

# Chronology of financial markets

## July 2002 - July 2003

### July 2002

On July 10, the Executive Committee on Privatisation, on behalf of the Minister of Commerce, requested notification from parties interested in acquiring a shareholding of at least 25% in Landsbanki and Búnaðarbanki. A domestic or foreign investor was sought with the aim of strengthening the bank and boosting competition in the Icelandic financial market. It was stated that a 25% share would be sold in only one of the two banks if an acceptable price were fetched and talks led to a sale. The aim was then to sell the shareholding in the other bank later this year.

On July 19, it was announced that the Housing Financing Fund and Debt Management Agency had signed an agreement on the implementation of the Fund's agreement with market makers for housing bonds and housing authority bonds in the secondary market for the period July 1, 2002 to June 30, 2003. The Agency began formal supervision of this arrangement on Monday, 22 July.

### August 2002

On August 30, the Central Bank announced a 30 bp cut in its interest rates, effective from September 1. After the cut, the Central Bank policy rate was 7.6%.

### September 2002

On September 10, the Ministerial Committee on Privatisation announced its decision to begin talks with Samson eignarhaldsfélag ehf. holding company on the acquisition of a substantial shareholding in Landsbanki Íslands hf. At the same time it was decided to launch preparations for the sale of a substantial shareholding in Búnaðarbanki Íslands hf.

On September 18, the Central Bank announced a 50 bp cut in its interest rates, effective from September 21. After the cut, the Central Bank policy rate is 7.1%.

On September 30, SPRON acquired Kaupþing banki hf.'s entire holding in Frjálsi fjárfestingarbankinn hf. investment bank.

### 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 publication 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.

### 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 Bunadarbanki 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 below.

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### 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
North America.....		23.50	28.13	25.82	-0.24
Europe.....		73.30	68.09	70.70	0.41
European Union.....		65.75	60.40	63.08	1.58
Japan.....		3.20	3.78	3.48	-0.17
Total.....		100.00	100.00	100.00	0.00

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