

## Economic and monetary chronicle

### August 2004

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

On August 12, Íslandsbanki hf. made an offer to acquire Kredittbanken AS of Norway, at a price of NOK 7.25 per share. The offer price was 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 was conditional upon acceptance by 90% of shareholders 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 a Housing Financing Fund auction of HFF bonds.

On August 30, Fitch Ratings affirmed Íslandsbanki hf.'s ratings at A for long-term obligations and F1 for short-term obligations. The outlook was also announced as stable.

### September 2004

On September 17, the Central Bank of Iceland announced that it would raise its policy interest rate (i.e. its repo rate in transactions with credit institutions) by 0.5 percentage points to 6.75% as of September 21. The Bank's other interest rates were also raised by 0.5 percentage points on September 21.

On September 27, Íslandsbanki hf. increased its share capital by a nominal amount of 200 m.kr. After the increase, total listed nominal share capital in the bank on the ICEX Main List amounted to 10.2 b.kr. Average price per share was 10.80 kr.

On September 29, KB banki hf. announced that its acquisition of the Danish bank FIH A/S had been fully cleared by the Danish and Icelandic financial supervisory authorities, cf. its announcement from June 14. The announcement said that the acquisition was largely financed with a subordinated bond issue and pre-emptive rights issue of new share capital.

On September 30, the nominal share capital in Straumur Fjárfestingarbanki hf. investment bank was raised to 5.4 b.kr. Part of the new share issue was used to acquire a 14.41% share in Íslandsbanki hf. from Burðarás hf. investment holding company (which sold 5.33%), Landsbanki Íslands hf. (4.67%) and Landsbanki Luxembourg (4.42%).

On September 30, H.F. Verðbréf securities house set up a market for trading primary guarantee capital in Sparisjóður Reykjavíkur og nágrennis savings bank (SPRON).

### October 2004

On October 1, the budget proposal bill for 2005 was presented to parliament. It assumed a surplus of 11.2 b.kr. The bill also presented the government's medium-term fiscal programme for 2005 to 2008.

On October 6, the state Housing Financing Fund (HFF) raised its maximum loan amount for both new and secondary market housing to 11.5 m.kr. At the same time, the maximum combined amount of ordinary mortgage loans and secondary mortgages was set at 13 m.kr.

On October 15, new shares in KB banki hf. to a nominal value of 1.1 b.kr. were listed on ICEX. After the

increase, the total nominal value of listed shares in the bank on the ICEX Main List amounted to 6,606,856,400 kr. Total sale price of the new shares was 52.8 b.kr.

On October 15, HFF increased its loan-to-value ratio from 85% of the fire insurance value of a property, to a maximum of 100%.

On October 18, it was announced that Íslandsbanki hf.'s takeover of Kredittbanken was completed. The takeover bid was accepted by 99.4% of shareholders.

From October 20 to 25, IMF staff visited Iceland for discussions on the economy with officials from the Central Bank, government and private sector. The IMF staff's concluding statement was published on the Central Bank's website on October 29.

On October 29, the Central Bank of Iceland announced that it would raise its policy interest rate on repo transactions with credit institutions by 0.5 percentage points to 7.25% as of November 2. The interest rate on credit institutions' current accounts with the Bank was raised by 0.75 percentage points on November 1.

#### November 2004

On November 3, Moody's Investors Service announced the upgrading of KB banki hf.'s credit rating. The bank's long-term deposit and senior debt ratings were upgraded from A2 to A1. The subordinated debt rating was upgraded to A2 from A3 and its C+ financial strength rating was affirmed. The short-term rating of P-1 was also affirmed, which is the highest rating given.

On November 5, Íslandsbanki hf. announced plans to offer mortgage loans with a loan-to-value ratio of up to 100% market value. With a maturity of up to 40 years, the loans would be subject to certain conditions. Other commercial banks and some savings banks followed suit and announced plans to offer similar mortgage terms.

On November 13, parliament approved a law on the pay conditions of primary school teachers and principals, ending a teachers' strike which had lasted since September 20. The law provided that, if contracting parties had not signed a wage agreement before November 20, 2004, the Supreme Court would appoint a three-man tribunal to decide, before February 28, 2005, the pay and terms of members of the Association of Teachers in Primary and Lower Secondary Schools and the Association of Headmasters with the local authorities that negotiate with them through the joint municipal wage committee. A new agreement was signed on November 17 and the result of a ballot on it was scheduled to be announced on December 6.

On November 16, Moody's Investors Service affirmed Íslandsbanki hf.'s A1 rating for long-term deposit and senior debt and P-1 rating for short-term obligations. The bank's financial strength rating of B- was placed on review.

On November 16, Reykjavík City Council approved an increase in the municipal tax rate from 12.7% to the maximum authorised rate of 13.03%. Real estate tax was also raised from 0.320% to 0.345%. The increases will generate an estimated 0.9 b.kr. in extra annual revenue for the city.

On November 22, new shares in Íslandsbanki hf. to a nominal value of 1 b.kr. were listed on ICEX. After the increase, the total nominal value of listed shares in the bank on the ICEX Main List amounted to 11.2 b.kr. Total sale price of the new shares was 10.65 b.kr.

On November 26, Fitch Ratings affirmed Íslandsbanki's long-term rating of A, short-term rating of F1, individual rating of C and support rating of 2. The outlook was stable.

On November 26, Fitch Ratings affirmed Landsbanki hf.'s long-term rating of A, short-term rating of F1, individual rating of C and support rating of 2. The outlook was stable.