and the total amount was estimated to be in the 2,500-5,000 m.kr. range. The nominal value of all bids received was 8,250 m.kr. Bids were accepted for a nominal amount of 3,550 m.kr. at an average yield of 14.06%. The highest yield of bids accepted was 14.12% and the lowest was 13.95%.

### **October**

On October 1, the operations of the National Debt Management Agency were transferred to the Central Bank of Iceland. The unit's name is "Lánamál ríkisins" in Icelandic and Government Debt Management in English.

On October 11, Kaupthing Bank announced the issue of subordinated bonds in the amount of 400 million US dollars or approximately 24 b.kr. The bonds are classified as Tier 1 capital.

On October 12, Landsbanki Íslands issued subordinated bonds in the amount of 400 million US dollars or approximately 24 b.kr. The bonds are classified as Tier 1 capital.

### **November**

On November 1, the Board of Governors of the Central Bank of Iceland decided to raise the Bank's policy interest rate by 0.45 percentage points to 13.75%.

On November 20, rating agency Standard & Poor's announced that it had changed the outlook for the Republic of Iceland's sovereign credit rating from stable to negative. The agency affirmed its foreign currency sovereign credit ratings of A+ for long-term obligations and A-1 for short-term obligations. The local currency sovereign ratings are AA for long-term obligations and A-1+ for short-term obligations.

### **December**

On December 6, the supplementary budget for 2007 was approved by Parliament. Estimated tax revenues increased by 20% from the original budget, and estimated fiscal performance improved from 9 b.kr. to 83 b.kr.

On December 12, the Norwegian Ministry of Finance approved the merger of Glitnir Bank ASA and BNbank. The merged entity has also been authorised to acquire all shares in Glitnir Factoring ASA and Glitnir Securities ASA, as well as a 70% share in Glitnir Property Holding AS, with the subsidiary Glitnir Property Group AS.

On December 13, the fiscal budget for 2008 was approved by Parliament, with revenues amounting to 473 b.kr., expenditures amounting to 434 b.kr., and a surplus of 39 b.kr. The increase in revenues over and above the 2007 budget was estimated at 0.3% and the increase in expenditures at 11½%. On the same day, Parliament approved a temporary reduction in oil charges, from 45 kr./l. to 41 kr./l., and an indefinite extension of the temporary reduction in the fee schedule for special per-kilometre fees for diesel vehicles.