

**Ministry of Commerce  
Iceland**

**Structural Changes in the  
Financial Markets in Iceland  
-  
Information Memorandum**

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# Information Memorandum

on the Structural Changes in the  
Financial Markets in Iceland

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# Information Memorandum

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## Executive Summary

### The Structural Changes

This memorandum sets out to describe the ongoing changes in the financial markets, the incorporation of two state-owned commercial banks, Landsbanki Íslands and Búnadarbanki Íslands, and the merger of four investment credit funds into the Icelandic Investment Bank and the New Business Venture Fund.

### Main Objectives

The main objectives of the restructuring are as follows:

- Reduce government equity involvement in the financial sector and the use of state guarantees.
- Enhance competition and increase efficiency.
- Broaden the range of services available.
- Increase international attractiveness.

### The Incorporation are state-owned.

Two of the three commercial banks involved in retail of **state-owned Banks** banking

Recent laws stipulate the restructuring of the two state-owned banks into limited liability companies, effective 1 January 1998.

### The Merger of the Investment Credit Funds

New legislation merges four investment credit funds, the Fisheries Investment Fund, the Industrial Loan Fund, the Export Credit Fund and the Industrial Development Fund, into two new entities, the Icelandic Investment Bank and the New Business Venture Fund. The merger will take effect on 1 January 1998.

### Privatisation

#### *a) The Incorporated Banks*

The sale of shares in the new banks will not be permitted without the approval of the Althingi (Parliament). The Minister may, however, authorise the issuing of new shares for the purpose of strengthening the equity position of the banks. The total holdings of other parties may not exceed 35% of the total share capital.

*b) The two Merged Entities*

The sale of up to 49% of the shares of the Icelandic Investment Bank has already been authorised. Further sales will need the approval of Althingi. The New Business Venture Fund will be an independent state-owned institution.

**Operations**

*a) The Incorporated Banks*

The two commercial banks will continue the current activities of the state-owned banks in providing the full range of commercial banking services.

*b) The two Merged Entities*

The Icelandic Investment Bank Ltd. will provide all sectors of the Icelandic economy with long-term credit and thus carry on the lending activities of the four investment credit funds, building on their customer relationships and market knowledge.

The New Business Venture Fund will focus on venture capital investments in all sectors of the Icelandic economy and serve as a catalyst for private venture capital.

**State Guarantees**

*a) The Incorporated Banks*

There will be no statutory state guarantee of the obligations that the new banks enter into but the state guarantee on all obligations entered into before 1 January 1998 will remain intact until these obligations have been fully repaid. However, state guarantees for deposits, other than term deposits shall cease on that date.

*b) The two Merged Entities*

The state guarantees on current obligations of the four investment credit funds will remain unchanged, while no such guarantee is provided on new ones of the Icelandic Investment Bank. The same applies to the New Business Venture Fund except as regards the Export Loan Insurance Department, the obligations of which will carry a state guarantee.

## Summary of Consolidated Accounts<sup>1</sup>

a) The state-owned Banks (year-end 1996 figures in ISK millions)<sup>2</sup>

	L	Búnadarbanki Group
- ISK millions		2.379
Net Operating Income	3,61%	3.569
Total Assets	262	54.176
Solvency Ratio	6.593	10,2%
Number of Employees	4,1%	529

3

		ILF & ECF		Total
- ISK millions		498		1.154
Net Operating Income	1,75%	811	2,74%	1.749
Total assets	320	17.506	104	51.644
Solvency ratio	5.625	26,1%	2.481	
Number of Employees	6,0%	18		47

FIF: Fisheries Investment Fund,

ILF: Industrial Loan Fund,

IDF: Industrial Development Fund.

	IIB
Total assets	520
	8.406

4

## Introduction

sector where new legislation has opened up the banking and securities markets and brought them into line with those of Iceland and other countries have been removed.

economic activity that private parties are willing and able to undertake. This has involved the selling of a number of state-

Privatisation in general and restructuring of the financial markets this year involve changes to some of the largest banks and four investment credit funds.

changes in the financial sector are explained in Chapter 2, which discusses the background to the proposed changes and

banks in question. The legislative provisions concerning the changes are then discussed. Chapter 4 deals with the four investment credit funds and how they will be merged to form two new entities. Furthermore, this Chapter contains a discussion of the legislative provisions regarding this process and the future operations of the Icelandic Investment Bank and the New Business Venture Fund. Chapter 5 deals with the future ownership of the financial institutions.

Appendices I-III contain English translations of the full text of the three legal Acts dealing with the incorporation of the two commercial banks, the establishment of the Icelandic Investment Bank and the establishment of the New Business Venture Fund. Appendix IV provides facts and figures about current financial institutions.

## **2. Restructuring of the Financial Sector**

### **2.1 Financial Sector Liberalisation and Structural Change**

In recent years the financial sector in Iceland has undergone fundamental changes. The financial sector legislation, including the legislation on banking and the securities market, has been totally rewritten and brought into line with that of other European countries based on the relevant European Union directives. The foreign exchange regulations were liberalised in several phases in the early to mid-1990s and the last remaining foreign exchange controls were abolished in 1995.

In addition to regulatory liberalisation in recent years, the financial sector has seen several important structural changes:

- Companies, which in Iceland have traditionally been closely held, have increasingly gone public and issued equity on the Iceland Stock Exchange or on the over-the-counter (OTC) market. In June 1997 there were 37 companies listed on the Iceland Stock Exchange, whereas they were only 17 three years ago. Shares in more than 60 companies were traded on the OTC market at the same time. New share issues amounted to ISK 12.2 billion in 1996 compared to ISK 2.9 billion in 1995. The market value of listed companies and the companies traded on the OTC market increased from ISK 35 billion at the end of 1993 to ISK 132 billion at the end of 1996.
- An active bond market has developed providing strong companies with direct access to funding in the capital market instead of having to rely entirely on banks or other traditional intermediaries. The value of all market securities except shares rose from ISK 174 billion at the end of 1993 to ISK 264 billion at the end of 1996. At the same time total lending by the commercial and savings banks rose from ISK 214 billion to ISK 240 billion.
- The traditional compartmentalisation of the Icelandic credit market, further discussed in Section 4.1 below, has diminished. Each of the commercial banks and savings banks serves all sectors of the economy. The same is true of some of the investment credit funds, whereas others concentrate on the sectors they were established to serve.

On the institutional side, the most notable change until now has been the merger of one state-owned commercial bank and three privately owned banks into Íslandsbanki hf. which commenced operations on 1 January 1990. The financial sector is still characterised by widespread state ownership of individual firms and by a large number of investment credit funds. The role of government is changing, however. It is moving away from direct involvement in activities which private parties are willing and able to undertake. There are, nevertheless, some sectors where the government's involvement can still be considered useful, e.g. in providing financial services in the riskier end of the market through seed capital or venture capital.

The government has now taken decisive steps in this direction through a twofold strategy:

- The Act on the Establishment of Limited Companies to Operate Landsbanki Íslands and Búnadarbanki Íslands calls for the restructuring of the two commercial banks into limited liability companies. Even though the Act stipulates that the Treasury's shares in the banks cannot be sold unless authorised by the Althingi, the banks will be allowed to issue new shares and sell them to private investors. These investors will be allowed to obtain up to 35% of the total shares in each bank.
- The Act on the Establishment of the Icelandic Investment Bank and the Act on the New Business Venture Fund merge four investment credit funds into two new entities. The Icelandic Investment Bank is a limited liability company and all the shares will initially be owned by the Treasury. However, the Act authorises the government to start preparing the sale of up to 49% of the Bank's stock. The New Business Venture Fund will be an independent entity owned by the state and privatisation of this entity is not foreseen.

### **2.2 Objectives of the Restructuring**



As outlined above the government has adopted a twofold strategy for the implementation of major institutional changes in the financial sector. This strategy has clear objectives:

To reduce government involvement in the financial sector and the use of state guarantees.

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into a financially strong investment bank which will serve all sectors of the economy and thus reduce the traditional compartmentalisation of the financial sector.

To separate all soft lending and development financing of the investment credit funds from their commercial lending and consolidate this in a new business venture fund serving all sectors of the economy.

To change the legal structure of these state-owned entities into the form which predominates among financial services firms in Iceland and abroad, i.e. into limited liability companies.

banks. Preparations for the sale of a 49% share in the Icelandic Investment Bank will commence this year and the formulation of a strategy for the sale has already begun. A sale of shares in the commercial banks to private investors

number of issues that must be considered concerning the operations of these institutions. Most importantly, these institutions will compete on equal terms with other entities in the Icelandic financial markets. This relates mainly to the tax

exception of the New Business Venture Fund which in some respects has a different status.

### **3.**

#### **3.1 The Banking Market**

Currently there are four commercial banks operating in Iceland and 29 savings banks, some of which are very small. Two of the commercial banks are state-owned, one is a private company and the fourth is owned by the savings banks and operates

##### *Funding*

Although their funding is mostly based on deposits, the banks are also active in the domestic and international capital

The banks have traditionally been the main source of short- and medium-term credit to the Icelandic community with longer-term loans becoming more significant in recent years. The total assets of the banking system amounted to around

##### *Efficiency Gains*

The overall real return on equity of the commercial and savings banks amounted to 8.8% in 1996, as compared with 6.2%

conversion of the state banks into limited liability companies should facilitate the necessary streamlining, for example of their extensive branch networks.

Over the last decade the commercial banks have become increasingly involved in securities trading, either through securities firms, which they own wholly or in partnership, or through in-house operations.

largest commercial bank, Landsbanki Íslands, of an equity stake in Vátryggingarfélag Íslands hf. (Icelandic Insurance Ltd.) and Líftryggingarfélag Íslands hf. (Icelandic Life Insurance Ltd.). Other developments have been the savings banks' joint

##### *Deposit Insurance Funds*

The Deposit Insurance Fund for Commercial Banks was established in 1986 according to provisions in the Commercial

commercial bank is to pay an annual contribution to the Fund amounting to 0.15% of its total deposits at the end of the preceding year until the Fund exceeds 1% of total deposits in commercial banks. This limit has been reached.

### *Capital Adequacy*

The current rules on capital adequacy, which came into effect in 1993 and were amended in 1996, are based on the Basel guidelines (BIS) as well as the European Union Capital Adequacy Directive (CAD). The capital ratios of all the banks are above the required minimum of 8%.

### *Supervision*

The operations of all financial institutions, except the insurance companies which are supervised by the Insurance Supervisory Authority, are supervised by the Bank Inspectorate of the Central Bank of Iceland. According to the Central Bank Act, No. 36/1986, the Bank Inspectorate is to ascertain that loans and other obligations of customers towards a bank are commensurate with the risk involved in the transaction in the light of the security for payment and the bank's financial strength and equity. To fulfil these duties the Bank Inspectorate has the right to access all books, minutes of meetings, documents, valuable assets and other records in possession of the banks which relate to their activities.

### *Reserves*

The Central Bank imposes a primary reserve requirement on all the commercial banks and savings banks. The reserve requirement according to existing rules is 2.5-4% depending on the origin of funds. In addition, the banks are required to maintain a 12% liquidity ratio.

## **3.2 Landsbanki Íslands (The National Bank of Iceland)**

### **3.2.1. Historical Background.**

Landsbanki Íslands was established by act of Parliament in 1885 and commenced operations in 1886. The Bank has at all times thereafter remained wholly owned by the Icelandic state. Today the bank operates a country-wide branch network.

In 1922 Landsbanki was granted permission for a limited issue of bank notes, and this operation was begun in 1924. In 1928 the bank assumed the role of a central bank for Iceland. In 1957 Landsbanki was reorganised and divided into two main departments, a central bank and a commercial bank, each with their own management. The final restructuring occurred in 1961, when the Central Bank of Iceland was established. Since then Landsbanki has been operated solely as a commercial bank.

In 1989 Landsbanki acquired the Co-operative Bank and merged the operations into its own.

### **3.2.2 Current Operations.**

Currently Landsbanki operates as a universal commercial bank with transactions in both the corporate and the retail banking sectors.

- *Corporate Business.* Landsbanki Íslands is the main lender to major industries in Iceland. In fisheries and fish processing, at the end of 1996, Landsbanki's share was 62.9% of total bank lending, in agriculture the share was 23.4%, in general commerce 34.1% and in industry 36.5%.
- *Retail Business.* Landsbanki's share of total deposits in Iceland at the same time was 37%, while the bank's share in the credit card market was 40%.
- *Landsbréf hf.* Landsbanki owns a security house, Landsbréf hf.
- *Vátryggingarfélag Íslands hf.* Landsbanki recently purchased a minority stake in Vátryggingarfélag Íslands hf., the largest insurance company in Iceland. The bank has the option to purchase shares in order to acquire 50% of the company and plans to do so over the next three years.

### **3.2.3 Summary of Accounts**

The following are the main results of Landsbanki Íslands for the year 1996. All figures are in millions of ISK<sup>5</sup>

Net interest income	
- in millions ISK	3.984
- as a % of total assets	3,61%
Net Operating Income	6.595
Net profit	262
Total assets	110.246

Equity	6.593
Solvency ratio	9,3%
Real return on equity	4,1%
Number of Employees	903
Loans by sectors	
- Fisheries	33%
- Commerce	17%
- Industry	7%
- Services	7%
- Households	21%
- Others	15%

### 3.3 Búnadarbanki Íslands (The Agricultural Bank of Iceland)

#### 3.3.1 Historical Background

Búnadarbanki Íslands was established in 1929 to provide financing to the agricultural sector in Iceland. In the 1960s Búnadarbanki expanded rapidly by taking over several savings banks outlets. Since then its operations have been fairly equally divided between Reykjavík and non-urban areas. At the same time the strategic decision was made to diversify the portfolio and since then Búnadarbanki has offered a full range of services to all sectors. It has to date remained an independently managed state-owned entity.

Búnadarbanki is the third largest commercial bank in Iceland and operates through a network of branches and sub-branches located throughout the country.

#### 3.3.2 Current Operations

Búnadarbanki Íslands is a universal commercial bank with transactions both in the corporate banking and retail banking as well as securities sectors.

- *Corporate Business.* In fisheries and fish processing, Búnadarbanki's share of total lending of commercial banks was 12,3% at the end of 1996, in agriculture the share was 62%, in general commerce 24,8% and in industry 25%.
- *Retail Business.* Búnadarbanki's share of total deposits of commercial banks was 26,4% at the same time.
- *Securities Trading.* Búnadarbanki Íslands sold its 50% share in the securities firm Kaupthing hf. in 1996 and decided instead to establish a securities division within the bank under the name Búnadarbanki - Securities.

#### 3.3.3 Summary of Accounts

The following are the main results of Búnadarbanki Íslands at year end 1996 in millions of ISK

Net interest income	
- in millions ISK	2.379
- as a % of total assets	4,39%
Net Operating Income	3.569
Net profit	328
Total assets	54.176
Equity	4.184
Solvency ratio	10,2%
Real return on equity	8,5%
Number of Employees	529
Loans by sectors	
- Agriculture	8%
- Fisheries	14%
- Commerce	16%
- Industry	8%
- Services	16%
- Households	30%
- Other	8%

### **3.4 Legislative Provisions of the Act on the Establishment of Limited Companies to Operate Landsbanki Íslands and Búnadarbanki Íslands**

The Act on the Establishment of Limited Companies to Operate Landsbanki Íslands and Búnadarbanki Íslands provides for the creation of limited liability companies for the respective state-owned banks, which will undertake all banking activities as authorised by law (Art. 1). The two limited liability companies will take over all operations of the respective commercial banks as of 1 January 1998 and the latter will cease their operations (Art. 3).

The entire equity of the two banks will be owned by the National Treasury but the Minister of Commerce will manage the shares (Art. 4. and 5). The Minister will decide the total amount of share capital, which shall not exceed the share capital of the current institutions, based on the advice of a three-man committee set up for that purpose (Art. 5).

The sale of shares in the new banks will not be permitted without the approval of the Althingi. The Minister can, however, authorise the issuing of new shares, for the purpose of strengthening the equity position of the banks. However, the total holdings of other parties than the Treasury can not exceed 35% of the total share capital (Art. 6).

There will not be a statutory state guarantee on the obligations that the new banks enter into but the state guarantee on all obligations entered into before 1 January 1998 will remain intact until these obligations have been fully repaid. However, state guarantees for deposits, other than term deposits shall cease on that date (Art. 13).

## **4. Merging the Investment Credit Funds**

### **4.1 Overview of the Funds**

Investment credit funds have played an important role for the development of the Icelandic economy. The funds have raised capital, mostly abroad, and re-lent it to Icelandic firms for their investment projects. For historical reasons, almost all the investment credit funds are state-owned. Furthermore, a separate fund was established for each major sector of the economy, sometimes partly financed through charges on firms in that particular sector. This compartmentalisation of the investment credit funds has gradually diminished and the special charges have mostly been abolished.

This Chapter gives a brief description of the four investment credit funds that will be merged into the two new entities, the Icelandic Investment Bank and the New Business Venture Fund.

#### **4.1.1 The Fisheries Investment Fund**

The Fisheries Investment Fund (Fiskveidasjóður Íslands) is the largest investment credit fund in Iceland, not counting the housing funds. It was established in 1905. Since then it has provided loans against secured mortgages to the fishing and fish processing industries and related activities in the economy in which the fishing industry is a major component.

The Fund is an independent state-owned financial institution but its obligations do not enjoy a statutory state guarantee. Its lending activities consist of medium- to long-term loans and credit, granted on terms dictated by the market, and by the performance of the borrower.

The total appraised value of the fishing fleet is approximately ISK 78 billion, while its estimated market value is in excess of ISK 140 billion. At the end of year 1996 the outstanding loans granted by the Fund for fishing vessels, including factory vessels, mainly freezer trawlers, amounted to ISK 18.6 billion or 24% of appraised value and 14% of estimated market value. Outstanding loans to processing plants, fishing-gear producers and exporters, and including research and development, amounted to ISK 5 billion.

#### **4.1.2 The Industrial Loan Fund**

The Industrial Loan Fund (Idnlánasjóður) is the second largest of the investment credit funds currently operating in Iceland, apart from the housing funds, in terms of total loans granted and strength. The Fund was established in 1935. Its purpose is to promote production, productivity and marketing in the Icelandic industrial sector by granting investment loans to manufacturers.

The Industrial Loan Fund is a state-owned organisation, and all its liabilities carry a statutory state guarantee.

The Industrial Loan Fund operates mainly through two loan departments. One is the Investment Loan Department, which accounts for the bulk of the Industrial Loan Fund's activities and provides long-term investment loans against secure mortgages on the premises, machinery and equipment for which credit is granted. The other is the Product and Market Development Department which promotes product development and increased competitiveness among Icelandic industrial manufacturers.

A third department operated by the Industrial Loan Fund is the Export Loan Insurance Department (the "Insurance Department") which i.a. provides insurance for export loans which banks and other financial institutions have granted to domestic manufacturers and guarantees for the work of domestic service providers abroad.

At year end 1996 the amount of outstanding loans totalled almost ISK 15 billion. The majority of the loans were to various sectors of industry but other large borrowers include the fisheries sector, which accounted for 15%, commerce 12% and services 13%.

#### ***4.1.3 The Export Credit Fund***

The Export Credit Fund (Útflutningslánaðjódur) was established in 1971 to provide credit to Icelandic exporters, mainly in the manufacturing industries. The Export Credit Fund was originally owned by the Central Bank of Iceland, Landsbanki Íslands and the Industrial Loan Fund. In 1993 the Industrial Loan Fund bought the shares of its two partners.

The Export Credit Fund grants loans to Iceland's commercial and savings banks who re-lend to their own customers with an additional margin for their credit risk. Export loans in respect of machinery, equipment, ships and all manner of goods and production resources enable Iceland's competing domestic manufacturers to offer their customers terms similar to those offered by their foreign competitors.

There was an increase in the operations of the Fund last year, mainly due to a change in the law which authorised it to grant guarantees for domestic projects. Total guarantees at year end 1996 amounted to ISK 500 million. This has, however, decreased again as the commercial banks have started offering export loans directly to their customers.

#### ***4.1.4 The Industrial Development Fund***

The Industrial Development Fund (Idnþróunarsjóður) was established in 1970 by the governments of Denmark, Finland, Iceland, Norway and Sweden when Iceland joined the European Free Trade Association (EFTA). The original purpose of the Industrial Development Fund was to finance the development of manufacturing industry in Iceland as the tariff barriers it had enjoyed were gradually removed after Iceland had joined EFTA. Lending was mostly on commercial terms but some soft lending and development financing was offered as well.

The objectives of the Industrial Development Fund were changed in 1995 when Iceland finished repaying its four Nordic partners their original capital contributions and became the sole owner of the fund. Since then the Industrial Development Fund has virtually ceased all commercial lending and concentrates instead on venture capital and seed-capital financing, the promotion of domestic innovation, foreign investments in Iceland and the participation in projects by Icelandic companies abroad.

The obligations of the Industrial Development Fund enjoy a statutory state guarantee.

#### 4.1.5 Summary of Accounts

The main results for the year 1996 are as follows in millions of ISK

	FIF	ILF & ECF	IDF	Total
Net interest income				
- in millions ISK	492	498	164	1154
- as a % of total assets	1,75%	2,84%	2,74%	2,23%
Net operating income	618	811	320	1749
Net profit	320	427	104	851
Total assets	28.163	17.506	5.975	51.644
Equity	5.625	3.574	2.481	11.680
Solvency ratio	19,5%	26,1%		
Real return on equity	6,0%	13,6%		
Loans by sectors				
- Fisheries	99%	15%		
- Commerce	0%	12%		
- Industry	0%	47%		
- Services	0%	13%		
- Households	0%	7%		
- Others	1%	6%		

#### 4.2 The Two New Entities

The merger of the four investment credit funds and the establishment of the Icelandic Investment Bank and the New Business Venture Fund is being achieved through the implementation of two Acts of Parliament. The main provisions of the Act on the Establishment of the Icelandic Investment Bank Ltd. are described in Chapter 4.2.1.1 below, while the provisions of the Act on the New Business Venture Fund are discussed in Chapter 4.2.2.1. An English translation of the full texts of the two Acts can be found in Appendices II and III.

##### 4.2.1 The Icelandic Investment Bank

Some of the reasons for the restructuring have already been discussed in Chapter 2 above. There are, however, several operational advantages resulting from the establishment of the Icelandic Investment Bank which have not been mentioned. The main ones are:

- *Synergies.* With similar backgrounds and organisational structures, the four funds will be relatively easily integrated. Furthermore, there is much scope for operational synergies and cost savings. This is due to the increased efficiency to be expected in many of the support functions, like IT, legal, treasury and back-office functions in general, which weigh fairly heavily in the operations of small units like the four funds.
- *Clarification of roles and areas of responsibility.* The establishment of the Icelandic Investment Bank will allow elimination of the present overlap in the operations of the individual funds, and for some enable the complete separation of commercial lending from soft lending and development financing.
- *Increased international attractiveness.* The Icelandic Investment Bank with its well-defined areas of operations, strong capitalisation and high asset quality should be of significant interest to both domestic and foreign lenders.

#### *4.2.1.1 Legislative Provisions*

##### *Overview*

The Act on the Establishment of the Icelandic Investment Bank Ltd. authorises the Minister of Commerce to establish the Icelandic Investment Bank Ltd. (Art. 1). The operations of the Icelandic Investment Bank will be subject to the provisions of Act No. 2/1995 on Limited Companies and Act No. 123/1993 on Credit Institutions other than Commercial Banks and Savings Banks (Art. 1). The Icelandic Investment Bank will be authorised to provide all the financial services stipulated in the latter Act as further specified in its Articles of Association (Art. 2). This means, among other things, that the Icelandic Investment Bank will be subject to the provisions of all the European Union directives on credit institutions and its activities will be supervised by the Bank Inspectorate of the Central Bank of Iceland, as are the Industrial Loan Fund and the Fisheries Investment Fund.

##### *The Merger*

The Icelandic Investment Bank will commence operations on 1 January 1998 (Art. 3 and 19) and the limited liability company was established by 1 July 1997 (Art. 20). On 1 January 1998 the Icelandic Investment Bank will take over all assets, liabilities and commitments of the Fisheries Investment Fund, the Industrial Loan Fund, the Export Credit Fund and the Industrial Development Fund, excluding those that are channelled into the New Business Venture Fund according to the provisions of the Act establishing it (Art. 3, cf. Art. 12, 17 and 18). At the same time the four investment credit funds will cease their operations (Art. 19 and 20). The Minister of Commerce will decide the amount of share capital in the Icelandic Investment Bank to a maximum set at the amount of the Icelandic Investment Bank's own funds at the end of 1996 as calculated on the basis of the audited 1996 annual accounts of the four investment credit funds (Art. 4).

##### *State guarantees*

There will not be a statutory state guarantee on the obligations that the Icelandic Investment Bank enters into, but the state guarantee on obligations that the four investment credit funds entered into before 1 January 1998 and the Icelandic Investment Bank takes over, will remain as originally granted until these obligations have been honoured in full (Art. 9).

##### *Ownership and control*

The Treasury will own all the shares in the Icelandic Investment Bank when it is established (Art. 4). However, the Minister of Industry and the Minister of Fisheries are given the task to start preparing the sale of up to 49 % of the total stock (Art. 6).

The Minister of Industry and the Minister of Fisheries will jointly manage the Treasury's shares in the Icelandic Investment Bank. This they will do through a committee of five members, two of whom will be nominated by the Minister of Industry (one on the recommendation of organisations of industrial enterprises), two by the Minister of Fisheries (one on the recommendation of organisations of fisheries enterprises) and the fifth member will be jointly nominated by the two Ministers (Art. 5).

##### *Management and Staff*

As mentioned above, the Icelandic Investment Bank was established on 30 June 1997, even though it will not take over the operations of the four investment credit funds until 1 January 1998. From its establishment and until 1 January 1998 the Icelandic Investment Bank and its board of directors will prepare the commencement of its operations (Art. 20). This includes hiring of all the staff of the Icelandic Investment Bank, the preparation of a business strategy and operational guidelines and other operational preparations and discussions with domestic and foreign creditors.

The organisational and management structure of the Icelandic Investment Bank will be determined in its Articles of Association.

##### *Foreign Exchange*

The Fisheries Investment Fund's foreign exchange rate is partly managed by denominating its credits granted in a special accounting unit (the RFI), the composition and exchange rate of which is based on the currency composition of the Fund's funding portfolio. The composition of the RFI will be fixed on 31 December 1997 and applied by the Icelandic Investment Bank to the loans then outstanding and determined in RFI. (Art. 14).

#### *4.2.1.2 Operations*

##### *Overview*

The Icelandic Investment Bank will build on the operations of the Fisheries Investment Fund, Industrial Loan Fund, Industrial Development Fund and Export Credit Fund. The funds have worked with borrowers in most sectors of the Icelandic economy and have developed long-standing relationships with key customers. The funds, as the main providers of long-term credit, have complemented the range of services offered by the commercial banks and enabled Icelandic companies to use different suppliers of financial services.

#### *Loan Portfolio*

It is clear that the Icelandic Investment Bank will at the outset have over 50% of its loan portfolio in the fishing and fish processing industries. This is not at all surprising, given the prominent role of these two sectors in the Icelandic economy. However, it is expected that the Icelandic Investment Bank will increase the exposure to other sectors, such as municipalities (mainly lending for environmental projects) and the fast-growing software industry and manufacturing of fisheries equipment, two sectors where Icelandic companies have been showing a strong export performance in recent years.

#### *Marketing*

The customer relationship of the individual funds and their knowledge of all the major sectors of the Icelandic economy suggests that the Icelandic Investment Bank will be in a good position to target its marketing efforts and both find new customers and increase its lending to existing customers.

#### *Expanding Activities*

The merger also represents an opportunity to create a new type of financial institution offering a broader range of more advanced banking services. The nature of such expanded activities, however, should serve to complement or support the traditional core business, for example, non-recourse project finance, securitisation, securities underwriting and equity investments. It must be recognised, however, that such activities may represent a departure from the funds' traditional area of expertise and they should therefore be analysed carefully before any resources are committed.

#### *Client Exposure Limits*

The Icelandic Investment Bank, like other credit institutions, will be subject to rules set by the Central Bank of Iceland which implement the Large Exposure Directive of the EU in Iceland. This means that the exposure to a single client or financially related clients cannot exceed 25% of own funds and the total of all large exposures cannot exceed 400% of own funds. Some of the funds have set their internal exposure limits which are stricter than the official rules, e.g. as regards the Industrial Loan Fund at 20% for prime rate customers and 15% for others. There is every reason to expect that the Icelandic Investment Bank's exposures limits will be set at similar levels.

#### *Foreign Exchange*

As mentioned above the Fisheries Investment Fund has reduced its foreign exchange rate risk by denominating its credits granted in a special accounting unit (the RFI). This will not be available to the Icelandic Investment Bank which will rely on traditional methods of controlling foreign exchange risk by balancing assets and liabilities.

#### *Interest Rates*

The interest rates on borrowings and lending by the Fisheries Investment Fund and the Industrial Loan Fund are mostly floating and are monitored monthly. Interest rates on lending are determined on the basis of cost of funding. Both funds have established credit rating systems where margins reflect the financial strength of the borrower and the guarantees he offers. It can be expected that the credit rating system of the Icelandic Investment Bank will be based on those of the two funds.

### **4.2.2 The New Business Venture Fund**

#### **4.2.2.1 Legislative Provisions**

##### *Overview*

The New Business Venture Fund will be an independent institution wholly owned by the Treasury (Art. 1). The affairs of the New Business Venture Fund will come under the Ministry of Commerce (Art. 1). The New Business Venture Fund will commence operations on 1 January 1998 (Art. 20).

The purpose of the New Business Venture Fund is to encourage development and growth in all sectors of the Icelandic economy through participation in innovation-oriented investment projects and support for development and marketing



projects (Art. 2). This will be achieved through equity participation, lending and by providing guarantees or grants (Art. 2). Lending and guarantees can be provided on the basis of the financial strength of the projects involved without the need for further guarantees (Art. 3). The New Business Venture Fund will operate an insurance department for export credit, the obligations of which will be separately underwritten by the Treasury (Art. 2 and 12). Furthermore, the New Business Venture Fund will take over the operations of the Product and Market Development Department of the Industrial Loan Fund and run it as a financially independent department for three years, after which it will be abolished (cf. Temporary provisions).

#### *Capitalisation*

The New Business Venture Fund will receive an initial capital contribution of ISK 4 billion and its operations will be financed by income from its founding capital and income from its investment projects (Art. 7, 8 and 9). An additional ISK 1 billion will be paid into the fund from the future proceeds of the sale of shares in the Icelandic Investment Bank. This amount will be kept separate from the Fund's capital and will have a stronger focus on rural areas. The amount will be divided into smaller portions and their management tendered out to the market. The aim is to maximise the profit for 7-10 years, after which the amounts would be de-invested and returned to the Treasury (Art. 7, Para. 2).

#### *Supervision*

The annual accounts of the New Business Venture Fund will be audited by the State Auditor's Office and its operations will be supervised by the Bank Inspectorate of the Central Bank of Iceland (Art. 14 and 15).

#### *Management and Staff*

The board of directors of the New Business Venture Fund will be appointed by the Minister of Commerce for a period of two years. The board will consist of five members, two of whom will be appointed by the Minister of Industry (one at the recommendation of associations in industry), two by the Minister of Fisheries (one at the recommendation of associations in fishing and fish processing) and one by the Federation of Icelandic Labour. The members of the board will themselves decide upon further division of their responsibilities (Art. 5).

From the date of appointment and until 1 January 1998, the first board of directors of the New Business Venture Fund will prepare the commencement of the New Business Venture Fund's operations (cf. Temporary Provisions). This includes hiring a managing director and other staff of the New Business Venture Fund (the current employees of the investment credit funds have priority access to positions with the New Business Venture Fund, cf. the Temporary Provisions in the Act), drafting its business strategy and operational guidelines, and other operational preparations.

#### *4.2.2.2 Operations*

##### *Overview*

The New Business Venture Fund will mainly reflect the experience of the operations of the Industrial Development Fund, but also that of the Product Development and Marketing Department of the Industrial Loan Fund.

##### *Operations*

Operations will consist of three types:

- *Investment projects.* These can also be divided into three sub-areas. Firstly, the fund will participate in domestic investment projects and new growth opportunities, with the main aim of supporting innovation and the competitive position of domestic enterprises. Secondly, it will take part in investment projects by Icelandic parties abroad, and, thirdly, in investment by foreign entities in Iceland.
- *Grant Funding.* The Fund will support projects organised by public entities, enterprises and individuals, the aims of which are compatible with the role of the Fund. Possible candidate schemes are product development, promotion of investment opportunities in Iceland and various types of pre-feasibility and viability studies.
- *Export Credit.* The Fund will take over the operations of the Export Loan Insurance Department of the Industrial Loan Fund.

##### *Risk Capital*

Risk capitalisation for new ventures is often divided into three categories, depending on the degree of risk involved. The first category is seed capital, which is aimed at research and development of a product or a commercial idea. The next step is start-up capital which relates more to the completion of a prototype of a product and the first stages of marketing. The last

is expansion capital which is aimed at the expansion of operations after development is complete and markets have been secured. The Fund is expected to be primarily involved in the first two categories, i.e. seed and start-up capital.

## **5. Ownership of the Institutions**

The government has outlined a policy of gradually withdrawing from the sectors of the financial markets where its involvement is not needed. Various state-owned enterprises have been sold and others have changed their operational form to limited liability companies. This has especially been the case when state-owned companies and institutions have competed with the private sector.

As stated above the decision to partially privatise the Icelandic Investment Bank has already been made. Furthermore, the Act on the Establishment of Limited Companies to Operate Landsbanki Íslands and Búnadarbanki Íslands allows the partial privatisation of the two commercial banks through a capital increase.

### **5.1 Time-frame**

Selling of shares in the two commercial banks and of the Icelandic Investment Bank is in the initial stages. Different time-frames apply to privatisation of the two commercial banks and the Icelandic Investment Bank respectively.

#### **5.1.1 The Commercial Banks**

The involvement of private investors through a capital increase depends on the need for the two commercial banks to increase their capital. Both institutions are small by international standards and, even though their financial situation is strong, an increase in capital would enable them to service their larger customers better. Under Icelandic law a financial institution cannot lend more than 40% of its own funds to one borrower or connected borrowers. This limit will gradually be lowered and become 25% of own funds by 31 December 2001. The need for a capital increase will therefore grow in the next few years.

#### **5.1.2 The Icelandic Investment Bank**

The time-frame assumes that the sale of the first part of the Icelandic Investment Bank will be carried out at the beginning of next year. A further sale of shares will be based on the response of the market.

### **5.2 Methodology**

The methodology for transfer of ownership is envisaged as follows:

#### **5.2.1 The Commercial Banks**

The method of selling the shares in the two commercial banks has not been decided but the most likely scenario would be to sell off shares gradually, possibly in two stages: to the general public for a fixed price, thereby ensuring that the shares will be widely held, and by reaching larger investors, be they domestic or foreign, through an offer which could enable those who want to invest and gain influence and control to bid for a part of the shares. This would be one way of achieving the goal of building necessary competition for the price of the shares and thereby ensuring a reasonable price for the float.

#### **5.2.2 The Icelandic Investment Bank**

The situation of the Icelandic Investment Bank is somewhat different in that it is a new institution whose policies and guidelines have yet to be set in detail, although those will reflect the policies of the current investment credit funds. Nevertheless, this suggests that it could be a priority to start with a sale to larger investors, who could participate in setting the policies and deciding the future course of the organisation. Concurrently, however, a part of the shares could be floated through a public offer and thereby a market for the shares would emerge.

### **5.3 Stock Exchange Listing**

A separate goal in itself is to secure the listing of shares in the privatised financial institutions on the Iceland Stock Exchange. This move would make them subject to the rules laid down by the Iceland Stock Exchange, e.g. as regards providing information to the market and trading of shares. Such provisions would always be considered necessary when offering parts of the shares to the public. An arrangement of this kind also coincides with the government's desire to see the financial markets in Iceland grow, especially through the operations of the Iceland Stock Exchange.

## **Appendix I**

**Translated from the Icelandic**

22 May 1997No. 50

# **Act on the Establishment of Limited Liability Companies to Operate Landsbanki Íslands and Búnadarbanki Íslands**

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## **THE PRESIDENT OF ICELAND**

*Announces:* Althingi has approved this Act and I have confirmed it with my approval:

## **CHAPTER I**

### **The establishment of limited liability companies to operate the state-owned commercial banks**

#### **Article 1**

Limited liability companies shall be established to operate Landsbanki Íslands (The National Bank of Iceland) and búnadarbanki Íslands (The Agricultural Bank of Iceland) respectively. Their purpose shall be to pursue any activities legally authorised to commercial banks.

The Treasury shall transfer all the assets, rights, debts and obligations of each state-owned commercial bank to its respective limited liability company.

#### **Article 2**

Upon the entry into force of this Act, the Minister of Commerce shall appoint two three-man committees, each of which is intended to carry out the preparations and take the actions necessary for the establishment of a limited liability company for each of the state-owned commercial banks. The committees shall prepare legal procedures concerning the establishment of the limited liability company banks and their prospective activities on behalf of the Minister of Commerce and in consultation with the state-owned commercial bank in question. These legal procedures shall, with regard to the tasks performed by the boards of directors and management boards in accordance with Articles 39 and 41 of Act No. 113/1996 on Commercial Banks and Savings Banks, be confirmed by the appropriate party which, until the boards of directors and bank managers of the limited liability company banks begin their duties, means the boards of directors and management boards of the state-owned commercial banks. The Minister of Commerce shall provide the committees with formal terms of reference .

The committees provided for in paragraph 1 shall have full access to the records of the state-owned commercial bank in question, notwithstanding provisions on confidentiality in accordance with Article 43 of the Commercial Banks and Savings Banks Act, No. 113/1996. Management and personnel of the state-owned commercial banks shall provide the members of the committee concerned with such assistance as is necessary. Committee members are subject to Article 43 of Act No. 113/1996.

#### **Article 3**

As of 1 January 1998, Landsbanki Íslands Ltd. shall take over the operations and activities of Landsbanki Íslands, and Búnadarbanki Íslands Ltd. shall take over the operations and activities of Búnadarbanki Íslands, by which time the Minister of Commerce shall have issued operating authorisations for the limited liability company banks in accordance with Chapter II of Act No. 113/1996.

Landsbanki Íslands and Búnadarbanki Íslands shall be abolished upon the commencement of operations of the limited liability company banks in accordance with paragraph 1.

The board of directors of each limited liability company bank shall be elected at a founding meeting, which shall be held prior to the take-over of the state-owned commercial banks by the limited liability company banks. The authority of the boards of directors of Landsbanki Íslands and Búnadarbanki Íslands, most recently elected by the Althingi in accordance with Article 27 of Act No. 43/1993 on Commercial Banks and Savings Banks, cf. at present Act No. 113/1996, shall be terminated upon the commencement of operations of the limited liability company banks in accordance with Article 1.

## CHAPTER II

### **Share capital, shares and handling of shares**

#### Article 4

The Minister of Commerce shall manage the state's shareholdings in Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd.

#### Article 5

Upon the establishment of Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd, their entire share capital shall be owned by the Treasury.

The Minister shall determine the total amount of share capital of each limited liability company bank upon its establishment. For purposes of reference, the total amount of share capital of each limited liability company bank shall not exceed the equity of Landsbanki Íslands and Búnadarbanki Íslands respectively according to their audited annual accounts for the year 1996.

The Minister shall appoint a three-man committee to advise him in assessing the total amount of initial share capital in each of the limited liability company banks in accordance with paragraph 2. The conclusions of the committee shall be available no later than 1 October 1997. The provisions of paragraph 2 of Article 2 shall apply to the work of the committee. The Minister of Commerce shall provide the committee with formal terms of reference.

#### Article 6

The Minister of Commerce shall decide the division of share capital into shares.

No sale of share capital owned by the Treasury in Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd. is permitted without the approval of the Althingi.

Notwithstanding paragraph 2, a Minister may, in order to strengthen the equity position of the limited liability company banks, authorise the issuing of new shares. The total holdings of parties other than the Treasury may not, however, exceed 35% of the total share capital of each bank respectively.

#### Article 7

Provisions of Article 6 of Act No. 113/1996, on Commercial Banks and Savings Banks, and paragraph 2 of Article 14 of Act No. 2/1995 Respecting Public Limited Companies, shall not apply to the down payment of share capital in Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd.

The provisions of paragraph 2 of Article 3, of paragraph 1 of Article 20, and of subparagraph 2 of paragraph 1 of Article 107 of Act No. 2/1995 Respecting Public Limited Companies, shall not apply to the number of founders and number of shareholders of Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd.

## CHAPTER III

### **Rights of employees**

#### Article 8

All employees of Landsbanki Íslands and Búnadarbanki Íslands, who are paid in accordance with the collective agreement of the Union of Icelandic Bank Employees or collective agreements with other trade unions, shall be offered a comparable post in Landsbanki Íslands Ltd. or Búnadarbanki Íslands Ltd. upon the take-over by the latter of the state commercial banks.

Persons previously employed by Landsbanki Íslands or Búnadarbanki Íslands who accept positions with Landsbanki Íslands Ltd. or Búnadarbanki Íslands Ltd. shall enjoy the same rights as they had under their collective agreements and/or employment contract. Their right to wages from Landsbanki Íslands or Búnadarbanki Íslands shall lapse when they enter their new position.

#### Article 9

The hiring and terms of employment of bank managers, their deputies, heads of the auditing departments and, where applicable, assistant bank managers, of Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd. shall be as provided for in Act No. 113/1996 on Commercial Banks and Savings Banks, cf. the provisions of Act No. 2/1995 Respecting Public Limited Companies.

#### Article 10

With regard to any right to severance pay, which may have accrued to employees of state-owned commercial banks, the provisions of Act No. 70/1996, on the rights and obligations of state employees, shall apply.

#### Article 11

The Treasury shall guarantee the obligations of Landsbanki Íslands towards the Retirement Pension Fund of Employees of Landsbanki Íslands and the Central Bank, and the obligations of Búnadarbanki Íslands towards the Retirement Pension Fund of Employees of Búnadarbanki Íslands, which are incurred with respect to employees of the state-owned commercial banks prior to the take-over of their operations by Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd. and which exist in accordance with the regulations of the retirement pension funds as applicable, at the time specified in Article 3, unless other arrangements are agreed upon. The same shall apply to other pension obligations of the state-owned commercial banks than retirement pension funds.

Should the guarantee in paragraph 1 be invoked, the respective proportional payment from the Treasury and the limited liability company bank shall be the same as the proportional length of employment of the employee in question by each.

#### Article 12

Collective agreements of Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd. with their employees shall comply with Act No. 34/1997 on collective agreements for employees of state-owned banks.

### CHAPTER IV

#### **State guarantees for deposits and loans**

#### Article 13

The Treasury shall guarantee all domestic and foreign obligations of Landsbanki Íslands and Búnadarbanki Íslands which were undertaken prior to the take-over of their respective operations by Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd. The Treasury guarantee shall remain as originally granted and shall apply until the respective obligation has been honoured in full. Guarantees by the Treasury for deposits shall, however, be subject to paragraph 2 and guarantees by the Treasury for pension obligations of state-owned commercial banks shall be subject to Article 11 of this Act.

Treasury guarantees for deposits shall cease upon the take-over of the state-owned commercial banks by the limited liability company banks. The Treasury shall, however, continue to be responsible for term deposits which have been deposited before the take-over of the state-owned commercial banks by the limited liability company banks. Treasury guarantees shall cease once the deposit in question falls due upon the expiry of the fixed term.

The Treasury is not responsible for the obligations of Landsbanki Íslands Ltd. or Búnadarbanki Íslands Ltd. beyond the provisions of this Act and the Act Respecting Public Limited Companies.

### CHAPTER V

## **Miscellaneous provisions**

### **Article 14**

Deposit accounts with Landsbanki Íslands and Búnadarbanki Íslands shall be transferred to the respective limited liability company banks upon their take-over. Landsbanki Íslands and Búnadarbanki Íslands shall publish two notices to this effect in the Official Gazette. The notices shall be published with an interval of around two weeks, the former at least 30 days prior to the take-over by Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd. of the state-owned commercial banks.

### **Article 15**

The location for payment of debt instruments owned by specific branches of Landsbanki Íslands, or by Landsbanki Íslands in general, shall remain the respective branches of Landsbanki Íslands Ltd., or Landsbanki Íslands Ltd. in general, as applicable in each case upon the commencement of the operations of Landsbanki Íslands Ltd. Landsbanki Íslands Ltd. shall assume all rights and all obligations of Landsbanki Íslands, including rights or obligations arising from debt instruments owned by Landsbanki Íslands, and involvement in litigation pursued by Landsbanki Íslands or directed against Landsbanki Íslands. Landsbanki Íslands shall publish two notices to this effect in the Official Gazette.

The location of payment of debt instruments owned by specific branches of Búnadarbanki Íslands, or by Búnadarbanki Íslands in general, shall remain the respective branches of Búnadarbanki Íslands Ltd., or Búnadarbanki Íslands Ltd. in general, as applicable in each case upon the commencement of the operations of Búnadarbanki Íslands Ltd. Búnadarbanki Íslands Ltd. shall assume all rights and all obligations of Búnadarbanki Íslands, including rights or obligations arising from debt instruments owned by Búnadarbanki Íslands, and involvement in litigation pursued by Búnadarbanki Íslands or directed against Búnadarbanki Íslands. Búnadarbanki Íslands shall publish two notices to this effect in the Official Gazette.

The depository of documents for collection by individual branches of Landsbanki Íslands or Búnadarbanki Íslands shall be the corresponding branch of the respective limited liability company bank after its take-over of the operations of the state-owned commercial bank. Landsbanki Íslands and Búnadarbanki Íslands shall publish two notices to this effect in the Official Gazette.

Notices in accordance with the present Article shall be in accordance with Article 14 of this Act.

### **Article 16**

No notice to submit demands for payment shall be issued to creditors of Landsbanki Íslands or Búnadarbanki Íslands.

### **Article 17**

The statement of establishment shall prescribe any points to be included in the statutes of association in accordance with the Act Respecting Public Limited Companies other than those mentioned in the present Act.

### **Article 18**

Landsbanki Íslands Ltd. shall assume all rights and obligations relating to the taxation of Landsbanki Íslands, and Búnadarbanki Íslands Ltd. shall assume all rights and obligations relating to the taxation of Búnadarbanki Íslands. In other respects, the tax obligations of Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd. shall comply with legislation on the tax obligations of credit institutions.

### **Article 19**

In any instances where Landsbanki Íslands or Búnadarbanki Íslands have been legally entrusted with specific tasks, Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd. shall assume these rights and obligations as appropriate.

Landsbanki Íslands Ltd. assumes all rights and obligations of Landsbanki Íslands, and Búnadarbanki Íslands Ltd. assumes all rights and obligations of Búnadarbanki Íslands resulting from take-overs of savings banks by state-owned commercial banks.

#### Article 20

Apart from the provisions of this Act, the limited liability company banks provided for by this Act shall comply with provisions on the activities of limited liability company banks according to Act No. 113/1996 on Commercial Banks and Savings Banks, and the provisions of Act No. 2/1995 Respecting Public Limited Companies, as appropriate.

#### Article 21

All expenses deriving from the establishment of the limited liability companies and their take-over of the operations of Landsbanki Íslands and Búnadarbanki Íslands shall be paid by Landsbanki Íslands Ltd. and Búnadarbanki Íslands Ltd. respectively.

#### Article 22

This Act shall enter into force at once.

## Appendix II

Translated from the Icelandic

May 26, 1997 No. 60

# Act on the Establishment of the Icelandic Investment Bank Ltd.

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### THE PRESIDENT OF ICELAND

Announces: Althingi has approved this Act and I confirmed it with my approval:

#### Article 1

The Government shall work towards the establishment of a credit institution in accordance with Act No. 123/1993 on Credit Institutions other than Commercial Banks and Savings Banks, which shall be called the Icelandic Investment Bank Ltd. (*Fjárfestingarbanki atvinnulífsins hf.*). The provisions of Act No. 123/1993, and of Act No. 2/1995 Respecting Public Limited Companies, shall apply to the Investment Bank unless otherwise stipulated in this Act.

The Minister of Commerce shall handle the preparations for the establishment of the Investment Bank and be responsible for the implementation of this Act.

#### Article 2

The role of the Icelandic Investment Bank Ltd. is to provide financial services for Icelandic business. The Investment Bank shall undertake whatever such activities as are authorised by law to credit institutions other than commercial banks and savings banks, as further specified in its articles of association.

#### Article 3

The Icelandic Investment Bank Ltd. shall, on 1 January 1998, take over, as its shareholders' contribution in accordance with Article 4, all the assets, liabilities and commitments of the Fisheries Investment Fund (*Fiskveidasjóður Íslands*), Industrial Loan Fund (*Idnlánasjóður*), Export Credit Fund (*Útflutningslánasjóður*) and Industrial Development Fund (*Idnþróunarsjóður*), apart from those otherwise allocated in accordance with the Act on the New Business Venture Fund (*Nýsköpunarsjóður atvinnulífsins*).

#### Article 4

The Treasury is the owner of all share capital in the Icelandic Investment Bank Ltd. upon its establishment.

The Minister of Commerce shall determine the total amount of share capital in the Investment Bank upon its establishment. This amount shall be determined on the basis that its total share capital upon establishment shall not be greater than the equivalence of the own funds of the Fisheries Investment Fund, Industrial Loan Fund, Export Credit Fund and Industrial Development Fund, which are contributed to the Investment Bank under the provisions of Article 3, as stated in the audited financial statements of those funds for the year 1996.

The Minister shall establish a three-man committee to evaluate the total amount of foundation capital of the Investment Bank. The findings of the committee shall be available at the latest on 1 October 1997. The access of the committee to documents and the duty of confidentiality of the committee members is determined in Art 20, paragraph 3. The Minister decides the terms of reference for committee members.



#### Article 5

The Minister of Fisheries and the Minister of Industry shall jointly administer the Treasury's share in the Icelandic Investment Bank Ltd.

Voting rights on behalf of the Treasury at the Investment Bank's annual general meeting and other shareholders' meetings shall be vested in a three-man committee. Two members thereof shall be appointed by the Minister of Industry, one of them in accordance with the recommendations of the organisation of industrial enterprises, and two shall be appointed by the Minister of Fisheries, one of them in accordance with the recommendations of the organisation of fisheries enterprises. The Minister of Industry and the Minister of Fisheries shall appoint one member jointly.

#### Article 6

Up to 49% of the Treasury's shares in the Icelandic Investment Bank Ltd. may be sold. The Minister of Industry and the Minister of Fisheries shall begin preparations for the sale of these shares immediately upon the entrance into effect of this Act.

#### Article 7

The provisions of Article 6 of Act No. 113/1996, cf. Article 6 of Act No. 123/1993, and, Article 14, paragraph 2 of Act No. 2/1995 Respecting Public Limited Companies, do not apply to the down payment of share capital in the Investment Bank. The provisions of Articles 6 and 7 of Act No. 2/1995 do not apply to payment of share capital in accordance with Article 4 and 5 of this Act.

The provisions of Article 3, paragraph 2, Article 20, paragraph 1 and Article 107, paragraph 1, point 2 of Act No. 2/1995 shall not apply to the number of founders and number of shareholders in the Icelandic Investment Bank Ltd.

#### Article 8

It is not authorised to grant shareholders in the Icelandic Investment Bank Ltd. more favourable terms than its other customers, or other special privileges in the business they do with it as a result of their shareholding.

#### Article 9

The Treasury is responsible for the obligations of the Fisheries Investment Fund, Industrial Loan Fund and Industrial Development Fund which carry state guarantees at the time of the establishment of the Icelandic Investment Bank Ltd. The Treasury's guarantee shall remain as originally granted and be valid until the respective obligation has been honoured in full.

The Treasury shall not be responsible for the obligations of the Icelandic Investment Bank Ltd. over and above the stipulations made in this Article and in the Public Limited Companies Act.

#### Article 10

All employees of the Fisheries Investment Fund, the Industrial Loan Fund and the Industrial Development Fund who are paid in accordance with the collective agreements of the Union of Icelandic Bank Employees or the collective agreements of other trade unions and who are not offered employment with the New Business Venture Fund, shall be offered employment with the Icelandic Investment Bank Ltd.

Persons previously employed by the Fisheries Investment Fund, the Industrial Loan Fund or the Industrial Development Fund who accept positions at the Icelandic Investment Bank Ltd shall enjoy the same rights as they had under their collective agreements or employment agreements. Their right to wages from the Fisheries Investment Fund, the Industrial Loan Fund or the Industrial Development Fund shall lapse when they enter their new positions.

#### Article 11

With regard to any right to severance pay, which may have accrued to employees of the Fisheries Investment Fund, the Industrial Loan Fund and the Industrial Development Fund, the provisions of Act No. 70/1996, on the rights and obligations of state employees, shall apply.

#### Article 12

The location for payment and the depository of debt instruments owned or awaiting collection by the Fisheries Investment Fund, the Industrial Loan Fund and the Industrial Development Fund shall be with the Icelandic Investment Bank Ltd. when it commences operation as a credit institution as stipulated in Article 19 of this Act. The Investment Bank shall assume all rights and all obligations of the Fisheries Investment Fund, Industrial Loan Fund, Export Credit Fund and

Industrial Development Fund, including rights or obligations arising from debt instruments owned by them or involved in litigation pursued by them or being directed against them. The Fisheries Investment Fund, the Industrial Loan Fund, the Export Credit Fund and the Industrial Development Fund shall publish two notices to this effect in the Official Gazette. These notices shall be published with an interval of around two weeks, the former at least 30 days before the Icelandic Investment Bank Ltd. commences operation as a credit institution.

#### Article 13

In cases where the boards of directors of the Fisheries Investment Fund, Industrial Loan Fund, Export Credit Fund and Industrial Development Fund are authorised under the terms of debt instruments to determine their interest terms, the board of directors of the Icelandic Investment Bank Ltd. shall be authorised to make such decisions after the date stipulated in paragraph 1, Article 19 of this Act.

#### Article 14

The Fisheries Investment Fund Credit Unit basket (RFÍ), cf. Article 6 of Regulation No. 277/1991 as amended, shall from January 1 1998 inclusive be comprised of the same currencies with the same relative weighting as those on which the Fisheries Investment Fund bases its calculation of the unit's value on December 31 1997. From that time onwards, the Credit Unit thus comprised shall be applied for calculation of loans made by the Fund which are indexed to the basket. The value of foreign currencies shall be in as registered by the Central Bank of Iceland.

The Investment Bank's board of directors shall announce in January 1998 the currencies comprising the Credit Unit basket and their relative weighting. The same notice shall offer the borrowers concerned the opportunity to redeem the loan or renegotiate the index reference for their debts, and a grace period of not less than eight weeks may be fixed for this purpose. Changes to the terms shall be conditional on agreement by holders of lower pledges, in accordance with the general rules in this respect. Documents concerning such renegotiations shall be exempt from stamp duty.

Late payments of loans denominated in the Fisheries Investment Fund's Credit Unit basket (RFÍ) shall always be considered in RFÍ, i.e. the currency rate and indexation will remain until payment is made. Late payment interest shall be the prevailing negotiated interest of RFÍ loans at any given time plus an addition of one-quarter of the negotiated interest rate. The late payment interest is thus 1.25 times the negotiated interest rate per year. Late payment interest is calculated on a daily basis.

#### Article 15

The statement of establishment shall prescribe any points to be included in the statutes of association in accordance with the Act respecting Public Limited Companies other than those mentioned in the present Act.

#### Article 16

No notice to submit demands for payment shall be issued to the creditors of the Fisheries Investment Fund, Industrial Loan Fund, Export Credit Fund or Industrial Development Fund.

#### Article 17

The Icelandic Investment Bank Ltd. shall take over all rights and obligations relating to taxation of the Fisheries Investment Fund, the Industrial Loan Fund, the Export Credit Fund and the Industrial Development Fund. In other respects the Investment Bank shall comply with legislation on the tax obligations of credit institutions.

#### Article 18

In cases where the Fisheries Investment Fund, the Industrial Loan Fund, the Export Credit Fund and the Industrial Development Fund are entrusted with specific tasks under legislation which is in force after the Investment Bank commences operation as a credit institution, the Icelandic Investment Bank Ltd. shall take over those tasks as appropriate.

#### Article 19

The Icelandic Investment Bank Ltd. shall commence operation as a credit institution on January 1 1998, when it takes over the assets, liabilities and commitments stated in Article 3 of this Act. The Fisheries Investment Fund, Industrial Loan Fund, Export Credit Fund and Industrial Development Fund shall be abolished from the same time, whereupon the following Acts shall be rescinded:

1. Act No. 44/1976 on the Fisheries Investment Fund, as amended.
2. Act No. 10/1984, supplementary to Act No. 44/1976 on the Fisheries Investment Fund.

3. Act No. 72/1985, supplementary to Act No. 44/1976 on the Fisheries Investment Fund.
4. Act No. 135/1989, supplementary to Act No. 44/1976 on the Fisheries Investment Fund.
5. Act No. 76/1987 on the Industrial Loan Fund, as amended.
6. Act No. 9/1970 on the Industrial Development Fund, as amended.
7. Act No. 47/1970 on the Export Credit Fund, as amended.
8. Act No 93/1986, on the Fishing Vessels Contribution Fund.

The mandate granted to the boards of directors appointed in accordance with current legislation governing the Fisheries Investment Fund, Industrial Loan Fund and Industrial Development Fund shall be rescinded at the time stipulated in paragraph 1 of this Article.

#### Article 20

The public limited liability company The Icelandic Investment Bank shall be established at an inaugural meeting to be held no later than July 1, 1997. The meeting shall elect the Investment Bank's board of directors, which shall act until a new board has been elected at the first annual general meeting after the company has commenced operation as a credit institution, in accordance with Article 19 of this Act. Until the time stipulated in paragraph 1 of Article 19, it shall be the task of the Icelandic Investment Bank Ltd. to prepare its operation as a credit institution. The Icelandic Investment Bank Ltd. shall act in consultation with the board of directors of the New Business Venture Fund regarding negotiations with employees of the Fisheries Investment Fund, the Industrial Loan Fund and the Industrial Development Fund.

The foundation capital of the Icelandic Investment Bank Ltd. shall not be paid in to it before January 1 1998, cf. Article 3 of this Act.

From the establishment of the Icelandic Investment Bank Ltd. until it commences operation in accordance with paragraph 1 of Article 19, it shall have full access to the records of the Fisheries Investment Fund, the Industrial Loan Fund, the Export Credit Fund and the Industrial Development Fund, notwithstanding statutory provisions regarding confidentiality. The directors and employees of the funds shall provide the directors and employees of the Icelandic Investment Bank Ltd. with such assistance as is necessary. Management and employees of the Icelandic Investment Bank Ltd. shall be bound by a confidentiality obligation in the same way as management and employees of the said funds.

All expenses deriving from the establishment of the Icelandic Investment Bank Ltd. shall be paid by the Bank itself.

#### Article 21

This Act shall enter into force at once.

## **Appendix III**

**Translated from the Icelandic**

26 May 1997No. 61

# **Act on the New Business Venture Fund**

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## **THE PRESIDENT OF ICELAND**

*Announces:* Althingi has approved this Act and I confirmed it with my approval:

## **CHAPTER I General Provisions**

### **Article 1**

The New Business Venture Fund is an independent entity owned by the state. Overall supervision of the Fund is in the hands of the Minister of Commerce.

The Treasury shall not be liable for the Fund's obligations cf., however, Chapter II.

### **Article 2**

The role of the New Business Venture Fund shall be to encourage development and growth in all sectors of the Icelandic economy through participation in innovation-oriented investment projects and support for development and marketing projects. For this purpose, the Fund may advance share capital or make loans, guarantees or grants. The Fund shall also operate an Export Credit Guarantee Department in accordance with Chapter II.

In its operations the Fund may co-operate with third parties in the field of venture capitalisation.

### **Article 3**

The New Business Venture Fund may make loans and guarantees without special securities other than those inherent in the projects themselves.

The Fund may exercise its voting strength in accordance with its shareholdings.

### **Article 4**

The board of directors of the New Business Venture Fund shall consist of five persons who are appointed by the Minister of Commerce for terms of two years at a time. The board shall be composed as follows: one member nominated by the Minister of Industry; one member nominated by the Minister of Industry in accordance with the recommendations of associations of enterprises in industry; one member nominated by the Minister of Fisheries; one member nominated by the Minister of Fisheries in accordance with the recommendations of associations of enterprises in fishing and fish processing and one member in accordance with the nomination of the Icelandic Federation of Labour. The members of the board shall divide their responsibilities among themselves.

The Minister shall determine fees to members of the board.

### **Article 5**

The board of the New Business Venture Fund shall supervise its functioning in accordance with this Act and regulations. The tasks of the board include:

1. Policy-making and the formulation of operational guidelines, which shall be confirmed by the Minister.
2. The engagement of a managing director.
3. The approval of an operational budget, which shall be prepared in advance for one year at a time.
4. Decisions regarding the taking of loans and other methods of financing the operations of the Fund.
5. Decisions on participation by the Fund in financing activities, such as the purchase of share capital, the granting of loans by the Fund, the making of grants and guarantees and decisions regarding securities and loan terms.
6. The investment of funds.

#### Article 6

The managing director of the New Business Venture Fund shall be in charge of the day-to-day operation of the Fund in accordance with the mandate given by its board. The board of the Fund may authorise the managing director to take decisions on making loans, securities or grants within specific limits.

The board of the New Business Venture Fund may enter into agreements with other parties on the Fund's place of deposit or specific services to be provided for it, with the approval of the Minister.

#### Article 7

The foundation capital of the New Business Venture Fund shall be ISK 4,000 million of the combined equity of the Fisheries Fund, the Industrial Loan Fund, the Export Credit Fund and the Industrial Development Fund. The above sum shall be presented to the Fund when it begins operations, on the one hand in the form of marketable share certificates owned by the funds, and on the other in the form of an indexed bond issued by the Icelandic Investment Bank Ltd for a term of 10 years with 20 instalment payments, which shall carry ordinary market interest.

In addition to the foundation capital under paragraph 1, the Treasury shall pay the New Business Venture Fund ISK 1,000 million of the proceeds from the sale of share capital owned by the Treasury in the Icelandic Investment Bank Ltd. The principal under this paragraph shall be kept separate from the books and accounts of the Fund and shall be used for the purchase of share capital in order to support innovation and business development with a special emphasis on the rural areas, especially in the fields of information and high technology. The board of the New Business Venture Fund shall tender the deposition and management of the amount in smaller units, with a view to maximise the profit of the sum in accordance with rules set by the Minister of Commerce at the suggestion of the board. The units tendered shall be de-invested after 7-10 years from the tender and the proceeds shall be paid to the Treasury. The provision of Article 9, paragraph 2 does not apply to the disposition of funds under this paragraph.

#### Article 8

The disposable funds of the New Business Venture Fund shall consist of:

1. Yield on the Fund's own funds.
2. Repayments and interest on loans made by the Fund.
3. The Fund's shareholdings.
4. Other revenues.

#### Article 9

The New Business Venture Fund shall maintain a reserve for loan losses in accordance with generally accepted accounting practice and risk assessment, so that its balance sheet at any given time presents the most realistic picture of its financial standing. Allocations to the reserve for loan losses shall be determined at the same time as decisions on loans, guarantees, grants and equity participation. The sums posted to the loan loss reserve shall in each instance correspond to the risk taken, and be in accordance with rules confirmed by the Minister.

The amount granted to the Fund's projects under Article 2 may not be so great that the loss provision exceeds the framework of the operational budget. The Fund's operational budget shall be based on the principle of not drawing upon its own funds.

#### Article 10

The New Business Venture Fund may take short-term loans only to balance its cash flow. Loans may not be taken through the issue and sale of bonds and other redeemable debt instruments to the public.

## CHAPTER II

## **The Export Credit Guarantee Department.**

### **Article 11**

In addition to the activities described in Chapter I, the New Business Venture Fund shall operate a department known as the Export Credit Guarantee Department.

The role of the Export Credit Guarantee Department shall be:

1. To undertake to insure loans which banks and other credit institutions grant to domestic manufacturers of goods or providers of services for financing export loans granted to, or made available to, foreign purchasers.
2. To underwrite claims held by Icelandic exporters against foreign purchasers, providing they have come into existence in connection with the export of Icelandic goods and services.
3. To sell insurance guarantees for services provided by Icelandic parties abroad. Also, to underwrite project guarantees made by domestic parties in connection with projects falling within the reference limits which require public projects to be tendered out in the European Economic Area.
4. To insure investments by domestic investors abroad against political risk.
5. To insure equipment which domestic parties send abroad in connection with projects carried out there against political risk.

The department shall be governed by a separate governing committee composed of five persons. Of these one person nominated by the board of the New Business Venture Fund shall hold a seat on the committee and the others shall be representatives of the Ministers of Finance, Industry, Fisheries and Foreign Affairs. The managing director of the New Business Venture Fund shall be in charge of the day-to-day operations of the department.

The Export Credit Guarantee Department shall take over the assets and liabilities of the Export Credit Guarantee Department which has been operated under Act No. 76/1987 on the Industrial Loan Fund, and the foundation capital of the new department shall not be part of the foundation capital of the Fund under Article 7, paragraph 1.

### **Article 12**

The governing committee of the Export Credit Guarantee Department shall determine premiums and the insurance ratios of the department, which shall be subject to the approval of the Minister of Finance. They shall be determined so as to meet the cost of running the department, paying compensation claims and forming a reserve fund equivalent to at least 10% of the guarantees granted by the department at any given time. The operations of the department shall be treated separately in the Fund's bookkeeping and accounts.

Revenues in excess of costs shall be placed in a special reserve fund, which shall be used for the payment of compensation claims. If the department's funds, including the reserve fund, are insufficient for the payment of compensation claims, the amount lacking shall be paid out of the State Guarantee Fund.

The Treasury is liable for other obligations of the department.

### **Article 13**

The payment terms of loans insured by the Export Credit Guarantee Department shall be in accordance with normal commercial practice in Iceland and abroad, taking into account the type of product, the nature of services, market conditions and other relevant factors.

At no time may the Export Credit Guarantee Department's total obligations in connection with the insurance of export credits and claims exceed the equivalent of SDR 100 million.

The governing committee of the Export Credit Guarantee Department shall lay down for it more detailed operational guidelines, which shall be subject to the approval of the Minister of Finance.

## **CHAPTER III**

### **Auditing, Supervision, Commencement, etc.**

#### **Article 14**

The board of the New Business Venture Fund shall compile annual accounts for each accounting year in accordance with Act No. 144/1994 on Annual Accounts.

The annual accounts of the New Business Venture Fund shall be audited by the National Audit Office.

#### **Article 15**

The Bank Inspectorate of the Central Bank of Iceland shall supervise the activities of the New Business Venture Fund to ensure that they are in accordance with this Act and regulations issued under it. This supervision shall be subject to the Central Bank of Iceland Act.

#### Article 16

Management and other employees of the New Business Venture Fund shall be bound to confidentiality concerning matters of which they become aware in the course of their work and which should be kept secret according to law, the instructions of their superiors or the circumstances. This obligation to confidentiality shall persist even after cessation of employment.

#### Article 17

The New Business Venture Fund shall be exempt from income tax and property tax. Loans taken or granted by the Fund shall be exempt from stamp duties.

#### Article 18

The Minister shall issue further provisions on the implementation of this Act in the form of a regulation.

#### Article 19

Violations of this Act shall be punished by fines or custody except where more severe punishments are prescribed in other statutes.

#### Article 20

This Act shall enter into force at once. The New Business Venture Fund shall begin operations on 1 January 1998. At the same time, Act No. 60/1970 on the Export Loan Insurance Department of the State Guarantee Fund shall be repealed.

All expenses deriving from the establishment of the New Business Venture Fund shall be paid by the Fund itself.

### **Interim Provisions.**

A board in accordance with Article 4 shall be appointed not later than 1 July 1997 for a term of two years. Until the New Business Venture Fund has commenced operations in accordance with the first sentence of this Article, the board shall have the task of preparing the Fund's operations. It shall confer with the Icelandic Investment Bank Ltd. regarding contracts with the employees of the Fisheries Investment Fund, the Industrial Loan Fund and the Industrial Development Fund. During this period, the board shall have full access to the records of these funds, notwithstanding statutory provisions regarding confidentiality, and the directors and employees of the funds shall provide the board with such assistance as is necessary. Furthermore, the directors and employees of the Fund shall be bound by a confidentiality obligation in the same way as are the directors and employees of the said funds.

All employees of the Fisheries Investment Fund, the Industrial Loan Fund and the Industrial Development Fund who receive wages according to the collective agreements of the Union of Icelandic Bank Employees or the collective agreements of other trade unions and who are not offered employment with the Icelandic Investment Bank Ltd shall be offered employment with the New Business Venture Fund.

Persons previously employed at the Fisheries Investment Fund, the Industrial Loan Fund or the Industrial Development Fund who accept positions at the New Business Venture Fund shall enjoy the same rights as they had under their collective agreements or employment agreements. Their right to receive wages from the Fisheries Investment Fund, the Industrial Loan Fund or the Industrial Development Fund shall lapse when they enter their new positions.

The New Business Venture Fund shall take over pension obligations towards those employees of the Fisheries Investment Fund, the Industrial Loan Fund or the Industrial Development Fund who accept positions with it.

The equity of the Product Development and Marketing Department of the Industrial Loan fund, cf. Act No. 76/1987, shall be transferred to the New Business Venture Fund and be kept there in a special department which shall be treated separately in the Fund's bookkeeping and accounts. The principal under this paragraph shall not be regarded as part of the foundation capital of the New Business Venture Fund in accordance with Article 7. During the first three years of the New Business Venture Fund's operations, its board shall dispose of the department's assets in the form of contributions to product development and marketing action in accordance with rules set by the board and confirmed by the Minister. At the end of that period, the department shall be abolished. If at that time any of the department's assets have not been disposed

of, the amounts remaining shall be devoted to the general activities of the New Business Venture Fund. In other respects, the department's operations shall be subject to the provisions of this Act.



## Appendix IV

### Financial Market Figures

Source: Central Bank of Iceland, Annual Report 1996.

## Appendix IV

Table 1. The credit system

	<i>Position at the end of year in ISK billions.</i>		<i>Changes in 1995</i>		<i>Changes in 1996</i>	
	<i>1995</i>	<i>1996</i>	<i>ISK billions</i>	<i>% billions</i>	<i>ISK</i>	<i>%</i>
Loans and securities	831,7	892,7	46,5	5,9	61,1	7,3
Banking system	237,6	257,4	2,2	1	19,8	8,3
Industrial credit funds	78,2	80,1	2,4	3,2	1,9	2,5
Housing credit funds	184,9	201,9	17,9	10,7	17	9,2
Pension funds	235,1	265,3	24,2	11,5	30,2	12,8
Insurance companies	25,9	32	2	8,6	6,2	23,9
Leasing companies	8,4	11,1	-1,4	-14,1	2,8	32,8
Mutual funds	11,5	18,4	-1,9	-13,9	6,9	60
Foreign credit	271,6	294,3	-0,3	-0,1	22,7	8,4
Public lending funds	86	85,2	10,1	13,4	-0,8	-0,9
Less inter-institut. lend,	-307,5	-353	-8,8	-	-45,5	-
Assets = liabilities	831,7	892,7	46,5	5,9	61,1	7,3
Liabilities:						
Domestic liabilities						
of the credit system	590,6	650,5	45,2	8,3	59,9	10,1
Notes and deposits	155,5	164,5	3,3	2,2	9	5,8
Securities	74,1	86,1	7,8	11,8	12	16,2
Insurance indemnity fund	26,2	29,9	2,4	9,9	3,8	14,4
Pension funds	258,1	292,5	28,4	12,4	34,4	13,3
Capital of financial instit.	92,4	96,6	2,9	3,3	4,2	4,5
Other, net	-15,7	-19,1	0,3	-	-3,4	-
Foreign credit, net	241,1	242,3	1,3	0,5	1,2	0,5

## Appendix IV

*Table 2. Summary of the accounts of the banking system*  
*ISK millions at end of year*

	1990	1991	1992	1993	1994	1995	1996
Net foreign exchange reserves	25.791	27.572	34.466	34.490	24.968	21.402	39.674
Credit and funds relent	181.357	203.847	210.420	229.066	235.380	237.513	257.383
Central Bank	4.514	8.888	2.345	5.066	18.402	15.919	7.548
Dep. money banks, excl T-bills	136.539	152.927	159.640	172.020	181.542	191.565	209.872
Foreign funds relent	34.434	36.824	40.074	41.838	32.025	23.697	30.422
Treasury bills held by banks	5.870	5.208	8.361	10.142	3.411	6.332	9.541
Sundry funds (-) 1	-3.809	-4.642	-4.563	-4.684	-4.826	-1.735	-2.625
Other items, net	-16.603	-18.619	-21.108	-28.015	-29.815	-30.159	-36.878
Total	186.736	208.158	219.215	230.857	225.707	227.021	257.554
Broad money (M3)	129.802	148.436	154.029	164.127	167.918	171.656	181.580
Time savings deposits	24.071	31.739	29.638	34.222	54.193	60.547	67.287
Money and demand sav. d. (M2)	105.731	116.697	124.391	129.905	113.725	111.109	114.293
Demand saving deposits	81.087	87.144	94.449	98.341	78.770	72.793	71.822
Money supply (M1)	24.644	29.553	29.942	31.564	34.955	38.316	42.471
Securities issues	17.453	19.180	20.662	22.699	22.337	24.095	31.183
Other domestic borrowing	2.369	1.825	1.962	1.888	1.849	2.170	1.530
Foreign borr. for produce loans	5.271	5.262	4.999	3.201	2.649	25.588	36.480
Foreign liabilities for re-lending	31.841	33.453	37.562	38.942	30.956	3.512	6.781

1. Deposits of investment credit funds with Central Bank plus public depository funds.  
Deposits are marked with (-).

## Appendix IV

*Table 3. Sectoral breakdown of credits made by the commercial banks*

<i>ISK Millions at end of year</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>
Treasury and govt.. institutions	13.659	12.349	16.957	16.552	17.565	19.484
Municipalities	4.046	4.104	4.640	6.413	7.138	6.982
Non-bank financial institutions	4.763	4.358	5.667	6.533	5.493	7.933
Investment credit funds	3.742	3.472	4.484	5.068	3.972	4.169
Other financial institutions	1.021	886	1.183	1.465	1.521	3.764
Enterprises	86.453	89.017	91.382	95.466	100.037	107.590
Agriculture	10.768	8.891	8.252	7.805	7.441	7.215
Fisheries	19.306	19.545	20.254	19.981	26.240	30.882
Commerce	26.474	27.772	27.474	28.696	28.454	30.461
Co-operatives	5.546	6.269	5.441	5.228	4.769	5.243
Oil companies	1.439	1.398	1.438	1.812	2.468	1.617
Other	19.489	20.105	20.595	21.656	21.217	23.601
Manufacturing	14.381	14.157	13.897	12.931	13.117	13.854
Housebuilding contractors	1.642	1.703	2.082	2.192	2.389	2.440
Other contractors	1.929	2.219	1.844	2.343	2.309	2.679
Communications	2.435	2.545	2.298	2.747	2.843	3.021
Electric power	13	129	26	288	546	186
Services	9.505	12.056	15.255	18.483	16.698	16.852
Households	44.006	49.813	53.375	56.573	61.333	67.885
Housing	14.051	14.771	14.409	14.036	13.902	16.258
Other	29.955	35.042	38.966	42.537	47.431	51.627
Total	152.927	159.641	172.021	181.537	191.566	209.874

1. Excluding foreign funds relent.

## Appendix IV

*Table 4. Lending by individual investment credit funds*

<i>Position at end of year in ISK millions.</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>
Housing funds, totals	114.266	132.095	149.396	167.058	184.914	201.877
State Housing Fund and Mortgage						
Department of The National Bank	66.956	66.451	66.087	64.902	63.914	63.006
Housing bonds department	21.846	34.424	46.788	61.415	76.187	90.451
Workers' Building Fund	25.464	31.220	36.521	40.741	44.813	48.420
Other investment credit funds	60.216	67.708	74.636	75.835	78.307	80.137
Agricultural Loan Fund	8.518	8.913	9.219	9.076	9.849	10.062
Mortgage Dep. of Agricultural Bank	209	199	168	0	0	0
Agricultural Productivity Fund	222	221	185	249	137	126
Fisheries Investment Fund	15.865	19.838	22.101	25.290	23.370	23.648
Commercial Loan Fund	2.331	2.952	3.373	4.511	8.000	9.015
Co-operative Loan Fund	823	817	725	0	0	0
Industrial Loan Fund	11.414	13.536	15.776	16.196	16.392	17.023
Nordic Industrial Development Fund	5.091	5.860	6.610	5.562	5.556	4.602
Tourism Fund	890	954	1.054	1.173	1.132	1.064
Municipal Loan Fund	3.418	3.847	4.352	4.625	5.083	5.533
Regional Development Fund	8.598	7.883	8.382	7.546	7.451	7.788
Truck Investment Fund	73	82	72	28	11	14
Development Fund	2.765	2.606	2.618	1.578	1.326	1.263
Total lending, excl. interfund transactions	174.482	199.803	224.031	242.892	263.221	282.014
Inter-fund lending from:	32.252	35.670	40.787	39.879	49.485	38.805
Development Fund	18.056	15.797	14.224	10.714	7.941	5.631
State Housing Fund	13.455	18.947	24.148	28.830	33.539	32.993
Industrial Loan Fund	169	187	214	0	0	0
Nordic Industrial Development Fund	572	739	654	302	55	182
Other investment credit funds	0	0	1.546	32	9	0

## Appendix IV

Table 5. Main market securities 1994-1996

	<i>Position end of year ISK billions</i>			<i>Changes in %</i>	
	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>	<i>1996</i>
Indexed and exchange rate linked, total	180,9	202,5	229	12	13,1
Treasury bonds	72,5	78	77,4	7,6	-0,8
Bank bonds	20,7	20,1	23,4	-2,7	16,4
Housing bonds	64,7	77,6	92,5	19,9	19,2
Housing fund bonds	7,7	7,6	15	-1,3	97,4
Investment credit funds	9,2	14,3	13,8	55,7	-3,7
Leasing companies	6,1	4,9	6,9	-20,3	41,8
Non-indexed, total	38,1	40,6	53,8	6,6	32,6
Mutual funds shares	16,2	14,5	20,5	-10,8	41,8
Treasury bills	14,6	15,5	15,3	5,7	-1
Treasury notes	5,6	6,6	10,4	18,1	58,7
Bank commercial bills	1,7	4,1	7,6	146,2	85,2
Total	219	243,1	282,8	11	16,3

## Appendix IV

Table 6. Equity listed on the Iceland Stock Exchange

	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>
Turnover in ISK billions	0,1	1	1,3	2,9	5,8
Market capitalization in ISK billions	14,6	19,1	33	47	93,1
Number of companies listed	11	17	24	27	32
Changes in share index (ICEX) (%)	-10	-17	24	35	60
Turnover/market capitalisation (%)	1	5	4,1	6,1	6,3
Market capitalisation/GDP (%)	3,7	4,6	7,6	10,3	18,8

Sources: Iceland Stock Exchange, Central Bank of Iceland.