



## Annual Report 2016

# ANNUAL REPORT 2016

### Contents

3	I <i>Objectives and policy</i>
5	II <i>Monetary policy</i>
11	III <i>The financial system</i>
17	IV <i>Foreign reserves</i>
21	V <i>Treasury debt management</i>
25	VI <i>International cooperation</i>
27	VII <i>Special projects</i>
33	VIII <i>Accounts and organisation</i>
41	<i>Consolidated Annual Accounts 2016</i>
91	<i>Appendices</i>
93	<i>Press releases 2016</i>
94	<i>Publications 2016</i>
95	<i>Tables</i>



**Published by:**

The Central Bank of Iceland  
Kalkofnsvegur 1, 101 Reykjavík, Iceland  
Tel: (+354) 569 9600, fax: (+354) 569 9605  
E-mail: [sedlabanki@sedlabanki.is](mailto:sedlabanki@sedlabanki.is)  
Website: [www.sedlabanki.is](http://www.sedlabanki.is)

Printing: Oddi ehf.  
Reykjavík 2017  
ISSN 0559-2712

This is a translation of a document originally written in Icelandic. In case of discrepancy or difference in interpretation, the Icelandic original prevails. Both versions are available at [www.cb.is](http://www.cb.is).

**Icelandic letters:**

ð/Ð (pronounced like th in English this)  
þ/Þ (pronounced like th in English think)  
In this report, ð is transliterated as d and þ as th in personal names, for consistency with international references, but otherwise the Icelandic letters are retained.

**Symbols:**

- \* Preliminary or estimated data.
- 0 Less than half of the unit used.
- Nil.
- ... Not available.
- . Not applicable.

# I Objectives and policy

The principal objective of the Central Bank of Iceland is to promote price stability. The Bank shall also promote financial stability. With the approval of the Minister, the Bank has declared a numerical inflation target. The inflation target is defined in a joint declaration issued by the Icelandic Government and the Central Bank of Iceland on 27 March 2001 as a 2½% rise in the consumer price index over a 12 month period.<sup>1</sup> The Act of the Central Bank of Iceland, no. 36/2001, provides the Bank with full independence in the implementation of monetary policy so as to achieve the target. The Bank shall also promote the implementation of the Government's economic policy as long as it does not regard this policy to be inconsistent with its main objective of price stability. The Central Bank Act also states that, in addition to promoting price stability and financial stability, the Bank is obliged to manage Iceland's foreign exchange reserves and to promote a safe and effective financial system, including domestic and cross-border payment systems. Further provisions require that the Bank report publicly on monetary policy and on the Bank's activities in general.

## Monetary policy

A five-member Monetary Policy Committee (MPC) takes decisions on the application of the Bank's monetary policy instruments. These monetary policy instruments are its interest rates, transactions with credit institutions other than loans of last resort, decisions on reserve requirements, and foreign exchange market transactions aimed at affecting the exchange rate of the króna. The Committee has adopted rules of procedure that have been approved by the Bank's Supervisory Board.<sup>2</sup> The appointment of the Committee is provided for in the Act on the Central Bank of Iceland. The Governor is the chair of the Committee, which also includes the Deputy Governor, a senior Central Bank executive in the field of monetary policy formation, and two other economic and monetary experts appointed by the Minister of Finance and Economic Affairs.

Monetary policy implementation is based on the Central Bank's macroeconomic and inflation forecast, prepared over a horizon of three years. The forecast is published in the Bank's *Monetary Bulletin*, which was issued four times in 2016. *Monetary Bulletin* also includes an in-depth analysis of economic and monetary developments and prospects.

---

1. The declaration was published in *Monetary Bulletin* 2001/2 and on the Bank's website. Minor changes were made to it in November 2005.

2. The Rules of Procedure for the Monetary Policy Committee can be found on the Central Bank website.

### Financial stability

The Central Bank of Iceland shall promote financial stability. It oversees the work of the Systemic Risk Committee, which was established in 2014 and works for the Financial Stability Council.<sup>3</sup>

The Central Bank attempts to maintain a constant, clear overview of the position of credit institutions, financial markets, households, and businesses, and in its twice-yearly *Financial Stability* report, it publishes a detailed analysis of factors relating to financial stability. In addition, the Central Bank promotes an efficient and secure financial system by operating systemically important financial infrastructure and by ensuring that systemically important Icelandic payment and settlement systems operate in line with internationally recognised standards. These systems are discussed in depth in the Bank's annual *Financial Market Infrastructure* report.

The Central Bank of Iceland sets rules on minimum liquidity requirements, credit institutions' foreign exchange balances, and net stable funding in foreign currencies. The Bank conducts transactions with credit institutions and, under extraordinary circumstances and when the Bank deems it necessary in order to preserve confidence in the domestic financial system, is authorised by the Central Bank Act to issue guarantees or loans to credit institutions experiencing liquidity difficulties.

### Foreign reserves, Treasury debt management, foreign exchange issues, and other tasks

One of the Central Bank of Iceland's legally mandated tasks is to manage the foreign exchange reserves. They enable the Bank to help the Treasury meet its need for foreign currency and fulfil its foreign debt obligations. Maintaining adequate reserves supports market confidence that Iceland is able to service its foreign debt. They can also be used to support monetary policy. In order to ensure that the financial risk attached to maintenance of the reserves is managed effectively, the Governor sets rules on reserve maintenance, which are approved by the Supervisory Board. The Central Bank administers domestic and foreign borrowings and debt management for the Treasury.

The Central Bank's tasks and functions expanded in the wake of the financial crisis that struck in 2008. Among new tasks were surveillance and monitoring of the capital controls, projects related to payment intermediation, and administration of assets and claims following failure of the domestic banks. Companies owned by the Bank are entrusted with the last two of these.

3. The Financial Stability Council is chaired by the Minister of Finance and Economic Affairs. Other members are the Governor of the Central Bank and the Director General of the Financial Supervisory Authority. Members of the Systemic Risk Committee are the Governor of the Central Bank (who acts as chair) and the Director General of the Financial Supervisory Authority, together with their deputies and one expert appointed by the Minister.

## II Monetary policy

According to the Act on the Central Bank of Iceland, the Central Bank's principal objective is to promote price stability. This objective was further described in the joint declaration issued by the Bank and the Icelandic Government on 27 March 2001 as an inflation target of 2½%.

### Developments in inflation, interest rates and the exchange rate in 2016

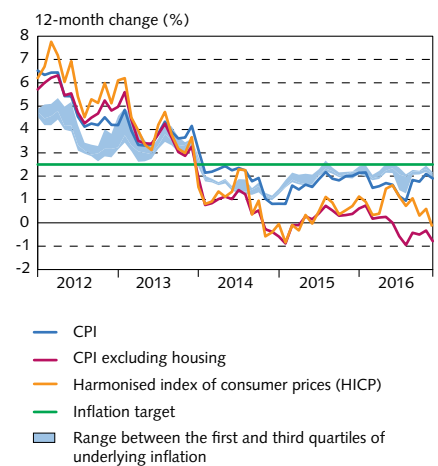
Inflation averaged 1.7% in 2016, as opposed to 1.6% in 2015 and 2% in 2014. By the end of the year, it had been at or below the Bank's inflation target for nearly three consecutive years, in spite of a strong economic recovery and sizeable wage increases.<sup>1</sup> Underlying inflation was virtually unchanged year-on-year but declined temporarily in mid-2016. Twelve-month inflation in terms of core index 3 (which excludes the effects of indirect taxes, volatile food items, petrol, public services, and real mortgage interest expense) measured 2.1% in December 2016, as opposed to 2.2% a year earlier.

The main drivers of inflation in 2016 were rising wage costs and house prices, as CPI inflation excluding housing averaged only 0.1%. Favourable external conditions and the appreciation of the króna offset the impact of domestic demand on inflation, as they have done in recent years. In the latter half of the year, the impact of global deflation diminished and oil prices rose, although this was offset by the appreciation of the króna.

The króna continued to appreciate in 2016, in spite of substantial foreign currency purchases by the Central Bank. It strengthened by 18.6% in trade-weighted terms over the year, as opposed to an appreciation of just under 8% in 2015. The rise largely reflects capital inflows stemming from a large trade surplus, which in turn is due to improved terms of trade and growth in exports – particularly in the tourism industry. In the first half of 2016, there were some foreign currency inflows in connection with new investment in Treasury bonds, but they all but halted when the Bank activated its new capital flow management measure in early June. The aim of the capital flow management measure was to temper and affect the composition of capital flows to Iceland.<sup>2</sup>

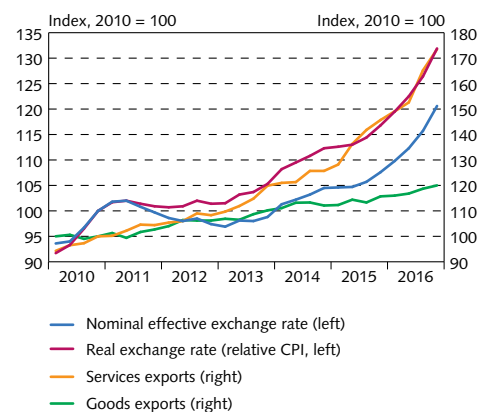
The Central Bank was active in the domestic foreign exchange market in 2016, buying somewhat more foreign currency than in

Chart II-1  
Headline and underlying inflation<sup>1</sup>  
January 2012 - December 2016



1. Underlying inflation; core indices that exclude the effects of volatile food items, petrol, public services and owner-equivalent rent and statistical measures such as the weighted median, the trimmed mean and a dynamic factor model.  
Sources: Statistics Iceland, Central Bank of Iceland.

Chart II-2  
Exchange rate of the króna and exports<sup>1</sup>  
Q1/2010 - Q4/2016

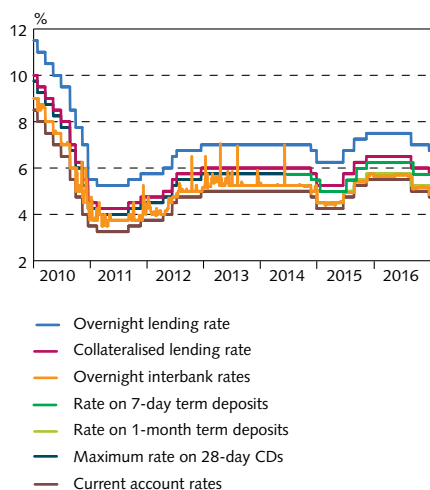


1. Four-quarter moving average.  
Sources: Statistics Iceland, Central Bank of Iceland.

1. According to Statistics Iceland's CPI measurement as published on 26 August 2016, twelve-month inflation was 0.9% in August 2016 and had therefore fallen below 1%, the lower deviation threshold of the inflation target. With reference to the joint declaration of the Government and the Central Bank of Iceland, dated 27 March 2001, the Bank sent the Government a special report on 9 September, explaining the reasons for the deviation. It was revealed later that there was an error in Statistics Iceland's inflation measurements for the period from March through August 2016. According to the corrected figures, twelve-month CPI inflation was 1.2% in August; therefore, inflation did not fall below the 1% threshold in August and no report had been necessary. This was reiterated in a separate letter sent to the Government on 14 October 2016.
2. For a discussion of the capital flow management measure, see Box 1 in *Monetary Bulletin* 2016/4.

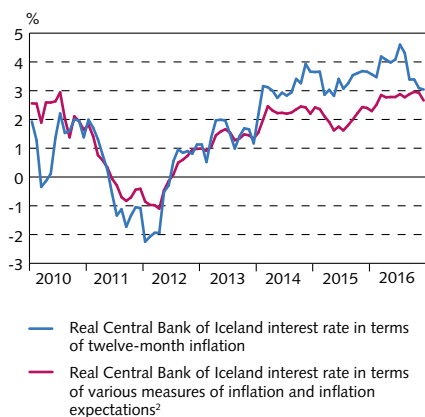
Chart II-3  
Central Bank of Iceland interest rates and short-term market rates

Daily data 1 January 2010 - 30 December 2016



Source: Central Bank of Iceland.

Chart II-4  
Real Central Bank of Iceland interest rates<sup>1</sup>  
January 2010 - December 2016



1. From 2010 to May 2014, the nominal policy rate was the average of the current account rate and the maximum rate on 28-day CDs. From May 2014, the policy rate has been the seven-day term deposit rate.  
2. Until January 2012, according to twelve-month inflation, one-year business inflation expectations, one-year household inflation expectations, the one-year breakeven inflation rate, and the Central Bank forecast of twelve-month inflation four quarters ahead. From February 2012 onwards, according to the above criteria, plus one-year market inflation expectations based on a quarterly Central Bank survey.

Sources: Gallup, Statistics Iceland, Central Bank of Iceland.

2015.<sup>3</sup> The Bank's net foreign currency purchases in the interbank market amounted to 386 b.kr., or roughly 16% of year-2016 GDP. It was necessary to build up the foreign exchange reserves and forestall over-appreciation of the króna during the prelude to liberalisation of restrictions on capital outflows. The Bank's foreign currency purchases also mitigated exchange rate volatility and leaned against the appreciation of the króna.

A large step was taken towards full liberalisation of the capital controls on 21 October 2016, when legislation amending the Foreign Exchange Act, no. 87/1992, entered into force. The amending Act significantly expanded individuals' and firms' authorisations for foreign exchange transactions and cross-border movement of capital. The Central Bank bought a smaller share of foreign currency inflows as the year progressed, and after the passage of the amending legislation in October the MPC decided to continue in this vein and review the situation after the next step in liberalisation of controls on individuals and firms had been taken on 1 January 2017.

The MPC kept Central Bank interest rates unchanged until August 2016, when it lowered them by 0.5 percentage points, followed by a 0.25-point rate cut in December. At the end of 2016, the Bank's key interest rate – i.e., the seven-day term deposit rate – was 5%. The Bank's real rate, in terms of the average of various measures of inflation and inflation expectations, remained in the 2½-3% range in 2016, and it was 2.7% at the end of the year. It was somewhat higher and more volatile in terms of past inflation, but the difference has narrowed as observed inflation and inflation expectations have moved closer to the inflation target.

The grounds for the rate reduction in August were that monetary policy had made it possible to keep inflation at target over the medium term with lower interest rates than the Committee had previously considered possible. This was shown by developments in inflation expectations, which had fallen down below the Bank's target after having been considerably above it for some time. At its December meeting, the MPC also considered that there was scope to lower interest rates, as inflation expectations appeared more firmly anchored to target than before and the monetary stance had tightened to an extent because of the appreciation of the króna.

There were no discernible disturbances in monetary policy transmission since the Bank adopted its new capital flow management measure in June 2016, as there had been in the latter half of 2015, and the Bank's interest rate reductions during the year were transmitted in full to other market rates. Yields on nominal Treasury bonds fell by approximately 0.5 percentage points after the Bank's rate cut in August 2016 and by an additional 0.1-0.2 percentage points in the wake of the December rate cut. The yield on five-year nominal Treasury bonds

3. According to Article 24 of the Act on the Central Bank of Iceland, no. 36/2001, the Monetary Policy Committee is tasked with taking decisions on the application of the Bank's monetary policy instruments. The Act defines foreign exchange market transactions aimed at affecting the exchange rate of the króna as one of those instruments. Increased foreign exchange market intervention is also in line with the Bank's proposal for improvements to the inflation targeting framework (see, for example, the discussion in "Monetary Policy in Iceland After Capital Controls", Central Bank *Special Publication* no. 4, December 2010).

was 5.1% at the end of 2016, as opposed to 5.9% a year earlier. The yield on comparable indexed Treasury bonds was 2.9% at the end of 2016, about the same as at year-end 2015.

The MPC also decided to lower minimum reserve requirements from 2.5% to 2% in June 2016, in connection with the auction of off-shore krónur, after having decided to raise them temporarily from 2% to 4% in September 2015, so as to facilitate liquidity management by the Bank in connection with both the planned auction and the settlement of the failed banks' estates.

## Monetary policy decisions and the rationale behind them

The Central Bank is required to publish reports on its monetary policy, as well as on monetary, exchange rate, and foreign exchange developments and its measures in these areas. In its quarterly *Monetary Bulletin*, the Bank reports on the economic and monetary outlook.

The Act on the Central Bank of Iceland requires that MPC make public the minutes of its meetings and that it explain its decisions and the rationale behind them. The MPC publishes the minutes of its meetings two weeks after the announcement of each interest rate decision. Included in the minutes is the Committee's assessment of economic and monetary developments and prospects, as well as the rationale for members' votes. The MPC reports to Parliament on its activities twice a year, as is provided for by law.

To pursue forward-looking monetary policy, a central bank needs models for assessing the economic outlook, especially inflation. The Bank is constantly developing models for use in assessing the economic outlook and analysing the impact of monetary policy. One means of enhancing transparency is to make the Bank's main forecasting model and its database available on the Central Bank website.

### The Monetary Policy Committee and its decisions

The MPC takes decisions on the application of the Bank's monetary policy instruments. In this context, the Bank's monetary policy instruments are its interest rate decisions, transactions with credit institutions other than loans of last resort, decisions on reserve requirements, and foreign exchange market transactions.

The Committee was chaired by Governor Már Gudmundsson, as is provided for by law. Other members were Deputy Governor Arnór Sighvatsson, Chief Economist Thórarinn G. Pétursson, Professor Gylfi Zoëga of the University of Iceland, and Katrín Ólafsdóttir, Assistant Professor at Reykjavík University.

### Interest rate decisions 2016

The Central Bank Act requires that the MPC meet at least eight times each year. In 2016, the Committee held eight regular rate-setting meetings and one extraordinary meeting held on 23 December for the purpose of discussing foreign exchange matters. The Committee also held a joint meeting with the Systemic Risk Committee in order to discuss economic developments, the status of the financial system, foreign exchange market flows, and the interactions between mon-

etary policy and financial stability. The Committee's interest rate decisions were as follows:

*10 February:* The Governor proposed that the Bank's interest rates be held unchanged. All Committee members voted in favour of the proposal.

*16 March:* The Governor proposed that the Bank's interest rates be held unchanged. All Committee members voted in favour of the proposal.

*11 May:* The Governor proposed that the Bank's interest rates be held unchanged. All Committee members voted in favour of the proposal.

*1 June:* The Governor proposed that the Bank's interest rates be held unchanged. All Committee members voted in favour of the proposal.

The Governor also proposed that reserve requirements be lowered from 2.5% to 2% as of the next reserve maintenance period, which began on 21 June. All Committee members voted in favour of the proposal.

*24 August:* The Governor proposed that the Bank's interest rates be lowered by 0.5 percentage points. Már Gudmundsson, Gylfi Zoëga and Katrín Ólafsdóttir voted in favour of the Governor's proposal, while Arnór Sighvatsson and Thórarinn G. Pétursson voted against it, voting instead in favour of a rate reduction of 0.25 percentage points.

*5 October:* The Governor proposed that the Bank's interest rates be held unchanged. All Committee members voted in favour of the proposal.



Monetary policy committee at the end of 2016. From left: Gylfi Zoëga, Arnór Sighvatsson, Már Gudmundsson chairman, Katrín Ólafsdóttir and Thórarinn G. Pétursson.



*16 November:* The Governor proposed that the Bank's interest rates be held unchanged. Már Gudmundsson, Thórarinn G. Pétursson, and Katrín Ólafsdóttir voted in favour of the Governor's proposal, while Arnór Sighvatsson and Gylfi Zoëga voted against it, voting instead in favour of a rate reduction of 0.25 percentage points.

*14 December:* The Governor proposed that the Bank's interest rates be lowered by 0.25 percentage points. Már Gudmundsson, Arnór Sighvatsson, Gylfi Zoëga, and Katrín Ólafsdóttir voted in favour of the Governor's proposal, while Thórarinn G. Pétursson voted against it, voting instead in favour of keeping interest rates unchanged.



## III The financial system

### Financial stability

One of the Central Bank of Iceland's two main tasks is to promote financial stability. Financial stability means that the financial system is equipped to withstand shocks to the economy and financial markets, to mediate credit and payments, and to redistribute risks appropriately. A healthy financial system is a prerequisite for positive economic developments and effective transmission of monetary policy.

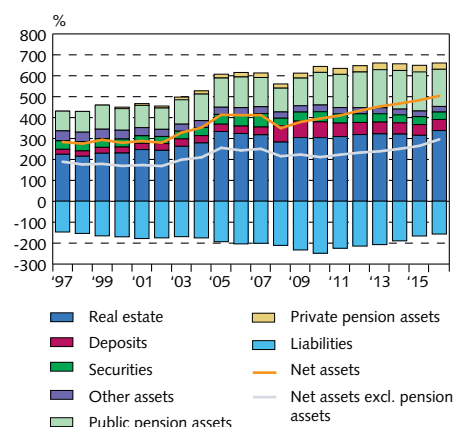
The Bank's main tasks in the area of financial stability are to analyse risks that could jeopardise the stability of the financial system, to draft rules on credit institutions' liquidity and foreign exchange balance, and to conduct monitoring on the basis of these rules. The Bank's analyses were published in the *Financial Stability* report twice during the year. The Bank participates also in setting policy on the structure and development of the financial system and formulates further prudential rules for it. In promoting financial stability the Central Bank interacts closely with other institutions, particularly the Financial Supervisory Authority and the Ministry of Finance and Economic Affairs, and participates in international cooperation.

In recent years, increased emphasis has been placed on analysing the position of households and businesses, the external position of the economy, on financial flow and resident entities' refinancing risk in foreign credit markets. Extensive work in connection with capital account liberalisation took place in 2016 (see Chapter VII, Special Projects). During the year, stress tests were conducted on the large commercial banks and the results published for the second time. The tests are based on risk assessments and provide indications of the banks' sensitivity to adverse developments or shocks. The results of the tests showed that, on the whole, the banks were relatively well prepared to withstand shocks. At the beginning of the year, both the required minimum liquidity and the minimum funding ratio in foreign currencies according to Central Bank rules rose from 0.8 to 0.9. The minimum ratios will rise to 1.0 at the beginning of 2017. During the year, the Central Bank prepared the meetings of the Systemic Risk Committee in consultation with the Financial Supervisory Authority and compiled a range of analytical materials for the meetings.

### Developments in financial stability

Economic conditions in the financial system were broadly favourable during 2016. Households' and businesses' debt was historically low relative to both income and GDP. Households and businesses are better equipped to withstand shocks than they have been for a long time. Increased tourism-generated revenues and favourable terms of trade contributed to a current account surplus, and the exchange rate of the króna appreciated. The Central Bank bought significant amounts of foreign currency in the interbank market during the year and built up its foreign exchange reserves substantially. During the year, Iceland's sovereign credit ratings were upgraded (see Chapter V, Treasury Debt

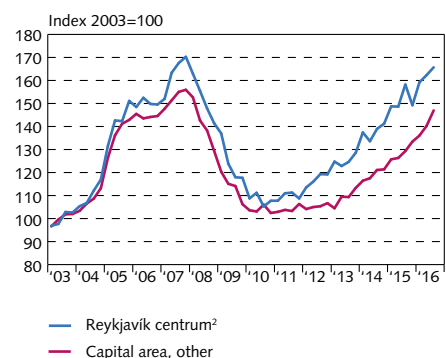
Chart III-1  
Household assets and liabilities  
as share of disposable income<sup>1</sup>



1. Pension fund assets are based on payouts after deduction of 30% income tax.

Sources: Statistics Iceland, Central Bank of Iceland.

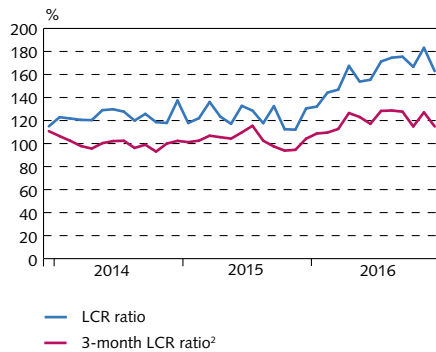
Chart III-2  
Capital area apartment price<sup>1</sup>, per m<sup>2</sup>



1. At constant prices. 2. North of Hringbraut, Hagar, Melar, Grandar, and Hlidar.

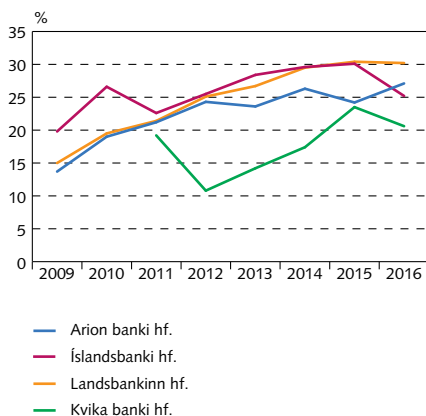
Sources: Registers Iceland, Statistics Iceland, Central Bank of Iceland.

Chart III-3  
The three large commercial banks' liquidity coverage ratio<sup>1</sup>



1. Consolidated figures. 2. In accordance with liquidity rules, the Central Bank also monitors three-month liquidity coverage ratios.  
Source: Central Bank of Iceland.

Chart III-4  
Commercial banks' capital adequacy ratios<sup>1</sup>



1. Consolidated figures. Capital base as % of risk-weighted base. CAR for MP Bank 2009-2014.  
Sources: Commercial banks' annual accounts.

Management), in part because of reduced Treasury debt and successful steps taken towards capital account liberalisation. The commercial banks' position was sound at the end of the year. The large banks generated sizeable profits, although profits were down from the prior year because of reduced income from irregular items. The banks' capital ratios were high in spite of dividend payments, and their liquidity was generally sound.

Credit risk subsided during the year as private sector debt declined. The banks' borrowing terms in foreign markets improved and their market access opened up further with the sovereign rating upgrade. Stress tests on the banks' liquidity indicated that their liquidity ratio would remain above the regulatory minimum specified by the Central Bank, even in the event of sizeable capital outflows after liberalisation of the capital controls.

During the year there were some signs of tension in the domestic economy, particularly in the labour market and the housing market, which could cause financial imbalances in the long run. It would also be necessary to monitor the risk entailed in the rapid growth of the tourism industry. Also pointed out was the need to restrict foreign-denominated lending to households and businesses that are unhedged against foreign exchange risk. The Central Bank introduced a capital flow management instrument in 2016 which resulted in a significant reduction in new foreign investment in bonds, which can prove to be a source of volatile capital flows.

### Financial Stability Council and Systemic Risk Committee

The Financial Stability Council is the official forum for consultation, exchange of information, and policy-making in connection with financial stability. The Systemic Risk Committee works for the Council. The role and tasks of the Systemic Risk Committee are to assess the current situation and outlook for the financial system, systemic risk, and financial stability. In its work, the Committee uses analyses prepared by the Central Bank of Iceland and the Financial Supervisory Authority, as is stipulated in the Cooperation Agreement between the two institutions. The Systemic Risk Committee comprises five members: the Governor of the Central Bank, who acts as chairman; the Director General of the Financial Supervisory Authority; the Deputy Governor of the Central Bank; the Deputy Director General of the Financial Supervisory Authority; and one expert in financial markets or economics who is appointed by the Minister without nomination for a term of five years. Administrative matters pertaining to the Systemic Risk Committee are handled by the Central Bank. The Systemic Risk Committee met four times in 2016 in order to prepare the Financial Stability Council's meetings.

As is stated above, the Financial Stability Council is the authorities' official forum for collaboration on financial stability. If analysis carried out by the Financial Stability Council indicates that financial stability is under threat, the Council is to issue instructions for appropriate actions, other than the application of the Central Bank of Iceland's monetary policy instruments, to the competent authorities. The Council also approves the definitions of systemically important

infrastructure, markets, and supervised entities whose activities could affect financial stability. The Financial Stability Council is chaired by the Minister of Finance and Economic Affairs. Other members are the Governor of the Central Bank and the Director General of the Financial Supervisory Authority. The Council met four times in 2016. The Financial Stability Council has published criteria for the classification of regulated entities as systemically important and has confirmed the systemic importance of four Icelandic entities: Arion banki hf., Íslandsbanki hf., Landsbankinn hf., and the Housing Financing Fund. Upon receiving instructions from the Financial Stability Council, the Financial Supervisory Authority has activated a capital buffer for systemic risk, a buffer for systemic importance, and a countercyclical capital buffer. A capital conservation buffer has also taken effect.

Table III-1 Capital buffers

<i>Capital buffer</i>	<i>FSR recommendation</i>	<i>FME decision</i>	<i>Value</i>	<i>Effective date</i>
Systemic risk buffer <sup>1</sup>	22.1.2016	1.3.2016	3%	1.1.2017
			1.5%	1.1.2017
Systemic risk buffer, other deposit institutions	22.1.2016	1.3.2016	2%	1.1.2018
			3%	1.1.2019
Capital buffer for systemic importance <sup>1</sup>	22.1.2016	1.3.2016	2%	1.4.2016
	22.1.2016	1.3.2016	1%	1.3.2017
Countercyclical capital buffer	30.9.2016	1.11.2016	1.25%	1.11.2017
Capital conservation buffer			2.5%	1.1.2017

1. Systemically important banks are Arion banki hf., Íslandsbanki hf., and Landsbankinn hf.

Source: Central Bank of Iceland.

## Financial Market Infrastructure

The Central Bank of Iceland is required to promote security, efficiency, and efficacy of core infrastructure in the Icelandic financial system, thereby safeguarding financial stability. The Bank therefore oversees and monitors the country's financial market infrastructure. In accordance with the confirmation of the Financial Stability Council, the Central Bank's real-time gross settlement (RTGS) system, the netting system owned by Greidsluveitan ehf. (a company owned by the Bank), and the Nasdaq CSD Iceland hf. securities settlement system are classified as systemically important financial market infrastructure.

In carrying out its oversight role, the Bank uses a risk-oriented approach. It monitors developments, effectiveness, and operational security of systemically important payment systems by gathering information and communicating with the system administrators responsible for infrastructure operations. The securities settlement system is operated by a licensed entity and is therefore subject to supervision by the Financial Supervisory Authority (FME).

The Bank and FME's joint risk assessment group on financial market infrastructure focuses on infrastructure and on payment intermediation and securities settlement in a broad sense. Its role is to assess systemic risk and its potential impact on financial stability at any given time.

In 2016, an assessment was made of the operational security and framework of the netting system, using internationally recognised

best practice guidelines (the Core Principles for Systemically Important Payment Systems issued by the Bank for International Settlements' Committee on Payments and Market Infrastructures (BIS/CPMI) and the Principles for Financial Market Infrastructures (PFMI) issued by the International Organization of Securities Commissions (IOSCO)). The main comments and recommendations pertained to administrative structure and division of tasks, but due to the internal connections between the RTGS and netting systems, the operational framework is somewhat complicated. Further recommendations centered, among other things, on risk management and contingency. Improvements are being made on the basis of the assessment report. A comprehensive approach extending across the operational framework is inevitable, and it is important that the owners and system administrators manage all facets of operations effectively, including outsourced tasks.

The Central Bank's oversight role also includes conducting an independent assessment of incidents or operational interruptions in the Bank's payment systems. An assessment is made of the system administrator's analysis of cause and effect, the severity of the incident, post-incident responses or actions, and whether the incident could give cause for changes in execution, procedures, contractual agreements, regulatory framework, etc. In 2016, incidents occurred in both the RTGS system and the netting system which gave cause for review and reform, as oversight of the Bank's interbank system operations is to be based on PFMI criteria.

Work on a comprehensive renewal of the basic infrastructure that has served the Icelandic financial system for decades is currently underway. New user solutions for payment services are constantly being introduced, although most innovations are based on conventional credit/debit card systems instead of basic infrastructure, which could lead to enhanced operational efficiency. Network and information security has been a topic of international discussion in the recent past, owing to serious cyberattacks on systemically important infrastructure. It is important that owners and operators of payment intermediation infrastructure be aware that the risk of cyberattacks is constantly increasing. Operational risk can only be minimised through effective and responsible risk management.

The Central Bank's 2016 *Financial Market Infrastructure* report focuses on the Bank's payment intermediation tasks and explores in greater detail the topics mentioned above, as well as explaining the Bank's multi-faceted role and activities relating to financial market infrastructure. Among other things, the report presented for the first time the Bank's estimates of the cost of payment intermediation to the community, a topic the Bank intends to analyse more thoroughly in coming years.

**System operations – systemically important financial infrastructure**  
RTGS and netting system operations were smooth overall in 2016. The comprehensive incident log for system operations showed a total of 141 incidents during the year, none of them causing an interruption in system services. All of the incidents met with appropriate responses, which are detailed more fully in *Financial Market Infrastructure 2016*.

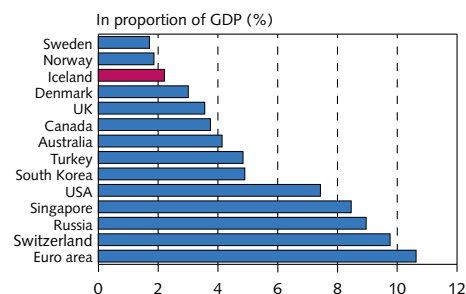
Four new entities joined the group of RTGS and netting system participants in 2016. At the end of the year, the RTGS system had twelve participants and the netting system ten.<sup>1</sup> Total turnover in the RTGS system increased by just under 15% year-on-year in 2016, to nearly 18 trillion krónur in approximately 98,000 payment orders, a year-on-year increase of 7.9%. Total netting system turnover increased by 8.4% year-on-year in 2016, to just over 3.6 b.kr. The number of transactions rose by just under 3% year-on-year, to a total of 79.4 million.

As is discussed in *Financial Market Infrastructure 2016*, the RTGS and netting systems are currently being renewed. Pre-selection documents from parties interested in participating in the tender for the system renewal were reviewed in 2016. The tender was then held for the project, based on a detailed analysis of the criteria that the new system and the software provider must meet, together with the requirements for interbank payment intermediation in Iceland. It was decided to accept the bid placed by Italian software provider SIA, which specialises in technical infrastructure solutions for financial institutions, central banks, and public entities worldwide.

## Cash

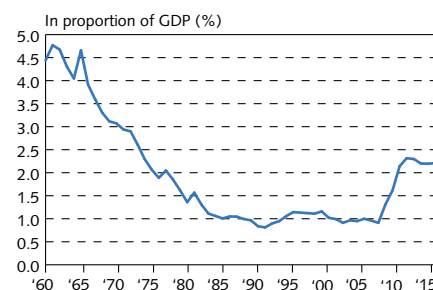
Cash in circulation outside deposit institutions and the Central Bank totalled 55.1 b.kr. as of year-end 2016, an increase of 6.2 b.kr., or 12.7%, during the year. The amount of cash in circulation has grown significantly in recent years, and the increase cannot be attributed solely to GDP growth and inflation. Growth in the number of tourists in Iceland is probably behind part of it, and data on Icelandic cash brought to the country by tourists support this hypothesis. Iceland has long been among the countries that use cash the least. At the end of 2016, cash in circulation amounted to 2.25% of GDP. A new 10,000 kr. banknote was put into circulation in October 2013. Its introduction has caused the composition of banknotes in circulation to change. At the end of 2016, 10,000 kr. notes accounted for 47.2% of issued banknotes in value terms, or 27.7 b.kr. The share of 5,000 kr. notes has declined sharply, to 40.6%. In 2016, the Central Bank's note processing department received 7.6 million banknotes from commercial banks and savings banks. A total of 4.8 million notes were destroyed.

Chart III-5  
Cash in circulation in several countries  
2015



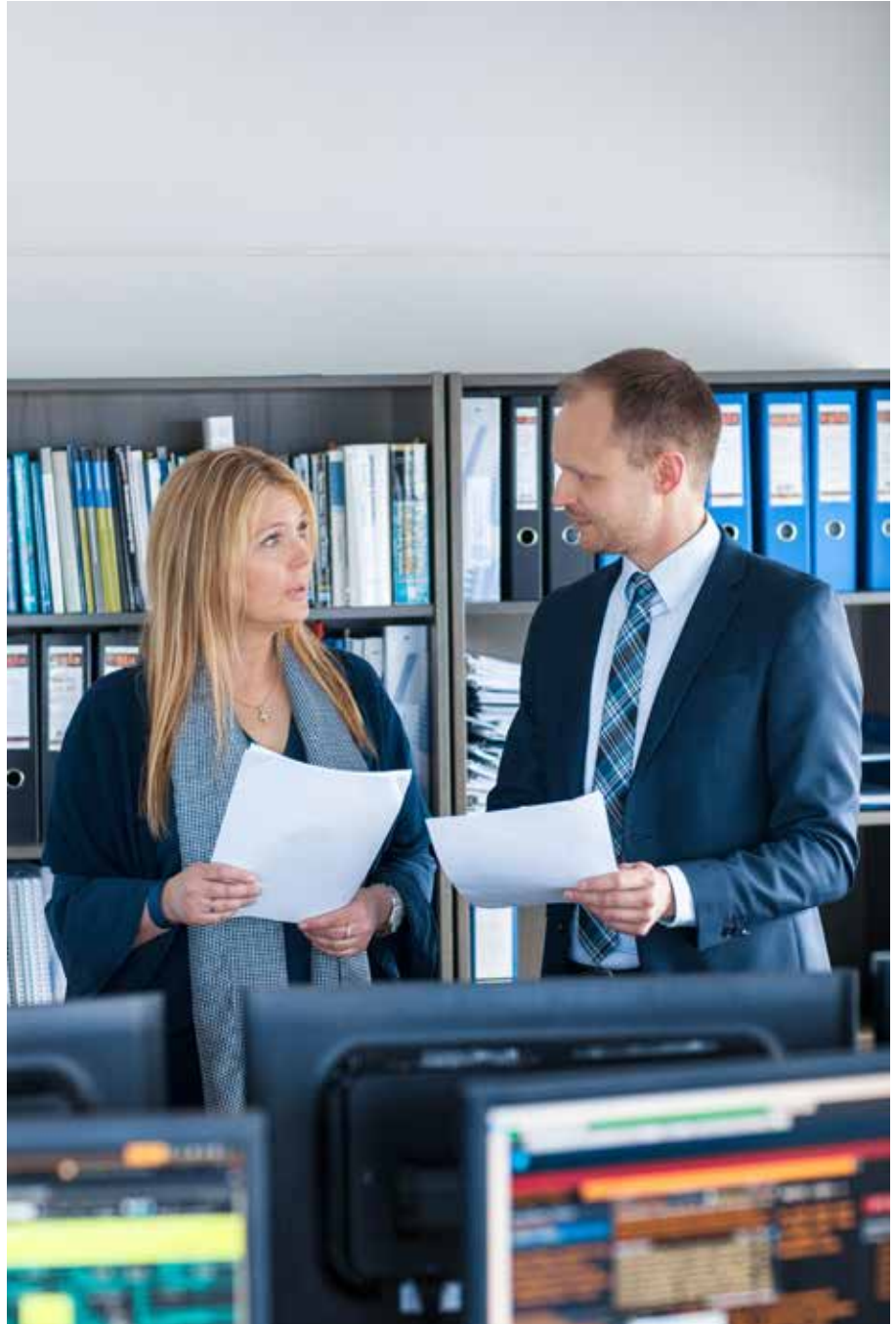
Sources: BIS, Danmarks Nationalbank, Norges Bank, Statistics Denmark, Statistics Iceland, Central Bank of Iceland.

Chart III-6  
Cash in circulation



Sources: Statistics Iceland, Central Bank of Iceland.

1. See <http://www.sedlabanki.is/fjarmalainnvidir/rekstur/storgreidslukerfi/>





## IV Foreign reserves

The Act on Central Bank of Iceland gives the Bank the mandate to manage the country's foreign exchange reserves. The reserves provide a buffer against external risks related to the balance of payments, including changes in access to foreign credit, and they can be useful as well in mitigating fluctuations in capital flows to and from Iceland. The reserves also strengthen the market's confidence that Iceland is able to service its foreign debt. Furthermore, they can be used to support monetary policy.

### Size

The size of the reserves is determined with reference to the scope of external trade, the exchange rate and monetary regime, rules on capital movements and foreign exchange transactions, and Iceland's external liabilities. At any given time, the desirable size of the reserves is determined by the balance of payments outlook.

At the end of 2016, the Bank's foreign exchange reserves amounted to 815 b.kr. (7.2 billion US dollars), which is approximately equivalent to 34% of Iceland's year-2016 GDP. The reserves corresponded to eleven months' worth of goods and services imports<sup>1</sup> and 49% of M3.

### Main drivers of change

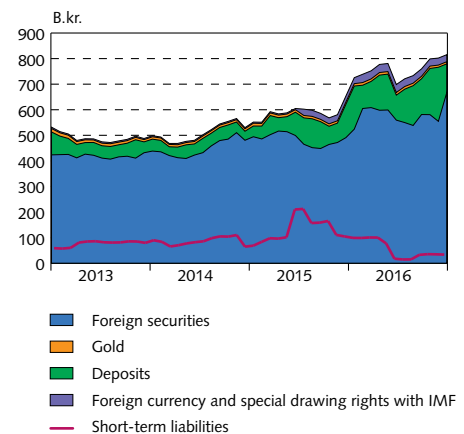
The foreign exchange reserves increased by 163 b.kr. in 2016, primarily due to foreign exchange purchases by the Central Bank in the interbank market in the amount of 386 b.kr. The Central Bank of Iceland Asset Management Company (ESÍ) and the Treasury's foreign-denominated recoveries of claims against the failed banks' estates increased the reserves by 34 b.kr., and the sale of Arion bank's foreign currency loan to the estate amounted to 56 b.kr. Arion bank's retirement of a bond owned by the State increased the reserves by 9 b.kr. The Treasury's purchases of foreign currency in connection with stability contributions totalled 9 b.kr., and the sale of bonds issued by Glitnir, Kaupthing, and LBI totalled 30 b.kr.

The most important factors reducing the size of the reserves during the year were the Central Bank's foreign exchange transactions with the failed banks' estates, in the amount of 75 b.kr., and the maturities of Treasury foreign loans, which totalled 69 b.kr. Foreign currency auctions and foreign exchange transactions in connection with offshore krónur entailed FX outflows of 70 b.kr. In addition, the Treasury paid 14 b.kr. in foreign currency to the Pension Fund for State Employees.

### Financial result

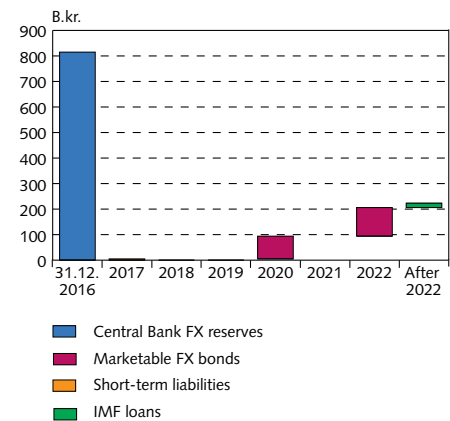
The return on the foreign exchange reserves was negative in the amount of 114 b.kr. in 2016. Exchange rate losses due to the appreciation of the króna totalled 119 b.kr. Changes in the market value

Chart IV-1  
Foreign exchange reserves  
January 2013 - December 2016



Source: Central Bank of Iceland.

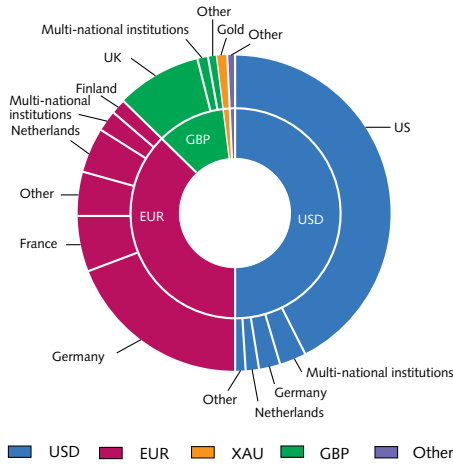
Chart IV-2  
Payment projection, Treasury and  
Central Bank foreign debt  
Balance at year-end 2016



Source: Central Bank of Iceland.

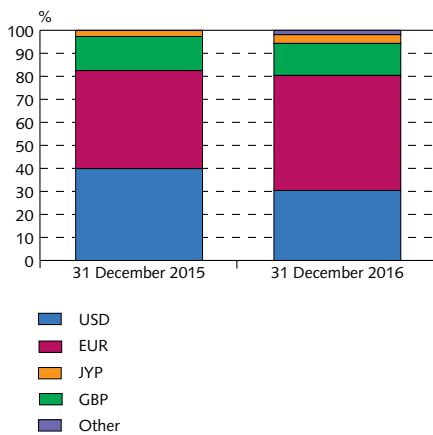
1. Average of five-year monthly imports of goods and services.

Chart IV-3  
Distribution of reserve assets by currency and counterparty country



Source: Bloomberg AIM.

Chart IV-4  
Foreign exchange balance, currency distribution



Source: Central Bank of Iceland.

of securities reduced the reserves by 4 b.kr., and a revaluation of the Bank's gold holdings increased them by 1 b.kr. Interest income on the reserves totalled 8 b.kr. After adjusting for the Bank's foreign exchange balance—i.e., the difference between total foreign-denominated assets and liabilities—the exchange rate loss due to the appreciation of the króna amounted to 88 b.kr. in 2016.

### Management of the foreign reserves

Rules on the management of the reserves are set by the Governor and approved by the Supervisory Board. The rules define outside limits for acceptable financial risk in investing the reserves. They also contain stipulations on responsibility and division of tasks related to reserve management and set forth the principles governing financial risk and how it is measured, identified, and managed. The Central Bank's investment committee formulates overall policy on reserve management by setting an investment policy within the framework of the rules. Asset portfolios, benchmarks, are constructed based on the investment policy's criteria and the reserves are measured, managed, and administered with reference to these criteria.

According to the benchmarks for currency composition, reserve assets must be in the same currency and the same amounts as the Bank's foreign liabilities insofar as is possible. The foreign exchange balance<sup>2</sup> is kept within the limits specified in the investment policy and managed with reference to benchmarks defined at any given time. The Bank uses derivatives, among other instruments, to manage its foreign exchange balance.

At the end of 2016, the foreign exchange balance of the Bank was positive by 609 b.kr., or 5.4 billion US dollars, an improvement of 251 b.kr. during the year, owing mainly to the Central Bank's foreign currency purchases in the domestic foreign exchange market. Returns in 2016 were 2.2 b.kr. below the benchmark for management of the foreign exchange balance. This is equivalent to 0.5% of the average foreign exchange balance during the year.

The foreign exchange reserves are invested to a large extent in foreign securities. At the end of 2016, securities constituted 80% of the total reserves. Returns on the bond portfolio were 0.5%, which was 0.1% below the benchmark.

Deposits, most of them held with central banks and the Bank for International Settlements (BIS), accounted for 13% of the reserves. As of the year-end, less than 1% of the reserves were in the form of deposits held with financial institutions. Deposit interest were negative by 0.1 b.kr. during the year. The Bank's gold holdings were unchanged year-on-year in terms of weight and accounted for 1% of the total reserves at the end of 2016.

According to the rules on reserve maintenance, highly liquid assets include bonds denominated in US dollars, euros, or pounds sterling and issued by the state in the state's own currency, and deposits with the central banks in these countries/regions or the BIS. Issuers of eurobonds must have a minimum credit rating of AA in order for the

2. The Central Bank's foreign exchange balance is defined as its foreign-denominated assets net of its foreign-denominated liabilities.

Table IV-1 Returns on bonds in the foreign exchange reserves 2016

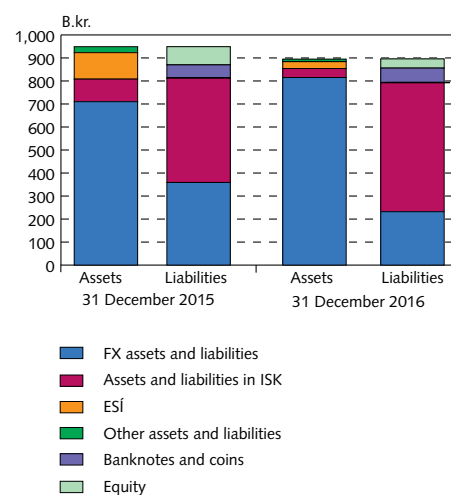
	GBP	EUR	USD
Bond portfolio balance at year-end (USD millions)	661	2,153	3,053
Bond portfolio distribution in %	11.3	36.7	52.0
Bond returns, %	1.2	1.3	-0.2
- Yield curve change, %	0.3	1.5	-1.9
- Yield curve carry, %	0.7	-0.4	1.2
- Allocation, selection and remainder, %	0.2	0.2	0.5
<i>Returns relative to benchmark</i>			
Returns in excess of benchmark, %	0.7	0.2	-0.4
- Yield curve change, %	0.2	0.1	-0.2
- Yield curve carry, %	0.0	0.1	-0.1
- Allocation, selection and remainder, %	0.5	0.0	-0.1
<i>Returns on bond portfolio</i>			
	Bond portfolio	Benchmark	Difference
Returns on Central Bank bond portfolio and benchmark, %	0.5	0.6	-0.1

Source: Central Bank of Iceland.

bonds to be classified as highly liquid assets. Highly liquid assets accounted for 72% of the Central Bank's foreign exchange reserves at the end of 2016.

Chart IV-3 gives a breakdown of reserve assets by country and currency as of year-end 2016. Further discussion of the management of the Bank's financial risk can be found in the notes to the financial statements.

Chart IV-5  
Central Bank of Iceland balance sheet



Source: Central Bank of Iceland.





# V Treasury debt management

## Agreement on Treasury debt management

The Central Bank of Iceland oversees Treasury foreign borrowing and conducts domestic auctions, buybacks, and Treasury bond redemptions. It also executes primary dealer agreements and oversees securities lending to primary dealers in accordance with an agreement made with the Ministry of Finance and Economic Affairs on 18 October 2010. The Bank undertakes risk management and credit management according to Ministry criteria on the management of the Treasury debt portfolio and discloses information on Treasury debt management to the Ministry and the market. The above-mentioned agreement entrusts the Bank with communications and disclosure of information on the Icelandic economy to foreign credit rating agencies and credit institutions, in addition to tasks related to Government guarantees and relending, such as administration of Government guarantees and the assessment of the Treasury's risk due to such guarantees. The Bank provides the Ministry with opinions on Government guarantees, administers such guarantees in accordance with ministerial decisions, and collects fees for them. The Central Bank also issues bonds for relending.

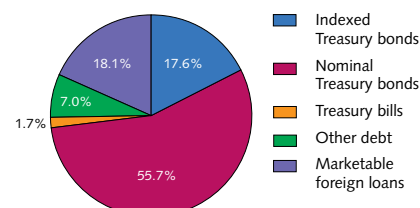
## Domestic debt management

At the end of December 2015, the Central Bank, on behalf of the Treasury, published its annual Government Debt Management *Prospect* for 2016. According to the *Prospect*, Treasury bonds were to be issued for a total of 50 b.kr. in 2016 in order to fund the debt maturing during the year. In the quarterly *Prospect* for Q4/2016, it was announced that issuance would be increased by as much as 15 b.kr., as was provided for in the National Budget. As a result, total issuance could range up to 65 b.kr. market value during the year. The target was met, and all sales took place through public auctions. The Treasury bond RIKB 16 1013 matured in the amount of 70 b.kr. during the year.

According to the annual *Prospect* for 2016, the balance of Treasury bills would decline by 9 b.kr. from the previous year, to a year-end total of 20 b.kr. Later in the year, however, a change in the projected issued volume of Treasury bills was announced and the end-2016 target was changed to 10 b.kr. This target was not met, and the year-end Treasury bill balance was 19 b.kr. It should be noted that Treasury bill issuance can vary greatly from month to month, as it is determined largely by the Treasury's short-term financial need and by demand and interest rates at any given time.

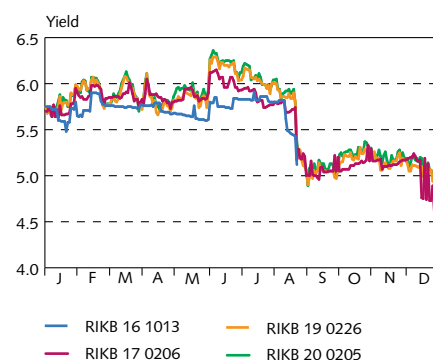
The year proved to be a volatile year in the nominal Treasury bond market. At the beginning of the year, there were fewer large fluctuations in Treasury bond yields than had previously been seen, owing to a slowdown in foreign inflows prompted by expectations that the Central Bank would hold an auction of offshore krónur in the near future. Early in the year, credit rating agency Standard & Poor's upgraded Iceland's sovereign rating for long-term obligations to BBB+,

Chart V-1  
Breakdown of Government debt  
Year end 2016



Source: Central Bank of Iceland.

Chart V-2  
Nominal Treasury bonds shorter than 5 years



Source: Central Bank of Iceland

Chart V-3  
Nominal Treasury bonds longer than 5 years

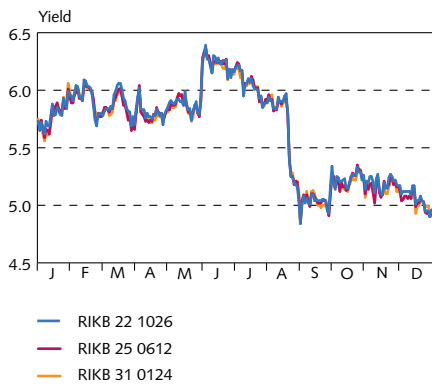


Chart V-4  
Investors net purchase 2016<sup>1</sup>

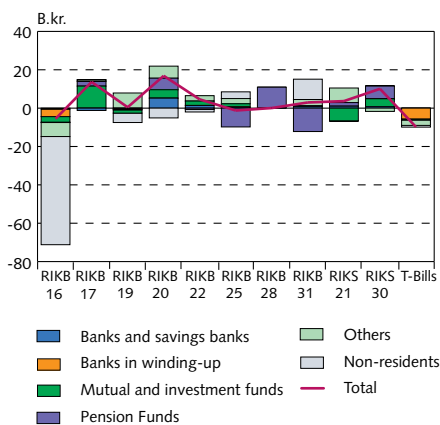
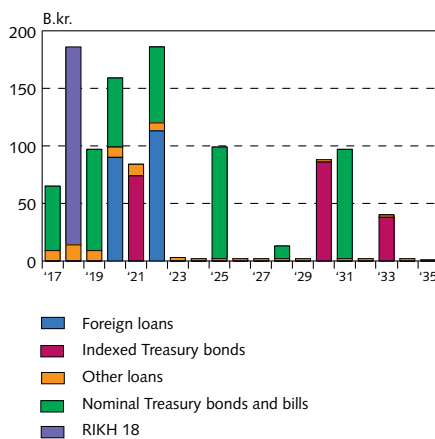


Chart V-5  
Redemption profile of government debt



and shortly thereafter, Fitch Ratings affirmed its BBB+ rating for Iceland's long-term foreign currency obligations. Strong buying pressure resulted, and yields fell on all nominal Treasury bonds.

In June, Parliament passed a bill of legislation amending the Foreign Exchange Act, which contained a temporary provision authorising the Central Bank to set rules on special reserve requirements for new inflows of foreign currency. With this amendment, the Bank was authorised to set rules providing for a new policy instrument, a capital flow management measure, in order to address the risk that can accompany sizeable capital inflows stemming from cross-border interest rate differentials. On the basis of this authorisation, the Central Bank set rules providing for special reserve requirements relating to new investments, deposits, and loans granted using new inflows of foreign capital. Foreign-denominated inflows to the domestic Treasury bond market slowed markedly thereafter, causing a rise in Treasury bond yields. Yields then fell in August, after the Monetary Policy Committee (MPC) lowered Central Bank interest rates by 0.5 percentage points. Soon afterwards, Moody's Investors Service announced that it had upgraded Iceland's sovereign ratings from Baa1 to A1 for local currency obligations and from Baa2 to A3 for foreign currency obligations, triggering a continued decline in nominal bond yields.

Yields continued to fall as the year progressed, in response to market expectations of a further reduction in Central Bank interest rates before the end of the year. The expected rate cut materialised in December, when the MPC lowered the Bank's interest rates by 0.25 percentage points.

The Medium-Term Debt Management Strategy for 2017-2021 was published by the Ministry of Finance and Economic Affairs at mid-year. In accordance with the new Act on Public Sector Finances, it is now presented on the basis of a fiscal plan, and the Government debt management objectives therefore cover a horizon of five years, from 2017 through 2021. Its principal objectives are to ensure that the Treasury's medium- to long-term financing needs and financial obligations are met at the lowest possible cost that is consistent with a prudent degree of risk. It is also intended to encourage further development of efficient primary and secondary markets for domestic Government securities.

Published in the strategy was a decision to begin preparations for the issuance of interest rate swap agreements in the domestic market and to authorise the Treasury to conclude such agreements for up to 20-40 b.kr. per year. It was also decided to begin more active Treasury liquidity management. The aim is to reduce fluctuations in the Treasury's deposit balance with the Central Bank and to maintain an average balance of roughly 40 b.kr. In order to achieve this objective, the Treasury may take short-term loans or grant short-term loans to market agents. The loans will be managed by Government Debt Management.

### Foreign debt management

At the end of 2016, Treasury foreign debt totalled 203 b.kr., a reduction of more than 104 b.kr. between years. The decline is due mainly

Table V-1 Gross Treasury debt at year-end 2016

M.kr.	Nominal value w/accrued indexation
Nominal debt	672,599
Indexed debt	247,594
Foreign debt	202,685
Total	1,122,878

Source: Central Bank of Iceland.

to retirement of debt and the appreciation of the Icelandic króna. A loan taken in 1981 and 1983, in the nominal amount of 28 million pounds sterling was paid off at maturity in January, and in June the remaining 503 million US dollars of a 1 billion dollar loan taken in 2011 matured. The Treasury's foreign exchange position was good at the end of the year, and the Central Bank's non-borrowed reserves have grown markedly; therefore, it was not deemed necessary to refinance the loans that matured.

### State guarantees

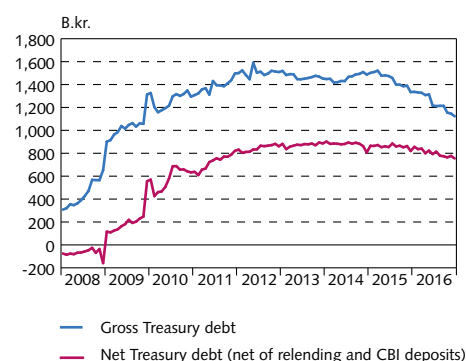
The Treasury may not undertake a guarantee unless authorised by law, as is provided for in Act no. 121/1997. Because of the risk to the Treasury, collateral must be provided that is deemed satisfactory by the State Guarantee Fund, which is authorised by law to supervise Government guarantees, keep track of the operations of entities that have received Government guarantees, and maintain a register of obligations backed by Government guarantees. The bulk of Government guarantees are due to the Housing Financing Fund and Landsvirkjun. Parties that enjoy Government guarantees due to Government ownership are required to obtain the Central Bank's approval of the terms and conditions for loans they intend to take abroad. Treasury guarantees totalled 1,039 b.kr. at the end of 2016, as opposed to 1,129 b.kr. at year-end 2015.

### Sovereign credit rating of the Republic of Iceland

Three international credit rating agencies issue ratings for the Republic of Iceland on a regular basis: Fitch Ratings, Moody's Investors Service, and S&P Global Ratings. The Central Bank of Iceland communicates regularly with these agencies on behalf of the Government. Credit ratings affect borrowing terms in global credit markets and provide an indication of the terms that will be offered to the borrower concerned. All of Iceland's sovereign credit ratings are investment-grade. Two of the rating agencies, Moody's and S&P, upgraded Iceland's sovereign ratings in 2016.

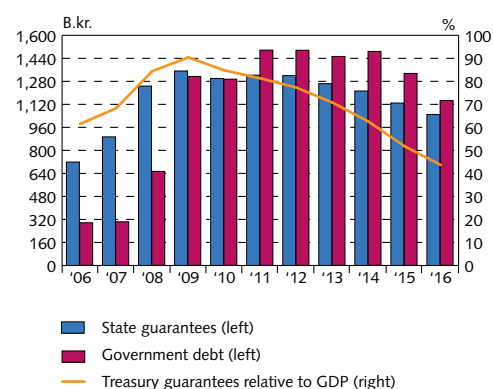
Fitch Ratings affirmed Iceland's BBB+ rating for long-term foreign currency obligations in January 2016. The country ceiling was affirmed at BBB+, as was the F2 rating for short-term foreign obligations and bills. Fitch affirmed Iceland's sovereign ratings again in July and reiterated the factors that could trigger an upgrade or downgrade. The agency cited continued GDP growth without economic imbalances, an improving public debt ratio, prudent fiscal policy, and an improvement in Iceland's external position as possible grounds for an upgrade. On the other hand, economic overheating, fiscal easing with the associat-

Chart V-6  
Treasury debt development 2008-2016



Source: Central Bank of Iceland.

Chart V-7  
Government debt and state guarantees  
2006-2016



Sources: Statistics Iceland, Central Bank of Iceland.

ed negative impact on debt ratios, and imbalances in Iceland's external position were cited as possible grounds for a downgrade.

In June 2016, Moody's placed Iceland's sovereign ratings on review for a possible upgrade, and in September it upgraded them by two notches, from Baa2 to A3, with a stable outlook. The country ceiling on issues in local and foreign currency was also upgraded to A1 and A3, respectively, and the ceiling for foreign short-term obligations and deposits was unchanged at P-2. In line with previous statements from the agency, two main factors triggered the upgrade: the expectation of continued improvement in Government debt, and the expectation, based on previous steps taken towards capital account liberalisation, that the remaining capital controls could be lifted without risk of economic and financial instability.

In January 2016, S&P Global Ratings upgraded Iceland's sovereign ratings for long-term obligations from BBB to BBB+, with a stable outlook. S&P also affirmed the sovereign's A-2 rating for short-term obligations. The decision was based on S&P's assessment that the capital account liberalisation strategy was credible, would strengthen Iceland's sensitive external position, and would ease pressure on the exchange rate of the króna. S&P also emphasised the value of the liberalisation measures for Iceland's Government debt position, stating that the rating upgrade was based on the assumption that the revenues received from stability contributions would be used to reduce public debt and not in any procyclical way.





## VI International cooperation

The Central Bank of Iceland communicates and conducts transactions with international institutions in its field or in accordance with its statutory role.

### **International Monetary Fund**

The Central Bank is responsible for financial relations with the International Monetary Fund (IMF) on behalf of the Government. A mission from the IMF discussed the current situation and future prospects for the Icelandic economy with the authorities in March. The IMF Executive Board then held its regular Article IV Consultation discussion on the Icelandic economy in June. A mission from the Fund returned to Iceland for a brief visit later in the year. All of the IMF's reports on its regular monitoring of the Icelandic economy are published on the Fund's website and that of the Central Bank.

Iceland collaborates with the Nordic and Baltic countries at the IMF and forms a constituency with them. These countries jointly elect one representative to the Fund's 24-member Executive Board. The Constituency's representative on the Executive Board in 2016 was Thomas Östros from Sweden. Twice a year, the Nordic-Baltic office compiles a report on salient issues on the agenda of the Fund and the Executive Board, including the Constituency's views on them. These reports are published on the Central Bank website.

The IMF's International Monetary and Financial Committee (IMFC) meets twice a year in connection with the Fund's annual and spring meetings. Central Bank Governor Már Gudmundsson is Iceland's representative to the IMF Board of Governors, which meets each year at the Fund's annual meetings.

### **The Bank for International Settlements (BIS)**

The Central Bank is a shareholder in the Bank for International Settlements (BIS) in Basel, Switzerland, which is an important consultative forum for central banks, as well as an information and research institution in the field of monetary policy and financial stability. The BIS also provides central banks with various banking services. During the year, the Governor attended regular central bank governors' meetings held by the BIS.

### **Organisation for Economic Co-operation and Development (OECD)**

Central Bank representatives participate on a regular basis in the work of various OECD committees and groups. OECD experts also come to Iceland on a regular basis to keep abreast of economic developments, and they issue periodic reports setting forth the Organisation's opinion of economic affairs in the country.

### **Co-operation with other central banks and financial supervisors**

The Central Bank of Iceland cooperates extensively and regularly with other central banks in the Nordic region and elsewhere in Europe. The

Governor also attends regular meetings with central bank governors and financial supervision officials in the Nordic and Baltic countries. Furthermore, the Bank participates in cooperation on financial stability through the Financial Stability Board (FSB), the principal harmonisation forum for financial stability worldwide. A Bank representative also attends meetings of the European Banking Authority (EBA). Towards the end of the year, the Central Bank of Iceland and the central banks of Denmark, Finland, Norway, Sweden, Estonia, Latvia, and Lithuania signed an agreement providing for a coordinated response to financial shocks in banks with operations in more than one of the signatory countries. During the year, the People's Bank of China renewed their three-year bilateral currency swap agreement for the second time.

#### **Other financial institutions**

The Central Bank cooperates with a large number of foreign financial institutions in connection with the management of its foreign exchange reserves, Treasury foreign debt, and other topics related to its operations.



## VII Special projects

### Capital Controls Surveillance Unit

The Central Bank of Iceland oversees the implementation of the Foreign Exchange Act, no. 87/1992, and the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016. The Capital Controls Surveillance Unit's (CCSU) tasks include carrying out general and specialised supervision as is specified in these Acts, advising individuals and legal entities, processing applications for exemptions from the Foreign Exchange Act, and investigating possible violations of the two above-mentioned Acts and rules set on the basis of them. The Unit also carries out a number of other tasks in connection with matters such as capital account liberalisation, new investment in Iceland, supervision of Central Bank foreign currency auctions, drafting and adoption of rules, and follow-up on conditional exemptions.

In the first half of 2016, legislation and rules on offshore króna assets were drafted and prepared for passage. In the latter half of the year, the focus shifted to preparation of a bill of legislation and adoption of rules pertaining to liberalisation of capital controls on households and businesses. That work concluded with amendments to the Foreign Exchange Act and the Rules on Foreign Exchange, which entered into force in the autumn.

In 2016, the Central Bank received 1,020 requests for exemptions from the Foreign Exchange Act, no. 87/1992. During the year, 995 requests were processed: 631 were approved, 11 approved in part, and 80 rejected, while 273 were withdrawn or concluded through issuance of guidelines or in another manner. The Bank granted the pension funds exemptions for foreign investment in the total amount of 85 b.kr., and they invested a total of 67.9 b.kr., or 80% of the full authorisation. The Central Bank received 559 notifications of new investment during the year (cf. Article 13(m) of the Foreign Exchange Act), in the total amount of 95.8 b.kr.

In June 2016, new Central Bank Rules on special reserve requirements for new foreign currency inflows in connection with investment in Iceland took effect. There were six instances involving investments governed by the rules and a total of 112 b.kr. were subject to the reserve requirements outlined therein.<sup>1</sup> A total of 620 requests for confirmation on the basis of the Foreign Exchange Act were received: 578 were confirmed, 16 rejected, seven confirmed in part, and 19 withdrawn. The Bank received 17 requests for confirmation of foreign direct investment in the total amount of 709 m.kr.<sup>2</sup> The Bank also received 61 requests for confirmation of investment in foreign real estate in the total amount of 2.8 b.kr.<sup>3</sup> In 2016, the Central Bank received

---

1. On 6 June 2016, the Central Bank set the Rules on Special Reserve Requirements for New Foreign Currency Inflows on the basis of Temporary Provision III of the Foreign Exchange Act, no. 87/1992.

2. With the passage of Act no. 105/2016 Amending the Foreign Exchange Act, foreign direct investment was unrestricted but subject to confirmation by the Central Bank.

3. With the passage of Act no. 105/2016 Amending the Foreign Exchange Act, individuals were authorised to invest in one piece of foreign real estate per calendar year, subject to confirmation by the Central Bank. Total outflows amounted to 1.2 b.kr.

60 notifications of parties' exercise of their authorisations for foreign exchange transactions and movement of capital in connection with investments in securities totalling 340 m.kr. The Bank also received 15 notifications of parties' exercise of their authorisations for foreign exchange transactions and movement of capital in connection with retirement of foreign loans totalling 141 m.kr.<sup>4</sup>

At the end of 2016, offshore króna assets totalled 191 b.kr. and had declined by 128 b.kr. since 31 March, as a result of foreign currency auction participation, the exit window that was open until 1 November 2016, interest payments, and a re-evaluation of the definition and market value of offshore króna assets. At the year-end, the majority of these assets (105.6 b.kr.) were in the form of Treasury bonds, Treasury bills, and other Government-guaranteed securities, whereas cash and Central Bank certificates of deposit accounted for 72.7 b.kr. and other assets amounted to 12.8 b.kr. During the year, the CCSU received a total of 312 requests for confirmation of individuals' authorisation for withdrawals totalling 66 m.kr., on the basis of Article 12 of the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions.

A total of 59 new cases involving possible violations of the Foreign Exchange Act and the Rules on Foreign Exchange were registered during the year, and 67 investigations were either dropped or concluded at the administrative level by settlement or administrative fine. There were no cases involving possible violations of the Act and Rules on the Treatment of Króna-Denominated Assets Subject to Special Restrictions during the year.

## Important steps towards liberalisation taken during the year

### **The authorities' capital account liberalisation strategy**

The updated capital account liberalisation strategy, introduced in 2015, provided for a sequenced liberalisation process taking account of the most important risks to monetary, exchange rate, and financial stability. The first phase of the strategy entailed winding up the failed commercial and banks' estates, the second focused on defining and releasing offshore króna assets, and the third centered on general liberalisation of capital controls on households and businesses. The strategy was based on the general approach taken by the International Monetary Fund (IMF) to capital account liberalisation and the fundamental objectives of maintaining sufficient foreign exchange reserves and minimising the risk of foreign currency outflows. The first phase was completed early in 2016.

### **The Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions**

In the first half of 2016, a bill of legislation on offshore króna assets was prepared, with the aim of segregating the assets and preventing them from having adverse effects on the exchange rate and the for-

4. With the passage of Act no. 105/2016 Amending the Foreign Exchange Act, individuals were authorised to invest abroad or prepay foreign obligations in an amount ranging up to 30 m.kr. The authorised amount was increased to 100 m.kr. at the turn of the year.

eign exchange reserves while offering an exit path through a closed Central Bank auction, thereby enabling further steps towards liberalisation of the capital controls. Since 2011, the Central Bank had held auctions for owners of offshore króna assets so as to facilitate capital account liberalisation. In the Bank's opinion, giving owners of offshore krónur unrestricted access to the domestic foreign exchange market would create the risk of a steep drop in the exchange rate unless the Central Bank counteracted it by selling large amounts of currency from the reserves. Owners of offshore krónur would feel these negative effects to some extent, particularly those that did not have domestic assets after having closed out their positions through the foreign exchange market.

In spite of the authorities' attempts prior to the update of the liberalisation strategy and the handling of risks associated with offshore króna assets, it was not possible to ensure that risks would be eliminated through the voluntary measures previously offered to owners of offshore krónur. Lifting the capital controls without preventative measures addressing the offshore króna problem would inevitably cause side effects that could jeopardise economic and financial stability.

It had become vital to lift controls from households and businesses. In order for this to be possible, it was necessary to segregate outstanding offshore króna assets securely so that they would not have a detrimental impact on the general liberalisation of those controls.

Table VII-1 Offshore króna assets

Offshore asset class, b.kr.	31 March 2016	31 December 2016
Cash	93.8	72.7
Treasury bonds and bills; other Government-guaranteed securities	176.5	105.6
Other	48,8	12,8
Total	319.1	191.1

Source: Central Bank of Iceland.

### Foreign currency auction and exit window

On 16 June 2016, the Central Bank held an auction of foreign currency in exchange for Icelandic krónur in cash that fell under the definition laid down in the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions. On 21 June 2016, the Bank announced the main results of the auction and offered to purchase offshore krónur not sold in the auction at the auction exchange rate, which was set at 190 kr. per euro, until 27 June 2016. A total of 1,715 offers were submitted and 1,688, or 98.4% of the total, were accepted. Accepted offers amounted to 83 b.kr., of a total of 188 b.kr. submitted in the auction and the post-auction tender. The foreign exchange reserves declined by 54 b.kr. following the auction.

Until 1 November 2016, owners of offshore krónur were authorised to conduct foreign exchange transactions with the Central Bank at the reference exchange rate, which was set at 220 kr. per euro in the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions. A total of 960 holders of offshore krónur exercised the authorisation in the combined amount of 15.3 b.kr.

Table VII-2 Foreign Currency Auction June 2016

<i>Offshore asset class</i>	<i>M.kr.</i>
Cash	46,260
Central Bank certificates of deposit	5,448
Treasury bonds	15,484
Treasury bills	7,163
Housing Financing Fund bonds	559
Other securities <sup>1</sup>	7,971
<b>Total</b>	<b>82,885</b>

1. Do not directly affect the foreign exchange reserves .

Source: Central Bank of Iceland.

The Central Bank auction and offshore króna holders' temporary authorisation to conduct foreign exchange transactions with the Bank enabled outflows of offshore krónur without adverse effects on the domestic foreign exchange market and significantly reduced the stock of offshore króna assets. The remaining owners of offshore krónur are a smaller and more homogeneous group than before, mainly a few hedge funds and fund management companies. The remaining offshore króna assets were transferred to accounts subject to special restrictions with deposit institutions and to administrative accounts with the Central Bank, in accordance with the provisions of the above-cited Act on treatment of the assets. Their owners retain the right to control and dispose of their assets; they may withdraw and convert all interest and dividend payments in the domestic foreign exchange market, and they may trade them in the onshore and offshore markets. Before the June auction, the stock of offshore króna assets was estimated at 319 b.kr., or about 15% of GDP. By year-end 2016, it had declined to 191 b.kr., or roughly 7.5% of GDP.

### **Liberalisation of capital controls on households and businesses**

After legislation on offshore króna assets was passed, work began on a bill of legislation that was an element in the liberalisation process. The bill was presented before Parliament in August and was passed in October.

With its entry into force, important steps are being taken towards lifting the capital controls in full. The main changes made with the legislation entail increased authorisations for individuals' and companies' foreign exchange transactions and cross-border movement of capital and the removal of specific restrictions that have hitherto applied to such transactions and transfers. The Central Bank's authority to gather information on the basis of its legally mandated role as a central bank were expanded as well, so as to enable the Bank to identify more effectively the risks that could accumulate in the economy. Concurrent with the entry into force of the legislation, the Rules on Foreign Exchange and the accompanying guidelines were updated.

With the passage of the law, foreign direct investment was unrestricted; investment in financial instruments issued in foreign currency, investment in monetary claims in foreign currency, and prepayment and retirement of loans was permissible up to the equivalent of 30 m.kr.; the purchase of one piece of real estate per year was permitted;

and other specific restrictions were abolished or eased. Furthermore, the 30 m.kr. maximum was to be raised to 100 m.kr. as of the beginning of 2017 and transfers of deposits were authorised up to that limit. Moreover, the Rules on Foreign Exchange were updated to ease the provisions on foreign exchange transactions and cross-border movement of capital still further. The first steps taken towards full liberalisation during the autumn proceeded smoothly. From the entry into force of the new law until the end of the year, foreign direct investment totalled 2.8 b.kr., securities investments and prepayment of loans totalled 481 b.kr., and investment in foreign real estate totalled 1.2 b.kr.

### Capital flow management measure

After the authorities presented the updated liberalisation strategy in June 2015, foreign currency inflows surged, particularly to include inflows related to investments in Treasury bonds. During the period from June 2015 through June 2016, new investment in Treasury bonds totalled 83.2 b.kr., and from the time new investment was first authorised until June 2015 it totalled 158 m.kr. (Chart VII-1). This investment had a strong impact on the bond market and the transmission of monetary policy along the interest rate channel. The inflows suggested that risk had begun to accumulate and that it would be necessary to respond to it without affecting monetary policy transmission and the balance of the real economy. During the prelude to the Central Bank's foreign currency auction, a bill of legislation amending the Foreign Exchange Act was passed by Parliament, authorising the Central Bank to set rules so as to control capital inflows with the aim of mitigating this risk, which was considered likely to increase after the auction. The Bank then set rules on special reserve requirements for new inflows of foreign capital, or a so-called capital flow management measure.

After the rules were adopted, new investment subject to special reserve requirements have been limited, and the total amount of such investments since the rules took effect is 279 m.kr., with 40% of that amount placed in an interest-free special reserve account. It is therefore clear that the capital flow management measure achieved the desired results.

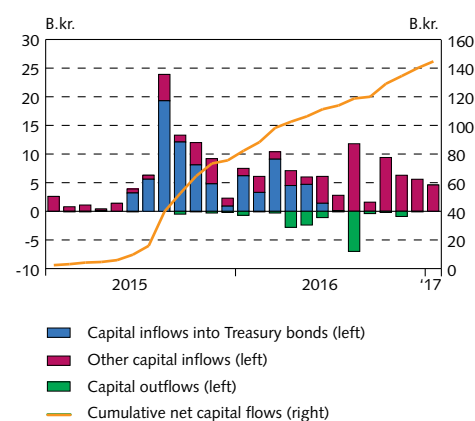
### Greidsluveitan ehf.

Greidsluveitan ehf. is a company owned by the Central Bank of Iceland. Its principal role is to operate core payment intermediation systems and provide related services, in accordance with the regulatory framework as current at any given time. Greidsluveitan also handles specified tasks in the operation of the Central Bank's real-time gross settlement (RTGS) system, as the RTGS system and the company's netting system are closely related and in some ways coordinated systems.

Four Bank employees were members of the Greidsluveitan Board of Directors in 2016: Gudmundur Kr. Tómasson, Chairman; Tómas Örn Kristinsson, Gerður Ísberg, and Páll Kolka Ísberg. Also sitting on the Board as an impartial member was Helga Hlín Hákonardóttir, who was appointed by the Governor.

Chart VII-1

Capital flows due to registered new investment  
January 2015 - January 2017



Source: Central Bank of Iceland.

## Central Bank of Iceland Holding Company ehf. (ESÍ)

Following the collapse of Iceland's financial system in autumn 2008, the Central Bank became a large creditor vis-à-vis the estates of the failed domestic financial institutions. The claims were backed by various types of collateral. Some of them were transferred to the Treasury at year-end 2008, and the Central Bank administered them. The claims were transferred back to the Central Bank in the first half of 2010.

At the end of 2009, these assets were transferred to a separate company owned by the Central Bank, the Central Bank of Iceland Holding Company ehf. (ESÍ). At the end of 2016, ESÍ had two subsidiaries: Hilda ehf., taken over by ESÍ in mid-2011, and SPB ehf., taken over by ESÍ in mid-2016.

At year-end 2016, ESÍ's consolidated balance sheet totalled 42.7 b.kr., and its assets had declined by just over 90.8 b.kr. since year-end 2015, primarily due to asset sales and reduction of debt to the Central Bank. The consolidated after-tax profit amounted to 34.7 b.kr.

Board members of ESÍ are Jón Th. Sigurgeirsson, Chairman, and Sigríður Logadóttir. Members of the Hilda board are Haukur C. Benediktsson, Chairman, and Steinar Thór Gudgeirsson. Members of the SPB board are Haukur C. Benediktsson, Chairman, and Gudmundur Ingvi Sigurdsson.

## Jóhannes Nordal cultural heritage grants

The fifth allocation of the cultural heritage grant in the name of former Central Bank Governor Jóhannes Nordal took place on 31 May 2016. A total of 26 applications were submitted, and the adjudication panel selected three grant recipients.

Einar Falur Ingólfsson received a grant of 700,000 kr. for a photography product with the working title "EF & JL", in which Einar Falur photographs the same places that Johannes Larsen drew during the summers of 1927 and 1930 for the Danish edition of the Sagas of Icelanders. The project will conclude with the publication of a book containing Einar Falur's photographs and text, together with drawings by Larsen, and an exhibition of their works in museums in Fyn and Reykjavík.

Brynhildur Björnsdóttir and Kristín Eva Thórhallsdóttir received 800,000 kr. for a project called "Ferdafélaginn", or "Travelling Companion", which involves a children's travel book that can be used both online and in print format. The project aims to provide children with information on Iceland's natural environment and the many fascinating phenomena that can be found there.

Gunnsteinn Ólafsson and Hallgrímur Helgason received 1.5 m.kr. for a project entitled "Höfudlausn – an opera in four acts". The work is based on the part of Egil's Saga telling the story of how Egill Skallagrímsson saved his own life through poetry. The opera is intended for young audiences and aims to share Egil's Saga with them through an unconventional medium: operatic music. Gunnsteinn will compose the music, and Hallgrímur will write the libretto.

Members of the adjudication panel were Hildur Traustadóttir, alternate member of the Central Bank of Iceland Supervisory Board, who chaired the committee; Ásta Magnúsdóttir, Permanent Secretary at the Ministry of Education, Science, and Culture; and Guðrún Nordal, Director of the Árni Magnússon Institute for Icelandic Studies.



## VIII Accounts and organisation

### Operating results and balance sheet

According to its profit and loss account, the Central Bank of Iceland recorded a loss of 34,696 m.kr. in 2015, compared with a profit of 5,561 m.kr. in the previous year. Excluding exchange rate differences and income tax, the Bank's operations generated a profit of 61,226 m.kr. in 2016, as opposed to a profit of 16,058 m.kr. in 2015. The Central Bank of Iceland is exempt from income tax, but companies owned by it are not. The table in the margin illustrates the changes in the principal items of the Bank's profit and loss account. The exchange rate loss for the year totalled 88,745 m.kr., which is due to the strong appreciation of the króna during the year. The exchange rate loss for 2015 was 8,353 m.kr. The króna appreciated by 18.4% during the year, in spite of substantial foreign currency purchases.

The Bank's operating results deteriorated by 40,348 m.kr. in comparison with the previous year. There was a turnaround in interest income and expense. Net interest expense totalled 12,107 m.kr. at the end of 2016, as compared with net interest income of 3,069 m.kr. in 2015. Interest income on domestic assets declined by 11,121 m.kr., due to asset sales and retirement of loans. Interest expense on domestic deposits increased by 4,753 m.kr., owing to the Bank's large-scale foreign currency purchases in both regular and *ad hoc* transactions.

Other operating income increased by 62,499 m.kr. year-on-year, owing mainly to the settlement of the failed banks' estates and the capitalisation of a revaluation of domestic bonds and claims from the Central Bank of Iceland Asset Management Company (ESÍ) asset portfolio. Furthermore, impairment of claims in the amount of 4,213 m.kr. was reversed in 2016, as a result of larger-than-expected recoveries of ESÍ claims against failed financial institutions. At the end of 2016, cash and cash equivalents accounted for over 90% of total assets held by ESÍ and its subsidiaries. The revaluation of foreign securities resulted in a charge of 3,770 m.kr. in 2016, whereas the market value of the Bank's holdings in gold rose by 861 m.kr. Service income net of service expenses declined by 127 m.kr. between years. Foreign exchange transactions generated exchange rate gains in the amount of 28,389 m.kr., which are attributable to the auction of offshore krónur held during the year. The Bank's operating expenses rose by 253 m.kr. between years, mainly because of a 9% contractual increase in wages and related expenses and to an increase in staffing levels. The Bank's assets totalled 876,071 m.kr. at year-end 2016, as opposed to 916,977 m.kr. at the end of 2015. Foreign assets increased by 162,851 m.kr. during the year. Foreign currency inflows were strong in 2016, foreign exchange market turnover grew. The Bank bought foreign currency from market makers in the amount of 386 b.kr. during the year. The Bank's equity totalled 44,067 m.kr. at year-end 2016, and its equity ratio was 5.0%, as compared with 8.6% at year-end 2015.

Table VIII-1 Profit and loss account highlights

(Figures in ISK millions)	2016	2015	Change
Performance for the year	-34,696	5,651	-40,348
<i>Changes specify as follows:</i>			
Net interest income	-12,107	3,069	-15,176
Other revenues	73,458	10,958	62,499
Operating expenses	-4,338	-4,085	-253
Loan impairment	4,213	6,116	-1,904
Exchange rate difference	-88,745	-8,353	-80,392
Income tax	-7,177	-2,054	-5,123

Table VIII-2 Balance sheet highlights

(Figures in ISK millions)	2016	2015	Change
Equity:	44,067	78,760	-34,692
<i>Changes specify as follows</i>			
<i>Assets:</i>			
Gold	8,310	8,790	-481
Foreign assets	797,712	641,607	156,105
FX balance with the IMF	10,596	3,369	7,227
Domestic financial assets	51,447	250,761	-199,314
Fixed and liquid assets	4,794	4,811	-17
Other assets	3,213	7,639	-4,427
<i>Liabilities:</i>			
Banknotes and coin	62,328	55,671	6,657
Foreign debt	24,540	2,060	22,479
Counterpart to IMF	17,030	20,156	-3,126
Deposits of financial institutions	71,158	67,644	3,514
Other deposits	307,826	448,529	-140,703
Domestic financial liabilities	340,037	242,199	97,838
Other liabilities	9,085	1,959	7,126
Equity	44,067	78,760	-34,692

At the end of 2016, the Bank's foreign assets accounted for 93% of total assets, up from 71% at the end of 2015. The Central Bank's accounts are presented later in this report, together with detailed explanatory notes on individual items.

## Management and staff

### Supervisory Board

The Central Bank Act, no. 36/2001, stipulates that there shall be seven members of the Supervisory Board, which shall be appointed by Parliament following each Parliamentary election. The Supervisory Board was elected by Parliament on 5 July 2013. At the beginning of 2016, Thórunn Gudmundsdóttir was Chair of the Board. Other members were Jón Helgi Egilsson, Ingibjörg Ingvadóttir, Ragnar Árnason, Ágúst Ólafur Ágústsson, Björn Valur Gíslason, and Audur Hermannsdóttir. Bára Valdís Ármannsdóttir was elected as an alternate at the beginning of the year, to replace Linda Björk Bentsdóttir, who resigned in 2015. Ingvi Hrafn Óskarsson resigned as an alternate in the first half of the year, and Thórlindur Kjartansson was elected to replace him. At the year-end, other alternates were Heidrún Lind Marteinsdóttir, Leó Löve, Sigrún Elsa Smáradóttir, Hildur Traustadóttir, and Sunna Jóhannsdóttir. The Supervisory Board held 14 meetings during the year.

### Governor and Deputy Governor

During the year, Már Gudmundsson served as Governor of the Central Bank. He was appointed for a term of five years, effective 20 August 2014. Arnór Sighvatsson served as Deputy Governor. He was re-appointed for a term of five years, effective 1 July 2013.

### Central Bank organisation

The Bank's activities are divided into six main departments and three support departments, plus International Relations and General Secretariat, which is separate from the Bank's main departments. It provides general office and administrative service to the Governors, oversees public relations and information disclosure for the Bank, and supervises the publication of the Bank's Annual Report and website. The International Relations and General Secretariat department also handles regular communications with international credit rating agencies, the International Monetary Fund, foreign financial institutions (apart from financial transactions), and other domestic and foreign organisations.

The Economics and Monetary Policy Department carries out economic and monetary research, prepares macroeconomic and inflation forecasts, participates in formulating policy in currency and monetary matters, and analyses developments in domestic and foreign economic and monetary affairs, including the macroeconomic elements of financial stability. The Department oversees the issuance of various Bank publications, including *Hagvísar/Economic Indicators*, *Peningamál/Monetary Bulletin*, *Working Papers*, *Economic Affairs*, and *Economy of Iceland*. The Department comprises two units: the Analysis and Publications Unit and the Research and Forecasting Unit.

Treasury and Market Operations oversees domestic money markets and currency markets, as well as transactions with domestic finan-

cial institutions. It also manages the Bank's balance sheet, handles the custody and investment of the foreign reserves, and oversees Government debt affairs, Treasury guarantees, and Treasury relending. The Department also oversees communications with the foreign financial institutions with which the Central Bank and the Treasury interact.

The Capital Controls Surveillance Unit's (CCSU) function is to ensure compliance with regulatory instruments on foreign exchange. The unit also participates in amending rules, publishing guidelines, and interpretation of such instruments. In addition, the CCSU processes requests for exemptions to the Foreign Exchange Act. The CCSU is authorised to initiate investigations of possible violations of the Act. The Central Bank can conclude cases involving minor violations at the administrative level, by settlement or by imposing administrative fines. The Bank is required to refer suspected major violations of the Act to the police.

The Statistics Department handles the compilation, entry, and processing of statistical data collected by the Bank for its work and for official reporting. The Bank collects information on a regular basis about the domestic credit market, balance of payments, and external position of the economy. These data form the basis for the Bank's assessment of important aspects of monetary developments and for regular dissemination of statistical information, both in its publications and on the Statistics pages of its website. The Bank publishes statistical information in the Statistics pages on its website. The Statistics Department is divided into three units: Financial Institutions, Balance of Payments, and Financial Markets.

The Financial Stability Department analyses financial system risks, sets rules on liquidity and foreign exchange balance for credit institutions, carries out monitoring, and participates in formulating prudential rules for the financial system. It keeps abreast of the position of credit institutions, households, and businesses, and monitors the external position of the economy. The Financial Stability Department publishes the Bank's *Financial Stability* reports and prepares the meetings of the Systemic Risk Committee.

The Financial Market Infrastructure Department oversees and supervises systemically important financial market infrastructure, with a particular eye to enhancing security, efficacy, and efficiency. The Financial Market Infrastructure Department also operates interbank systems, handles the issuance and administration of banknotes and coin and operates the Bank's vaults, as well as overseeing the publication of the *Financial Market Infrastructure* report. Also falling under the auspices of the department is Greidsluveitan ehf., a Central Bank-owned company that operates payment systems and other service systems in connection with payment intermediation.

The three support departments are Operations and Human Resources, Finance, and Legal.

The Operations and Human Resources Department is divided into six service units: Asset Administration and Services, Internal Information Services, Cafeteria and Food Services, Operational and Office Services, Human Resources, and Information Technology. The department's defined objectives are to provide an environment and

equipment that enable the Central Bank to carry out its tasks as well as possible at all times; to use the funds intended for the Bank's operations as economically as possible, as regards staffing, operations, and reputation; and to enforce the Bank's human resources and education policies as well as possible at all times.

The Finance Department oversees the financial information for the Bank and companies owned by it, as well as overseeing the bookkeeping for the Norwegian National Festival Gift Fund and the Greenland Fund, which are administered by the Bank. The department administers domestic and foreign loans for the Treasury and the Central Bank. Furthermore, it administers cross-border payment intermediation through the Bank's SWIFT system, as well as overseeing domestic and cross-border payments for the Bank, the Treasury, and State enterprises. The department also oversees custody of securities and settlement of securities transactions. The Finance Department's activities comprise two operational units: Accounting and Back Office.

The Legal Department provides the Governors and the various departments of the Bank with legal advice on matters related to the Bank's role and operations. Legal Department staff members participate in the preparation of legislation and other regulatory instruments, prepare legal opinions and contractual agreements on behalf of the Bank, and finalise legal instruments and contracts.

The Internal Auditor works according to Article 28(c) of the Act on the Central Bank of Iceland, no. 36/2001, under the supervision of the Supervisory Board, and is responsible to the Board. Internal audit is defined as activity that provides impartial and objective confirmation whose aim is to enhance value and improve the operations of the Bank and the companies it owns. The Internal Auditor assesses the efficiency of risk management and governance practices through systematic procedures, thereby supporting the Bank in achieving its objectives.

### Human resources

The Bank's staff numbered 172 at the beginning of 2016, in addition to six part-time custodial employees, bringing the total to 178. At the end of the year, there were 180 employees and five part-time custodial employees, or a total of 185. During the year, 21 employees were hired and 14 left the Bank. Seven summer staff members were employed by the Bank in 2016.

The gender ratio was relatively even and changed little during the year. At the beginning of the year, the Bank employed 95 men and 83 women, and at the end of the year there were 98 men and 87 women. The ratio of university-educated employees was 84.3% at the year-end.

Sigríður Benediktsdóttir resigned from her position as Director of the Financial Stability Department during the year. Harpa Jónsdóttir, previously Deputy Director of the Department, was appointed to take her place. Ingibjörg Guðbjartsdóttir, Director of the Capital Controls Surveillance Unit, took a one-year academic leave of absence. Rannveig Jónúsdóttir was appointed Acting Director during her absence, and when she went on maternity leave in the latter half of the year, Guðmundur Sigbergsson was appointed Acting Director. At the end of

**Table VIII-3 Number of employees by department**

<i>Department</i>	<i>Number</i>
International Relations and General Secretariat	11
Finance	14
Financial Market Infrastructure	9
Financial Stability	13
Statistics	17
Capital Controls Surveillance Unit	23
Economics and Monetary Policy	20
Internal Auditor	1
Legal Department	4
Treasury and Market Operations	23
Operations and Human Resources <sup>1</sup>	43
Total <sup>2</sup>	178

1. Excluding five part-time custodial employees. 2. Including the Governor and Deputy Governor, the total is 180.

the year, six of the Bank's departmental directors were male and four were female.

At the year-end, 19 employees worked for companies owned by the Bank, including 16 employed by Greidsluveitan ehf. and 3 employed by the Central Bank of Iceland Holding Company ehf. and Hilda ehf.



*The Supervisory Board at the year-end 2016. From left: Björn Valur Gíslason, Audur Hermannsdóttir, Jón Helgi Egilsson, Thórunn Guðmundsdóttir, Chairman of the Board, Ágúst Ólafur Ágústsson, Ingibjörg Ingvadóttir and Ragnar Árnason.*

## Central Bank of Iceland 31 December 2016

## Supervisory Board

*Principal members*

Thórunn Gudmundsdóttir, Chairman  
 Jón Helgi Egilsson  
 Ágúst Ólafur Ágústsson  
 Ingibjörg Ingvadóttir  
 Ragnar Árnason  
 Björn Valur Gíslason  
 Audur Hermannsdóttir

*Alternates*

Thórlindur Kjartansson  
 Sigrún Elsa Smáradóttir  
 Heidrún Lind Marteinsdóttir  
 Hildur Traustadóttir  
 Leó Löve  
 Sunna Jóhannsdóttir  
 Bára Valdís Ármannsdóttir

## Governor

Már Gudmundsson

## Deputy Governor

Arnór Sighvatsson

*Principal Officers*

International Relations and General Secretariat:  
 Finance:  
 Financial Market Infrastructure:  
 Financial Stability:  
 Statistics:  
 Capital Controls Surveillance Unit:  
 Economics and Monetary Policy:  
 Legal Department:  
 Treasury and Market Operations:  
 Operations and Human Resources:  
 Internal Auditor:

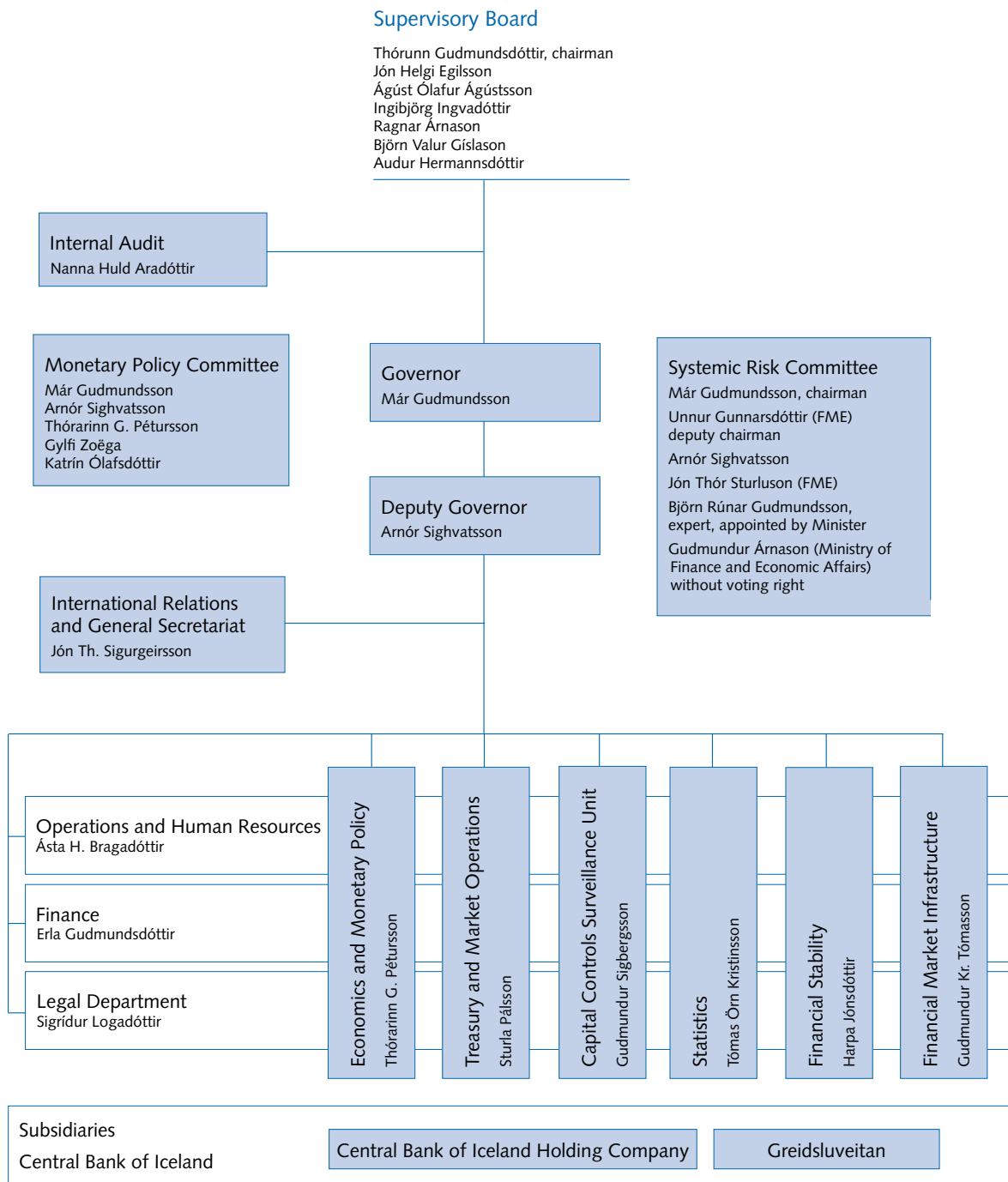
Jón Th. Sigurgeirsson, Director  
 Erla Gudmundsdóttir, Director  
 Gudmundur Kr. Tómasson, Director  
 Harpa Jónsdóttir, Director  
 Tómas Örn Kristinsson, Director  
 Gudmundur Sigbergsson, Director  
 Thórarinn G. Pétursson, Chief Economist  
 Sigrídur Logadóttir, General Counsel  
 Sturla Pálsson, Director  
 Ásta H. Bragadóttir, Director  
 Nanna Huld Aradóttir

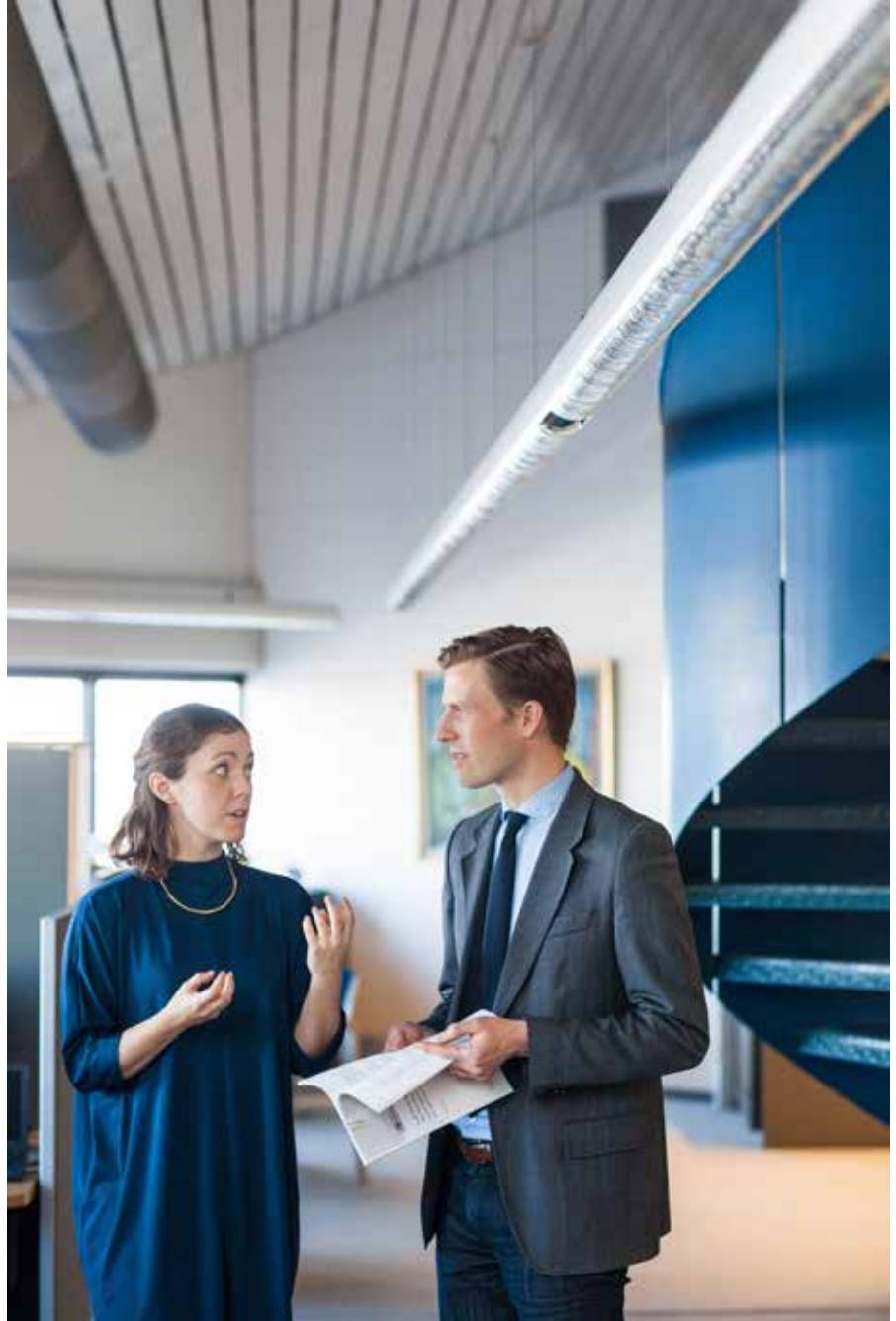
*Companies owned by the Central Bank of Iceland*

Central Bank of Iceland Holding Company ehf. (ESÍ):  
 Greidsluveitan ehf.:

Haukur C. Benediktsson, Director  
 Logi Ragnarsson, Director

The organisational chart of the Central Bank of Iceland









# CONSOLIDATED ANNUAL ACCOUNTS 2016



## *Independent Auditors' Report*

*To the Supervisory Board and the Governor of the Central Bank of Iceland*

### *Opinion*

We have audited the consolidated financial statements of the Central Bank of Iceland for the year ended December 31, 2016 which comprise a confirmation by the management of the Central Bank of Iceland, profit and loss account, balance sheet, statement of cash flows, statement of changes in equity for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Central Bank of Iceland as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Icelandic Financial Statement Act, the act on Financial Undertakings, and the Rules on the Central Bank of Iceland's Accounting and Annual Accounts.

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the *Audit of the consolidated Financial Statements* section of our report. We are independent of the Central Bank of Iceland in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the Icelandic Institute of State Authorized Public Accountants, Code of Ethics (FLE Code) and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other information*

Management is responsible for the other information. The other information comprises the Central Bank of Iceland's Annual Report, apart from the consolidated annual accounts and our report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Icelandic Financial Statement Act, the act on Financial Undertakings, and the Rules on the Central Bank of Iceland's Accounting and Annual Accounts, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Central Bank of Iceland ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accord-

ance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Kópavogur, 30 March 2017

Deloitte ehf.

Benóni Torfi Eggertsson  
State Authorized Public Accountant

Árni Thór Vilhelmsson  
State Authorized Public Accountant

## Confirmation by the management of the Central Bank of Iceland

The Supervisory Board and Governor of the Central Bank of Iceland hereby confirm the Bank's annual financial statements for the year 2016 with their signatures.

Reykjavík, 16 March 2017

### Confirmation by the Supervisory Board

*Thórunn Guðmundsdóttir*  
Chairman

*Jón Helgi Egilsson*  
*Ragnar Árnason*  
*Ágúst Ólafur Ágústsson*

*Ingibjörg Ingvadóttir*  
*Audur Hermannsdóttir*  
*Björn Valur Gíslason*

### Confirmation by the Governor

*Már Guðmundsson*

## Confirmation by the Prime Minister's Office

With reference to the statements by the auditor, the Supervisory Board, and the Governor of the Central Bank, I hereby ratify these financial statements.

Reykjavík, 30 March 2017

*Bjarni Benediktsson*



## Profit and Loss Account for the year 2016

	Notes	2016	2015
<b>Interest income</b>			
From domestic assets .....		6,836,809	17,957,775
From foreign assets .....		8,351,686	7,449,528
	1	<u>15,188,495</u>	<u>25,407,303</u>
<b>Interest expense</b>			
From domestic liabilities .....		(26,930,669)	(21,686,437)
From foreign liabilities .....		(364,737)	(652,231)
	2	<u>(27,295,406)</u>	<u>(22,338,668)</u>
Net (interest expense) / interest income		(12,106,911)	3,068,635
<b>Operating revenues</b>			
Service revenues .....	3	1,274,332	1,377,264
Service expenses .....	4	(902,841)	(878,183)
Withdrawn banknotes .....		180	750
Revenues from shareholdings .....	5	54,083	85,923
Value adjustments in domestic bond prices .....	6	45,273,846	17,161,809
Value adjustments of appropriated assets .....	29	1,403,844	1,814,274
Value adjustments of foreign assets .....	6	(2,896,298)	(7,392,174)
Value adjustments of gold .....	7	861,025	(1,067,425)
Exchange rate gains (losses) on foreign exchange transactions .....	8	28,389,483	(119,155)
		<u>73,457,654</u>	<u>10,983,082</u>
Net operating revenues		61,350,744	14,051,717
<b>Operating expenses</b>			
Salaries and related expenses .....	9	(2,868,652)	(2,630,752)
Other operating expenses .....	10	(1,161,519)	(1,127,078)
Expense due to banknotes and coin .....	12	(148,548)	(166,012)
Depreciation of property and equipment .....	28	(159,261)	(161,494)
Reversed impairment of claims .....	13	4,212,827	6,116,379
		<u>(125,154)</u>	<u>2,031,043</u>
Share in earnings of associates .....		0	(24,675)
Profit before tax and exchange rate difference		61,225,590	16,058,085
Income tax .....	15	(7,176,844)	(2,054,012)
Profit w/o exchange rate difference		54,048,746	14,004,073
Exchange rate difference .....	14	(88,745,168)	(8,352,759)
(Loss) Profit for the year		<u>(34,696,422)</u>	<u>5,651,314</u>

Amounts are in ISK thousands.

## Balance Sheet 31 December 2016

Assets	Notes	2016	2015
Gold .....	17	8,309,617	8,790,287
Foreign assets .....	18-21	797,711,719	641,606,734
FX balance with the IMF .....	22	10,596,223	3,369,392
Domestic financial assets .....	23-27	51,446,827	250,760,528
Fixed operational assets .....	28	4,793,857	4,811,346
Appropriated assets and real estate held for sale .....	29	1,164,916	4,905,532
Deferred tax assets .....	30	149,171	13,402
Other assets .....	31	1,898,419	2,720,175
Assets		<u>876,070,748</u>	<u>916,977,397</u>
<b>Equity and liabilities</b>			
Capital .....		85,634,079	83,501,000
Uncalled capital .....	40	(54,133,079)	(52,000,000)
Revaluation of real estate and liquid assets .....		4,250,168	4,299,112
Translation reserve .....		(8,359)	(12,572)
Unrealised share in profit of associates .....	41	34,770,780	0
Other equity (negative) .....		(26,446,217)	42,972,042
Equity	42	<u>44,067,372</u>	<u>78,759,581</u>
Banknotes and coin .....	33	62,327,943	55,671,137
Foreign liabilities .....	34	24,539,750	2,060,342
Counterpart to IMF .....	22	17,030,072	20,155,612
Deposits of financial institutions .....	35	71,157,714	67,643,670
Other deposits .....	36	307,826,302	448,528,896
Domestic financial liabilities .....	37	340,036,916	242,199,120
Deferred tax liabilities .....	30	1,764	2,962
Pension obligations .....	38	241,090	257,906
Other liabilities .....	39	8,841,825	1,698,171
Liabilities		<u>832,003,376</u>	<u>838,217,815</u>
Equity and liabilities		<u>876,070,748</u>	<u>916,977,397</u>



## Statement of Cash Flows 2016

	2016	2015
<b>Operating activities</b>		
Collected interest income .....	25,451,857	21,554,142
Paid interest expense .....	(27,639,596)	(19,746,431)
	(2,187,739)	1,807,711
Collected service revenues .....	871,077	1,138,780
Paid service expense .....	(586,452)	(715,580)
Paid-in dividends on shareholdings .....	54,083	85,923
	(1,849,032)	2,316,834
Paid operating expense .....	(4,029,370)	(3,913,949)
	(5,878,402)	(1,597,116)
Cash and cash equivalents (to operations) without taxes	(5,878,402)	(1,597,116)
Paid income tax .....	(815,592)	(229,320)
	(6,693,994)	(1,826,436)
<b>Net cash to operating activities</b>	<b>(6,693,994)</b>	<b>(1,826,436)</b>
<b>Investment activities</b>		
Purchased property and equipment .....	(191,946)	(177,557)
Appropriated assets, sales net of supplements .....	5,517,104	7,907,259
Ownership shares sold, (purchased) .....	126,683	(145,511)
Treasury securities purchased .....	(22,647,596)	0
General claims collected .....	66,449,293	0
Securities sold .....	61,722,770	80,224,546
Instalments on securities, etc. ....	122,531,809	93,118,977
Gold purchased .....	(42,900)	(11,910)
Securities purchased in foreign reserves .....	(545,835,931)	(243,097,654)
Securities sold in foreign reserves .....	269,232,370	215,680,897
Subsidiaries' investment tax, (increase) decrease .....	(434,913)	1,034,468
Special drawing rights (SDR) with the IMF .....	(9,082,306)	(20,561,921)
	(52,655,562)	133,971,594
<b>Financing activities</b>		
Banknotes and coin in circulation, increase .....	6,656,806	5,715,822
Loan from IMF, (instalments) .....	0	(41,796,594)
Other loans, instalments .....	0	(25,600)
Certificates of deposit, increase .....	72,202,706	0
Term deposits, increase .....	48,270,000	136,140,000
Treasury term deposits (decrease) .....	0	(7,438,665)
Foreign currency deposits (decrease) .....	(90,752,650)	(79,917,496)
DMB deposits, (decrease) increase .....	(3,491,069)	16,882,139
Increase (decrease) in deposits, other parties .....	27,418,448	(8,532,420)
(Decrease) in deposits, central government .....	(22,134,304)	(55,183,839)
Swap agreements (decrease) .....	(109,874)	(575,310)
	38,060,063	(34,731,962)
<b>Changes in cash position</b>		
Foreign bank deposits, (decrease) increase .....	(21,289,493)	97,413,196
Exchange rate difference on bank deposits .....	3,343,797	(2,979,518)
Foreign cash balance at beginning of year .....	129,808,977	35,375,300
Foreign cash balance at year-end .....	111,863,281	129,808,977

Amounts are in ISK thousands.

## Statement of changes in equity 2016

	Initial capital	Uncalled capital	Value adjustment reserve	Real estate revaluation	Translation reserve	Unrealised share in profit of associates	Other equity (negative)	Total equity
Equity 1 Jan 2015	83,501,000	(52,000,000)	9,313,826	4,348,056	0	0	29,863,773	75,026,655
Transfer to Treasury							(1,905,815)	(1,905,815)
Profit for the year 2015			(9,313,826)				14,965,140	5,651,314
Translation reserve					(12,572)			(12,572)
Depreciation of revalued assets '15				(48,944)			48,944	0
Equity 31 Dec 2015	83,501,000	(52,000,000)	0	4,299,112	(12,572)	0	42,972,042	78,759,581
Equity 1 Jan 2016	83,501,000	(52,000,000)	0	4,299,112	(12,572)	0	42,972,042	78,759,581
Indexation of uncalled initial capital		2,133,079	(2,133,079)					0
(Loss) for the year 2016						34,770,780	(69,467,203)	(34,696,422)
Translation reserve					4,213			4,213
Depreciation of revalued assets '16				(48,944)			48,944	0
Equity 31 Dec 2016	85,634,079	(54,133,079)	0	4,250,168	(8,359)	34,770,780	(26,446,217)	44,067,372

Amounts are in ISK thousands.

## Summary of main accounting principles

- The annual financial statements have been prepared in accordance with the Annual Accounts Act, no. 3/2006, the Act on Financial Undertakings, no. 161/2002, and the Rules on the Central Bank of Iceland's Accounting and Annual Accounts.
- In preparing the Annual Accounts, management must, in accordance with the Annual Accounts Act, take decisions, make estimates and draw conclusions that affect assets and liabilities on the financial reporting date, and provide information in the explanatory notes concerning income and expenses. These evaluations and conclusions are based on experience and various other factors that are considered appropriate and constitute grounds for the decisions taken on the book value of assets and liabilities where such value cannot be determined otherwise.
- Changes in accounting evaluations are recognised in the period in which they take place.
- The consolidated accounts include the annual financial statements of the Central Bank of Iceland and companies owned by it ("subsidiaries" according to financial reporting rules).

Among the objectives of consolidated financial reporting is to publish only income, expenses, assets, and liabilities vis-à-vis external parties; therefore, internal transactions are netted out in preparing the financial statements. If appropriate, adjustments are made to the subsidiaries' accounts in order to harmonise them with the consolidated accounting methods.

- Subsidiaries and affiliates are companies controlled by the Central Bank. Control exists when the Central Bank has decision-making power concerning the operations and financial management of the companies. Shares in them are entered according to the equity method, and shares in affiliates are recognised at cost price, after adjusting for the share in operations and impairment of individual investments. Losses of subsidiaries in excess of the ownership share are only charged if the companies have guaranteed or undertaken obligations on their behalf.
- The translation reserve comprises the exchange rate difference generated by translating the accounts of foreign affiliates.
- Revenues are entered when earned, irrespective of whether collection has taken place. Expenses are also entered when incurred, irrespective of whether they have been paid. Furthermore, valuation changes in securities are entered in the profit and loss account, irrespective of whether the securities have been redeemed.

### Basis for accounting methods

### Estimates and decisions

### Group

### Shares in subsidiaries and affiliated companies

### Translation reserve

### Entry of revenues and expenses

**Banknotes and coin**

- The cost of issuing banknotes and coin is expensed when the costs are incurred.
- Banknotes and coin in circulation are recognised at nominal value.

**Foreign currencies**

- Assets and liabilities in foreign currency are presented in Icelandic currency using the mid-exchange rate as of year-end 2016. Revenues and expenses in foreign currency are converted using the exchange rate on the transaction date.

	<i>Average exchange rate for the year</i>		<i>End-of-period exchange rate</i>	
	2016	2015	2016	2015
Euro (EUR).....	133.59	146.30	119.13	141.32
US dollar (USD).....	120.67	131.85	112.82	129.59
Pound sterling (GBP).....	163.80	201.58	138.91	192.06
Canadian dollar (CAD).....	91.08	103.25	83.72	93.27
Danish krone (DKK).....	17.94	19.62	16.02	18.94
Norwegian krone (NOK).....	14.37	16.37	13.11	14.75
Swedish krona (SEK).....	14.13	15.64	12.43	15.40
Swiss franc (CHF).....	122.50	137.08	110.81	130.50
Japanese yen (JPY).....	1.11	1.09	0.97	1.08
Polish zloty (PLN).....	30.62	34.96	26.92	33.13
Chinese yuan (CNY).....	18.18	20.98	16.25	19.96

**Indexed assets and liabilities**

- Indexed assets and liabilities are entered with accrued indexation as of year-end 2016, using the index value of January 2017, which reflects year-end 2016 price levels. Indexation is recognised in the profit and loss account, with interest.

**Portfolio investment**

- Securities in the Bank's foreign exchange reserves are entered at market price, and valuation changes are entered in the profit and loss account.

**Taxation**

- Income tax is calculated and entered in the annual accounts. Its calculation is based on earnings before taxes, adjusted for permanent differences between taxable earnings and earnings according to the annual accounts. The income tax rate is 20%.
- Income tax payable is income tax that is estimated to become due and payable in the next year due to taxable profit for the year, plus an adjustment of income tax payable for previous years.
- Deferred tax derives from the difference between balance sheet items in the tax settlement, on the one hand, and the annual accounts, on the other. The difference stems from the fact that the company's income tax base is obtained by means other than those used in the preparation of the financial statements.
- The income tax credit balance is assessed on the accounting date and is only recognised to the extent that it is likely to be used to offset taxable profit in the future.

- Assets are listed among fixed operational assets when it is likely that the economic benefits of the assets concerned will be useful to the group and when it is possible to estimate the cost due to the assets in a reliable manner. Fixed operational assets are recognised using either the cost-price method or the revaluation method. According to the cost-price method, fixed operational assets are entered at original cost price less accumulated depreciation and impairment. The cost price of fixed operational assets consists of the purchase price and all direct costs relating to putting the asset into revenue-generating condition. The revaluation method uses fair value on the date the fixed operational assets are revalued, less depreciation and impairment.
- Depreciation is calculated as a fixed annual percentage of the cost price/revaluation price based on the holding period during the year with consideration given to expected scrap value.
- Profit or loss due to the sale of assets is the difference between the sale price and the book value of the asset on the date of sale.
- Gold in the Bank's foreign exchange reserves is entered at market price in US dollars, and valuation changes are entered in the profit and loss account.
- Obligations are written up in the balance sheet if it is considered likely that the company will be faced with financial expense in the future due to a specified event or transaction and it is possible to assess the monetary amount in a reliable manner.

## Fixed operational assets

## Gold

## Obligations

## Explanatory notes to consolidated financial statements 2016

### Interest income

1. Interest income specifies as follows (in ISK thousands):

	2016	2015
<i>Interest income on domestic assets:</i>		
Interest income on overnight loans .....	2,707	951
Interest income on marketable securities .....	1,395,279	680,191
Interest income on indexed securities .....	1,016,769	1,377,223
Interest income on other domestic assets .....	4,422,054	15,899,409
	<u>6,836,809</u>	<u>17,957,775</u>
<i>Interest income on foreign assets:</i>		
Interest income on gold .....	18,262	27,622
Interest income on bank accounts .....	214,920	91,025
Interest income on securities .....	7,798,714	7,003,511
Interest income on other foreign assets .....	319,789	327,369
	<u>8,351,686</u>	<u>7,449,528</u>

- Interest income on domestic assets declined by 11,1 b.kr. from the year 2015, or by 62%, owing mainly to reductions of bond principal, asset sales, and retirement of loans.
- In 2016, a total of 19 overnight loans were granted in the amount of 10.7 b.kr., up from nine overnight loans totalling 5.2 b.kr. in 2015. No collateralised loans were granted in 2015 or 2016.
- Interest income on marketable securities increased by 715 m.kr., or 105%, between years. The increase is due to securities acquired by the Bank as a result of capital account liberalisation measures.
- Interest income on indexed securities declined by 26.2% between years because of asset sales by companies owned by the Bank.
- Interest income on gold totalled 18.3 m.kr. in 2016, as opposed to 27.6 m.kr. in 2015.
- Interest income on foreign bank accounts is on the rise because interest income and interest expense on foreign bank accounts are no longer netted out. Interest on foreign bank accounts is actually negative for 2016.
- Interest income on foreign securities rose by 795.2 m.kr. between years. Foreign securities holdings increased by 176,7 b.kr. in 2016.

## Interest expense

2. Interest expense specifies as follows (in ISK thousands):

	2016	2015
<i>Interest expense on domestic liabilities:</i>		
Interest expense on certificates of deposit .....	128,337	0
Interest expense on term deposits .....	15,502,190	9,402,472
Interest expense on current accounts .....	5,328,878	6,525,974
Interest expense on Treasury current accounts .....	4,747,136	4,896,752
Interest expense on foreign currency accounts .....	483,998	195,237
Interest expense on other domestic liabilities .....	740,129	666,002
	<u>26,930,669</u>	<u>21,686,437</u>
<i>Interest expense on foreign liabilities:</i>		
Interest expense on balance with IMF .....	14,952	376,679
Interest expense due to Treasury foreign borrowing .....	0	171,035
Interest expense on foreign bank accounts .....	339,069	0
Interest expense on foreign borrowings .....	10,716	104,517
	<u>364,737</u>	<u>652,231</u>

- Interest expense on domestic liabilities rose by 5.2 b.kr., or 24.2%, due to an increase in deposit institutions' term deposits as a result of foreign exchange transactions during the year.
- Issuance of certificates of deposits commenced again during the year, in connection with capital account liberalisation measures.
- Interest expense on term deposits totalled 15.5 b.kr. in 2016, as opposed to 9.4 b.kr. in 2015. The Bank offered term deposits with two different maturities: seven-day deposits bearing fixed interest, and one-month term deposits.
- Interest expense on current accounts declined by 1.2 b.kr., or 18.3%. The Bank's current account rate was 5.5% at the beginning of 2016 and 4.75% at the year-end.
- Interest expense on Treasury current accounts changed slightly between years. Treasury deposits declined by 22.2 b.kr. during the year.
- Interest expense on foreign bank accounts is on the rise because interest income and interest expense on foreign bank accounts are no longer netted out. Total interest expense amounts to 124,148 m.kr.
- Interest expense on foreign liabilities declined by 44% between years. By October 2015, the Bank had paid off all foreign debt undertaken in connection with the Stand-By Arrangement with the Fund following the collapse of the banking system in October 2008.

## Service revenues

3. Service revenues specify as follows (in ISK thousands):

	2016	2015
Revenues from payment intermediation .....	1,065,359	1,033,671
Revenues from market transactions .....	130,233	136,587
Rent from appropriated assets .....	29,139	181,742
Other service revenues .....	49,601	25,264
	<u>1,274,332</u>	<u>1,377,264</u>

- Changes in service revenues are due to a 84% reduction in rental income from the activities of Hilda ehf. The decline is due to asset sales during the year.

## Service expenses

4. Service expense specifies as follows (in ISK thousands):

	2016	2015
Expenses from payment intermediation .....	578,250	543,154
Expenses due to foreign currency auctions .....	121,323	17,274
Borrowing expense .....	31,914	22,388
Expenses due to securities transactions .....	54,175	96,076
Asset management expense .....	39,415	20,317
Operating expense for appropriated assets .....	61,799	170,362
Other service expenses .....	15,964	8,612
	<u>902,841</u>	<u>878,183</u>

- Service expenses rose marginally between years, largely as a result of the Bank's foreign currency auction.

## Revenues from shareholdings

5. Income from equity holdings specifies as follows (in ISK thousands):

	2016	2015
Dividend income from Bank for Int'l Settlements .....	39,644	44,490
Other dividends .....	14,439	41,433
	<u>54,083</u>	<u>85,923</u>

- Other dividend income derives from shareholdings held by companies owned by the Bank.



### Value adjustment of assets

6. The value adjustment of assets specifies as follows (in ISK thousands):

	2016	2015
Domestic securities, change in fair value .....	46,178,626	17,161,809
Domestic derivatives, change in fair value .....	(904,780)	0
Foreign securities, change in fair value .....	(3,714,243)	(7,441,217)
Foreign securities funds, change in fair value .....	(56,122)	49,043
Foreign derivatives, change in fair value .....	874,068	0
	<u>42,377,548</u>	<u>9,769,635</u>

<i>Nominal value of foreign securities and funds, by currency:</i>	2016	2015
EUR .....	1,954,000,000	1,497,000,000
GBP .....	525,000,012	269,300,012
USD .....	3,093,000,000	2,290,000,000
CNY .....	61,555	61,555

### Value adjustment of gold

7. The increase in the Bank's gold reserves, at constant exchange rates, totalled 861 m.kr. in 2016, as opposed to a decrease of just over 1 b.kr. in 2015. The market price of gold was 1,147.5 US dollars per ounce at year-end 2016, as compared with 1,061.1 US dollars per ounce at the beginning of the year, an increase of 8.1% year-on-year.

### Exchange rate gains (losses) on foreign exchange transactions

8. Exchange rate gains (losses) on FX transactions specify as follows (ISK thousands):

	2016	2015
Exchange rate gains due to offshore króna auction .....	29,187,804	0
Exchange rate losses on foreign exchange transactions .....	(798,321)	(119,155)
	<u>28,389,483</u>	<u>(119,155)</u>

- Foreign exchange transactions generated exchange rate gains of 28.4 b.kr. in 2016, as opposed to a loss of 119.2 m.kr. in 2015.
- Exchange rate gains (losses) on foreign exchange transactions in which the Bank has sold or bought foreign currency are recognised as income or expense in the profit and loss account.

## Salaries and related expenses

9. Salaries and related expenses specify as follows (in ISK thousands):

	2016	2015
Wages and salaries .....	2,295,616	2,089,162
Pension fund .....	316,182	290,465
Salary-related expenses .....	233,360	211,449
Contribution to pension obligations .....	23,494	39,676
	<u>2,868,652</u>	<u>2,630,752</u>
Number of man-years .....	197	200

- In 2016, total remuneration to the Governor and the Supervisory Board amounted to 59.5 m.kr. The Governor is not remunerated for participation in boards and committees jointly operated by institutions in the financial market or to which the Central Bank of Iceland appoints a representative by law. Total remuneration to the Governor and the Supervisory Board in 2016 specify as follows (in ISK millions):

	2016	2015
<i>Governor</i>		
Már Gudmundsson .....	24.4	21.9
<i>Deputy Governor</i>		
Arnór Sighvatsson .....	22.1	19.8
<i>Supervisory Board</i>		
Thórunn Gudmundsdóttir, Chairman .....	2.8	2.0
Jón Helgi Egilsson, Deputy Chairman .....	2.1	2.6
Other Supervisory Board members and alternates .....	8.1	8.4
	<u>59.5</u>	<u>54.7</u>

## Other operating expenses

10. Other operating expenses specify as follows (in ISK thousands):

	2016	2015
Outsourced services .....	712,607	748,638
Operation of property and liquid assets .....	256,497	200,285
Sundry operational items .....	192,415	178,154
	<u>1,161,519</u>	<u>1,127,078</u>

## Remuneration to auditors

11. Remuneration to auditors specifies as follows (in ISK thousands):

	2016	2015
Auditing of annual accounts and consolidated accounts		
Deloitte ehf. ....	36,620	46,172
Consultancy and other services		
Other auditing firms .....	32,527	31,362
	<u>69,147</u>	<u>77,534</u>

## Expense due to banknotes and coin

12. Expense due to banknotes and coin specifies as follows (in ISK thousands):

	2016	2015
Banknote printing.....	0	100,124
Minting of coins.....	146,988	62,555
Equipment.....	1,559	3,332
	<u>148,548</u>	<u>166,012</u>

- During the year, coins were minted in all of the denominations circulated by the Central Bank.

## Reversed impairment of claims

13. The Bank maintains a claim impairment account for the claims it considers likely to be lost, but this is not a final write-off. Reversed impairment of claims totalled 4.2 b.kr., owing to larger-than-expected recoveries of ESI claims against failed financial institutions.

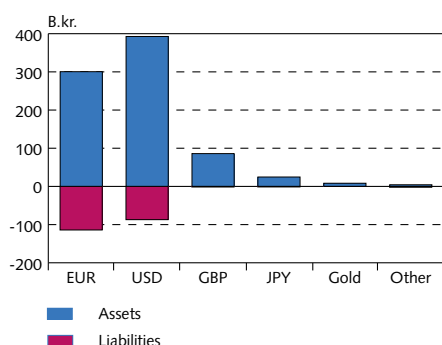
## Exchange rate difference

14. Exchange rate difference specifies as follows (in ISK thousands):

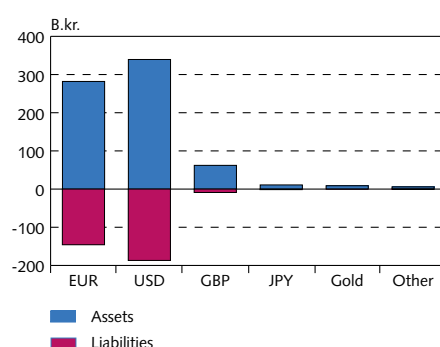
	2016	2015
Gold.....	(1,382,685)	250,112
International Monetary Fund.....	(1,845,952)	1,233,990
Foreign bank deposits.....	(24,187,756)	(2,979,518)
Foreign securities and funds.....	(96,157,327)	(10,154,637)
Foreign current liabilities.....	450,632	200,958
Foreign loans, FX accounts.....	37,650,134	3,986,600
Derivatives.....	(2,720,407)	(769,477)
Other.....	(551,808)	(120,786)
	<u>(88,745,168)</u>	<u>(8,352,759)</u>

Changes in major currencies versus the Icelandic króna were as follows (%):

	2016	2015
USD.....	-12.94	2.12
EUR.....	-15.70	-8.39
GBP.....	-27.67	-2.83
NOK.....	-11.11	-13.97
DKK.....	-15.39	-8.60
SEK.....	-19.25	-6.37
JPY.....	-10.29	1.35
CHF.....	-15.09	1.72
CAD.....	-10.24	-14.89
XDR.....	-15.53	-2.26
CNY.....	-18.59	-2.40

Total assets and liabilities in foreign currency  
2016

Source: Central Bank of Iceland.

Total assets and liabilities in foreign currency  
2015

Source: Central Bank of Iceland.

## Income tax

60

ANNUAL REPORT 2016

15. The Central Bank of Iceland is exempt from income tax pursuant to Article 4 of the Income Tax Act, no. 90/2003. Expensed income tax in the annual accounts is due to companies owned by the Bank and specifies as follows (in ISK thousands):

	2016	2015
Central Bank of Iceland Holding Company ehf. (ESÍ) .....	(7,074,040)	(2,151,791)
Greidsluveitan ehf. ....	(23,829)	(25,902)
Hilda ehf. ....	(78,975)	123,681
	<u>(7,176,844)</u>	<u>(2,054,012)</u>

- Income tax payable in 2017 amounts to 7.3 b.kr.

Effective income taxes specify as follows (in ISK thousands):	2016		2015	
	Amount	%	Amount	%
Profit of companies owned by the Bank .....	41,947,624		12,353,018	
Tax rate .....	(8,389,525)	-20	(2,470,604)	-20
Non-deductible expense .....	1,627	0.0	(14)	0.0
Share in earnings of Bank-owned companies not entering a tax credit .....	151,356	0.4	170,631	1.4
Deductible dividends received .....	1,658	0.0	8,192	0.1
Tax effect of capital gains/losses on sale of shares .	(5,953)	0.0	42,385	0.3
Change in write-down of income tax .....	1,063,993	2.5	195,397	1.6
Income tax according to profit and loss .....	<u>(7,176,844)</u>	-17.1	<u>(2,054,012)</u>	-16.6

## Transfer to the Treasury

16. With the passage of Act no. 122/2014, which amended the Act on the Central Bank of Iceland, no. 36/2001, major changes were made to the rules on the disposition of the Bank's profit. Effective 1 January 2014, the Central Bank of Iceland shall maintain a separate account among equity items, called the value adjustment reserve.

- The main objective of maintaining the reserve fund is to ensure that only realised gains are used as the basis for the transfer to the Treasury or for the strengthening of the Bank's equity. The Bank can thereby enter unrealised gains to the reserve fund. Unrealised

losses in excess of previously entered unrealised gains are used to reduce the profit available for distribution. This presentation, which is part of cautious central bank financial reporting, aims to ensure that profits are distributed at the time they are created.

- The revaluation shall consist of updated market prices and currency exchange rate movements, and it shall extend to financial assets and liabilities, derivatives, and gold. Financial instruments denominated in domestic and foreign currencies shall each be appraised individually.
- Both realised and unrealised gains are recognised in the profit and loss account. Contributions to the reserve fund consist of the difference between cost price and recorded market price. With the changes taking effect in 2014, the cost price shall be designated as the market price as of 31 December 2013.

Operating results specify as follows (in ISK thousands):

	2016	2015
Net interest income .....	(12,106,911)	3,068,635
Value adjustment, realised and unrealised .....	48,855,244	16,632,862
Exchange rate difference, realised and unrealised .....	(60,355,686)	(8,471,914)
Income from shareholdings .....	54,083	85,923
Other income .....	1,274,332	1,352,590
Operating expenses .....	(5,240,641)	(4,962,769)
Income tax .....	(7,176,844)	(2,054,012)
(Loss) Profit for the year .....	<u>(34,696,422)</u>	<u>5,651,314</u>

The value adjustment reserve specifies as follows (in ISK thousands):

	2016	2015
Balance at beginning of year .....	0	9,313,826
Value adjustment of foreign securities .....	1,286,430	(4,787,407)
Revaluation of domestic securities .....	415,586	81,324
Exchange rate difference .....	(72,515,072)	(4,501,911)
Value adjustment of gold .....	206,401	(1,067,425)
Transferred to retained earnings .....	70,606,655	961,593
Balance at year-end .....	<u>0</u>	<u>0</u>

Allocated as follows		
(Loss) Profit for the year .....	(34,696,422)	5,651,314
Change in value adjustment reserve (increase) .....	0	9,313,826
Change in restricted earnings (increase) .....	(34,770,780)	0
	<u>(69,467,203)</u>	<u>14,965,141</u>

- By law, the Central Bank of Iceland shall be financially strong. In order to ensure that this goal is met, the Bank's profit is transferred to the Treasury, to the extent that it is not used to strengthen the Bank's capital. The loss for the year according to the annual ac-

counts is 34.7 b.kr. There is no change in the value adjustment reserve because unrealised items are negative and are therefore transferred to retained earnings. There is no transfer to the Treasury for the year 2016.

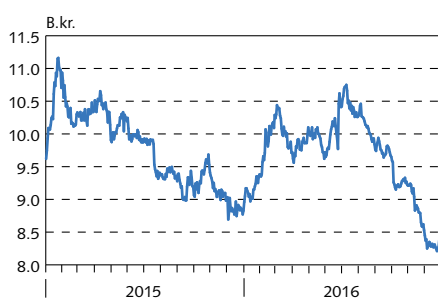
## Gold

17. The Bank's holdings in gold amounted to 64,186.28 ounces at year-end 2016. Holdings in gold, entered at fair value as of year-end 2016, were valued at 1,147.5 US dollars, or 129,507 kr., per ounce. Thus the Bank's holdings in gold were valued at 8.3 b.kr. as of year-end 2016.

Changes in gold holdings specify as follows (in ISK thousands):

	2016	2015
Balance at beginning of year .....	8,790,287	9,597,822
Purchases during the year .....	42,900	11,910
Value adjustment .....	861,025	(1,067,425)
Exchange rate difference .....	(1,382,685)	250,112
Change in accrued interest .....	(1,909)	(2,132)
Balance at year-end .....	<u>8,309,617</u>	<u>8,790,287</u>

Development of gold holdings



Source: Central Bank of Iceland.

## Foreign assets

18. Foreign assets specify as follows (in ISK thousands):

	2016	2015
Foreign bank deposits .....	111.863.281	129.808.977
Foreign securities .....	665.982.011	489.306.142
Foreign securities funds .....	1.126.693	1.357.268
Special drawing rights (SDR) with IMF .....	16.963.159	20.072.341
Foreign derivatives .....	937.766	119.959
Foreign assets not held in reserves .....	838.808	942.046
	<u>797.711.719</u>	<u>641.606.734</u>

- Foreign derivatives are now assessed at fair value following amendments made to the Annual Accounts Act in June 2016 and entering into force as of 1 January 2016.

## 19. Foreign bank deposits specify as follows (in ISK thousands):

	2016	2015
Balance in foreign central banks .....	109,881,196	98,282,149
Deposits with the Bank for Int'l Settlements .....	366	27,525,442
Balance in other foreign banks .....	1,981,719	4,001,387
	<u>111,863,281</u>	<u>129,808,977</u>
Deposits available for withdrawal .....	111,863,281	102,285,110
Term deposits, available within 3 months .....	0	27,523,867
	<u>111,863,281</u>	<u>129,808,977</u>

## 20. Changes in foreign securities and funds during the year specify as follows (in ISK thousands):

	2016	2015
Balance at beginning of year .....	490,663,410	480,513,699
Purchases during the year .....	545,835,931	243,097,654
Sold and collected during the year .....	(269,462,944)	(215,401,132)
Value adjustment .....	(3,770,366)	(7,392,174)
Exchange rate difference .....	(96,157,327)	(10,154,637)
Balance at year-end .....	<u>667,108,704</u>	<u>490,663,410</u>

## 21. Foreign assets not held in reserves

Foreign assets not held in reserves specify as follows (in ISK thousands):

	2016	2015
Shareholdings in the Bank for International Settlements ..	184,486	184,486
Other assets not held in reserves .....	654,322	757,560
	<u>838,808</u>	<u>942,046</u>

## International Monetary Fund (IMF)

22. Iceland's quota with the International Monetary Fund (IMF) totalled SDR 321.8 million at year-end 2016, as compared with SDR 117.6 million at the end of 2015. An increase in the IMF quota took effect in February 2016. One-fourth of the increase was paid with foreign currency and the remainder in krónur. The Bank's year-end foreign exchange balance with the Fund totalled SDR 69.8 million, which is the difference between the quota and the Fund's ISK deposits with the Bank; cf. the table below. The SDR allocation totalled SDR 112.2 million.

<i>Assets:</i>	<i>SDR (thous.)</i>	<i>ISK (thous.)</i>
Central Bank of Iceland quota .....	321,800	48,833,150
IMF deposit with Central Bank of Iceland .....	(251,973)	(38,236,927)
Central Bank's FX balance with IMF .....	69,827	10,596,223
Central Bank's deposit balance with IMF .....	111,784	16,963,159
	<u>181,610</u>	<u>27,559,382</u>
<i>Liabilities:</i>		
Counterpart to IMF allocations .....	112,225	17,030,072
IMF current account with Central Bank of Iceland .....	7	1,030
	<u>112,231</u>	<u>17,031,102</u>

### Domestic financial assets

23. Counterparties to domestic financial assets specify as follows (in ISK thousands):

	2016	2015
Financial institutions .....	4,664,896	89,108,899
Treasury .....	40,815,449	98,412,650
Other parties .....	5,966,481	63,238,979
	<u>51,446,827</u>	<u>250,760,528</u>

24. Domestic financial assets at financial institutions specify as follows (in ISK thousands):

	2016	2015
Derivatives .....	77,745	113,462
Deposits .....	4,207,489	200,427
Loans .....	379,661	88,795,010
	<u>4,664,896</u>	<u>89,108,899</u>

25. Domestic financial assets with the Treasury specify as follows (in ISK thousands):

	2016	2015
Bonds .....	28,754,996	90,632,442
Treasury bonds .....	12,060,453	7,357,108
Loans .....	0	423,100
	<u>40,815,449</u>	<u>98,412,650</u>



Changes in Treasury bonds specify as follows (in ISK thousands):

	2016	2015	2014	2013	2012
Balance at beginning of year ...	90,632,442	145,622,896	172,034,789	170,865,296	173,073,569
Reduction of principal .....			(26,000,000)		
Dividends allocated to principal	(1,905,815)				
Indexation .....				4,954,164	6,116,916
Accrued interest .....	(377,445)	(40,454)	(411,893)	978,760	(956,741)
Payment .....	(61,500,000)	(53,044,185)		(4,763,431)	(7,368,448)
Balance at year-end .....	<u>28,754,996</u>	<u>90,632,442</u>	<u>145,622,896</u>	<u>172,034,789</u>	<u>170,865,296</u>

- The Treasury is authorised at any time to make extra payments or retire the entire debt without a prepayment penalty. Extra payments made in 2016 totalled 56.5 b.kr.
- On 30 December 2014, the Bank's capital was reduced by 26 b.kr. and the reduction used to reduce the principal of the bond with the Treasury, and the Act on the Central Bank of Iceland was amended at the same time. The terms of the bond were also amended in accordance with the agreement that took effect between the Treasury and the Bank on 1 January 2015.

26. Other parties specify as follows (in ISK thousands):

	2016	2015
Housing Bonds .....	2,266,864	2,153,784
Financial institutions in winding-up proceedings .....	1,365,425	54,557,267
Other parties .....	2,334,192	6,527,928
	<u>5,966,481</u>	<u>63,238,979</u>

27. Due and payable claims owned by ESI

<i>Claims due and payable specify as follows (in ISK thousands):</i>	2016	2015	2014	2013
Balance at beginning of year .....	54.557.267	58.321.811	57.128.898	56.472.249
Takeover of past-due collateralised loans during the year .....			1.192.913	86.829
Transactions with claims .....	(31.044.479)	9.923.503		
Price adjustments .....		4.256.365		569.820
Instalments and exchange rate differential .....	(22.147.363)	(17.944.412)		
Balance at year-end .....	<u>1.365.425</u>	<u>54.557.267</u>	<u>58.321.811</u>	<u>57.128.898</u>

### Fixed operational assets

28. Fixed operational assets were capitalised in 2005 based on the appraised value at the end of that year. Assets are listed among fixed operational assets when it is likely that the economic benefits of the asset concerned will be useful to the group and when it is possible to estimate the cost due to the asset in a reliable manner. Fixed operational assets are recognised using either the cost-price method or the revaluation method. According to the cost-price method, fixed operational assets are entered at original cost price

less accumulated depreciation and impairment. The cost price of fixed operational assets consists of the purchase price and all direct costs relating to putting the asset into revenue-generating condition. The revaluation method uses fair value on the date the fixed operational assets are revalued, less depreciation and impairment.

- Because of amendments made to the Annual Accounts Act, it could prove necessary to revalue the Bank's real estate annually, as they have previously been revalued. Because the final interpretation of this provision is not yet clear and the adaptation period following the passage of the amending legislation is short, the implementation will wait until the 2017 annual accounts.
- Tangible operational assets as of year-end 2016 specify as follows (in ISK thousands):

	Country	Real estate	Liquid assets	Libraries and collections	Total
<i>Cost price and valuation</i>					
Cost price at beginning of year 2015 ...		98,901	657,692	8,126	764,719
Valuation at beginning of year 2015 ....	24,000	4,575,331	30,226	237,000	4,866,557
Total at beginning of year 2015	24,000	4,674,232	687,918	245,126	5,631,275
Capitalised during the year .....			227,731		227,731
Cost price at beginning of year 2016 ...	0	98,901	885,423	8,126	992,450
Valuation at beginning of year 2016 ....	24,000	4,575,331	30,226	237,000	4,866,557
Total at beginning of year 2016	24,000	4,674,232	915,649	245,126	5,859,007
Capitalised during the year .....			141,197	1,561	142,758
Disposals during the year (cost price) ...			(77,826)		(77,826)
Sold (cost price) .....			(1,303)		(1,303)
Capital gain on sales .....			317		317
Cost price at year-end 2016 .....	0	98,901	947,807	9,687	1,056,395
Valuation at year-end 2016 .....	24,000	4,575,331	30,226	237,000	4,866,557
Total at year-end 2016	24,000	4,674,232	978,033	246,687	5,922,952
<i>Depreciation</i>					
Cost price at beginning of year 2015 ...		7,634	360,033		367,666
Valuation at beginning of year 2015 ....		488,275	30,226		518,501
Total at beginning of year 2015	0	495,909	390,258	0	886,167
Depreciation for the year at cost price ..		1,191	111,358		112,550
Depr. for the year at valuation price ....		48,944			48,944
Cost price at beginning of year 2016 ...	0	8,825	471,391	0	480,216
Valuation at beginning of year 2016 ...	0	537,219	30,226	0	567,445
Total at beginning of year 2016	0	546,044	501,617	0	1,047,661
Depreciation for the year at cost price ..		1,141	109,125		110,267
Depr. for the year at valuation price ....		48,994			48,994
Disposals during the year (cost price) ...			(77,826)		(77,826)
Cost price at year-end 2016 .....	0	9,966	502,690	0	512,656
Valuation at year-end 2016 .....	0	586,213	30,226	0	616,439
Total at year-end 2016	0	596,180	532,916	0	1,129,095

	Country	Real estate	Liquid assets	Libraries and collections	Total
<i>Book value</i>					
Book value at beginning of year 2015 ..	24,000	4,178,323	297,659	245,126	4,745,108
Book value at beginning of year 2016 ..	24,000	4,128,188	414,032	245,126	4,811,346
Book value at year-end 2016 .....	24,000	4,078,052	445,118	246,687	4,793,857
Annual depreciation rate	0%	1-3%	10-33%	0%	

- The official year-end property valuation of tangible operational assets was 4.7 b.kr.

### Appropriated assets and real estate held for sale

29. Appropriated assets and real estate held for sale specify as follows (in ISK thousands):

	2016	2015
Balance at beginning of year .....	4,905,532	9,725,128
Taken over during the year .....	795,850	1,187,249
Capitalised renovations .....	82,793	395,729
Sold during the year .....	(6,023,103)	(8,216,848)
Valuation changes and gain on sales .....	1,403,844	1,814,274
Balance at year-end .....	1,164,916	4,905,532

### Deferred tax

30. Deferred tax specifies as follows (in ISK thousands):

	Asset	Liability	Total
Balance as of 1 January 2015 .....	1,264,992	(20,010)	1,244,982
Calculated income tax for year 2015 .....	(2,029,576)	(24,436)	(2,054,012)
Corrected tax base for prior year .....	3,614		3,614
Income tax for payment in 2016 .....	774,371	41,484	815,856
Balance as of 31 December 2015 .....	13,402	(2,962)	10,440
Calculated income tax for year 2016 .....	(7,153,015)	(23,829)	(7,176,844)
Corrected tax base for prior year .....	(289)		(289)
Income tax for payment in 2017 .....	7,289,073	25,027	7,314,100
Balance as of 31 December 2016 .....	149,171	(1,764)	147,407

The income tax credit/(liability) is allocated as follows to individual balance sheet items (in ISK thousands):

	2016	2015
Fixed operational assets .....	79,748	7,086
Precautionary write-down of claims .....	68,192	1,067,349
Deferred exchange rate difference .....	20,098	(31,094)
Write-down of tax credit due to uncertainty .....	(20,631)	(1,032,902)
	147,407	10,440

## Other assets

31. Other assets specify as follows (in ISK thousands):

	2016	2015
Equities .....	220,008	260,492
Shares in subsidiaries and associates .....	10,000	139,176
Investment tax withheld .....	1,310,873	1,492,790
Other assets .....	357,538	827,717
	<u>1,898,419</u>	<u>2,720,175</u>

Associates are valued using the equity method:

	Location	Ownership share	Primary Activities
GKH holding AS .....	Norway	22%	Holding company

Holdings in subsidiaries and associates specify as follows (in ISK thousands):

	2016	2015
Balance at beginning of year .....	139,176	0
(Sold) Purchased and taken over during the year .....	(77,931)	176,423
Share in earnings .....	0	(24,675)
Impairment .....	(51,245)	0
Translation reserve .....	0	(12,572)
Balance at year-end	<u>10,000</u>	<u>139,176</u>

## The group and companies owned by the Bank

32. Companies within the group:

	Location	Ownership share	Primary activities
<i>Companies within the group:</i>			
Greidsluveitan ehf. ....	Iceland	100%	Payment system operations
Central Bank of Iceland Holding Company ehf. (ESÍ) .....	Iceland	100%	Holding company
<i>Companies owned by ESÍ</i>			
Hilda ehf. ....	Iceland	100%	Holding company
SPB ehf. ....	Iceland	100%	Holding company
<i>Company owned by SPB ehf.</i>			
Hagalind ehf. ....	Iceland	100%	Holding company
<i>Companies owned by Hilda ehf. and its subsidiaries:</i>			
F fasteignafélag ehf. ....	Iceland	100%	Holding company
Befast 1 ehf. ....	Iceland	100%	Holding company
M8 ehf. ....	Iceland	100%	Holding company
<i>Companies outside the group:</i>			
<i>Companies owned by Hilda ehf. and its subsidiaries:</i>			
Befast 3 ehf. ....	Iceland	100%	Holding company
Befast 4 ehf. ....	Iceland	100%	Holding company
Bereal 2 ehf. ....	Iceland	100%	Holding company
Bereal 3 ehf. ....	Iceland	100%	Holding company

	<i>Location</i>	<i>Ownership share</i>	<i>Primary activities</i>
Bereal 4 ehf. ....	Iceland	100%	Holding company
Ukrapteka .....	United Kingdom	90%	Holding company
Islapteka .....	Ukraine	100%	Holding company
Islapteka 1 .....	Ukraine	100%	Holding company
Meingardur ehf. ....	Iceland	95%	Holding company
Blafell Immobilien GmbH .....	Germany	100%	Holding company
Meingil ehf. ....	Iceland	100%	Holding company
Svarta Immobilien GmbH .....	Germany	100%	Holding company
Mitte ehf. ....	Iceland	100%	Holding company
Esja Immobilien GmbH .....	Germany	100%	Holding company
Fasteignafélagid Kurfurst ehf. ....	Iceland	77%	Holding company
Kurfo-Investment GmbH .....	Germany	100%	Holding company
Skalafell GmbH .....	Germany	100%	Holding company
SPRON Investment GmbH .....	Germany	100%	Holding company
Blanda GmbH .....	Germany	100%	Holding company
BZ-1 Holding AB .....	Sweden	100%	Holding company

- During the year, the number of Hilda ehf. subsidiaries declined because of a merger between Hilda ehf. and other Hilda subsidiaries.
- Certain subsidiaries are held outside the group, either because they are of minimal material importance for the operations or balance sheet of the consolidated entity or because the group acquired holdings in them solely for resale and they have not previously been recognised in the Bank's consolidated accounts.

### Banknotes and coin

33. Issuance of banknotes and coin specifies as follows (in ISK thousands):

<i>Banknotes:</i>	<i>2016</i>	<i>2015</i>
10,000 krónur .....	27,742,500	20,057,500
5,000 krónur .....	23,868,500	26,056,000
2,000 krónur .....	229,000	238,000
1,000 krónur .....	5,535,500	4,876,000
500 krónur .....	1,445,000	1,280,000
	<u>58,820,500</u>	<u>52,507,500</u>
<i>Coin:</i>		
100 krónur .....	2,142,300	1,905,300
50 krónur .....	592,740	532,540
10 krónur .....	537,410	500,730
5 krónur .....	120,454	114,609
1 króna .....	114,539	110,458
	<u>3,507,443</u>	<u>3,163,637</u>
Total issued banknotes and coin	<u>62,327,943</u>	<u>55,671,137</u>

## Foreign liabilities

34. Foreign liabilities specify as follows (in ISK thousands):

	2016	2015
Term deposits of non-residents .....	0	1,680,771
Other liabilities .....	578,595	379,570
Certificates of deposit held by non-residents .....	23,961,155	0
	<u>24,539,750</u>	<u>2,060,342</u>

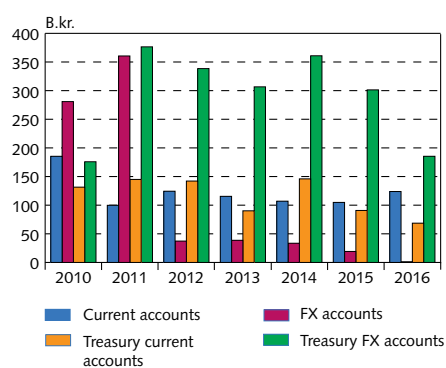
- With the passage of Act no. 105/2016, which entered into force on 21 October 2016, the agreement reached in 2014 between the Bank and foreign insurance companies, according to which the companies would import foreign currency to Iceland in order to offset over half of future insurance premium payments to be expatriated, was voided.
- Certificates of deposit held by non-residents derive from capital account liberalisation measures.

## Deposits

35. Deposits of financial institutions specify as follows (in ISK thousands):

	2016	2015
Current accounts of deposit institutions .....	44,762,347	48,254,228
Current accounts of other financial institutions .....	25,225,716	18,644,984
Foreign exchange accounts .....	1,169,651	744,458
	<u>71,157,714</u>	<u>67,643,670</u>

Developments in domestic and FX accounts



Source: Central Bank of Iceland.

- Participants in the Central Bank's real-time gross settlement (RTGS) system can have an intraday overdraft authorisation on their RTGS account. The overdraft must be backed in full by securities that the Central Bank deems eligible as collateral at that time.
- At year-end 2016, RTGS system collateral had a total market value of 16.7 b.kr.

## 36. Deposits of other entities specify as follows (in ISK thousands):

	2016	2015
Treasury and Government institutions .....	68,589,391	90,785,727
FX accounts held by the Treasury and government institutions .....	185,370,999	301,343,954
Non-residents with domestic deposits .....	2,209,016	15,162,386
Term FX deposits of financial institutions in winding-up proceedings .....	0	10,053,506
FX accounts of financial institutions in winding-up proceedings .....	0	8,414,376
Domestic deposits of other parties .....	51,656,896	22,768,947
	<u>307,826,302</u>	<u>448,528,896</u>

- Deposits held at the Bank by other parties decreased by 31.4%, to 307.8 b.kr. at year-end 2016, as opposed to 448.5 b.kr. at year-end 2015. The decline stems largely from a reduction in the Treasury current account, owing to the payment on the bond with the Bank. The change in the Treasury's FX balance is due to the reduction in foreign liabilities. FX accounts held by financial institutions in winding-up proceedings no longer exist because of the settlement of the institutions' estates.

## Domestic financial liabilities

## 37. Domestic financial liabilities specify as follows (in ISK thousands):

	2016	2015
Certificates of deposit .....	48,451,235	0
Term deposits .....	290,546,782	242,079,161
Derivative contract with the Treasury .....	1,038,899	119,959
	<u>340,036,916</u>	<u>242,199,120</u>

- Certificates of deposit derive from capital account liberalisation measures. Derivative contracts with the Treasury are now assessed at fair value following the passage of amendments to the Annual Accounts Act in 2016.

## Pension obligations

38. According to actuarial assessments, the Central Bank of Iceland's obligations due to pension payments to former governors and their spouses and the director of the National Economic Institute, of which the Bank bore half the operational expense, totalled 241.1 m.kr. as of year-end 2016. Payments related to these obligations totalled 40.3 m.kr. in 2016 and reduce the previously entered obligation. Increases in the Bank's obligations, after adjusting for payments, totalled 23.5 m.kr. in 2016 and are expensed.

Changes during the year specify as follows (in ISK thousands):

	2016	2015
Pension obligations at beginning of year .....	257,906	255,427
Paid due to retirement .....	(40,310)	(37,197)
Change during the year .....	23,494	39,676
Pension obligations at year-end .....	<u>241,090</u>	<u>257,906</u>

### Other liabilities

39. Other liabilities specify as follows (in ISK thousands):

	2016	2015
Treasury share in foreign exchange transactions .....	0	208,019
Unpaid taxes .....	7,314,100	815,855
Other liabilities .....	1,527,725	674,296
	<u>8,841,825</u>	<u>1,698,171</u>

### Callable equity

40. At the beginning of 2015, the Central Bank of Iceland and the Treasury entered into an agreement providing for callable equity for the Bank, based on the authority contained in Article 34, Paragraph 3, of the Act on the Central Bank of Iceland, no. 36/2001, with subsequent amendments, with the amended provisions to take effect on 31 December 2014. With the agreement, the Treasury pledges, based on the authority contained in the National Budget, to contribute capital in the amount of 52 b.kr. to the Central Bank in the form of marketable assets according to the Bank's call-ins in this respect, provided that the Bank considers this necessary in order to fulfil its minimum requirements for paid-in capital. The outstanding balance of callable equity shall be written up at year-end to accord with the increase in the consumer price index.

### Restricted earnings from subsidiaries/associates

41. Restricted earnings from subsidiaries/associates is a new equity item introduced with amendments to the Annual Accounts Act. If the share entered to the profit and loss account exceeds dividends received during the year, the difference shall be entered as restricted earnings. The profit of companies owned by the Bank totalled 34.8 m.kr. in 2016 and is entered in full to this item. The purpose of restricting the share in the profit of subsidiaries/associates is to prevent companies from paying out dividends on unrealised shares in earnings.



## Developments in the Bank's equity ratio

42. In the past five years, the Bank's equity has changed as follows (in ISK millions):

	2016	2015	2014	2013	2012
Equity at year-end (excl. value adjustment) .....	39,817	74,460	70,679	85,409	93,650
Value adjustment of assets at year-end .....	4,250	4,299	4,348	4,450	4,502
Equity at year-end .....	<u>44,067</u>	<u>78,760</u>	<u>75,027</u>	<u>89,859</u>	<u>98,152</u>
<i>Stock figures/ratios at year-end</i>					
Total assets .....	876,071	916,977	953,589	1,002,200	1,068,100
Equity (excl. value adjustment of assets) .....	39,817	74,460	70,679	85,409	93,650
Equity ratio .....	5.0%	8.6%	7.9%	9.0%	9.2%

## Treasury

43. Interest income and expense vis-à-vis the Treasury specify as follows (in ISK thousands):

	2016	2015
Interest income on bond .....	3,771,717	6,805,762
Interest income on Treasury bonds .....	1,287,833	453,063
Interest income on foreign securities .....	0	132,926
	<u>5,059,550</u>	<u>7,391,751</u>
Interest expense on current accounts .....	4,747,136	4,896,752
Interest expense on foreign currency accounts .....	481,164	185,419
Interest expense on term bond in foreign currency .....	0	171,035
Interest expense on derivative contracts .....	296,304	255,937
	<u>5,524,604</u>	<u>5,509,143</u>
	<u>(465,054)</u>	<u>1,882,608</u>

Net interest-bearing assets and liabilities specify as follows (in ISK thousands):

	2016	2015
Bonds .....	28,754,996	90,632,442
Treasury bonds .....	12,060,453	7,357,108
Foreign-denominated Government bonds .....	0	423,100
	<u>40,815,449</u>	<u>98,412,650</u>
Treasury and Government institutions .....	68,589,391	90,785,727
Treasury, FX accounts .....	185,370,999	301,343,954
Derivative contract .....	1,038,899	119,959
	<u>254,999,289</u>	<u>392,249,641</u>

## Guarantees, off-balance sheet assets, and other matters

44. The Central Bank of Iceland is obliged to pay for a subscription for capital shares to the Bank for International Settlements upon request. 25% of the subscription have already been paid. The 75% share could be due for payment and totals 785 m.kr.

- At year-end 2016, the Bank had access to loan facilities from the BIS in the form of repurchase agreements amounting to 400 million US dollars, or 45.1 b.kr. The Bank did not use these facilities in 2016.
- The winding-up board of Saga Capital hf. has filed suit because of the refinancing of Saga Capital's debt to the Central Bank and the financial restructuring of Saga Capital in 2010. The amount of the suit is 14,294 m.kr.

## Derivatives

45. Derivatives are classified according to whether the derivative is listed in the foreign exchange reserves – that is, whether the contract is made with a foreign counterparty and in a foreign currency – or not. The value of derivatives is entered as a net amount; that is, assets less liabilities.

- Forward foreign exchange agreements (FX forwards) are entered based on the forward principal, which is multiplied by the difference between the settlement exchange rate and the spot exchange rate (contract exchange rate) on the date of the transaction. The difference between the exchange rate on the date of the transaction and the contract exchange rate is recognised through profit and loss.
- Forward foreign exchange swap agreements (FX swaps) are recognised as a spot transaction, on the one hand, and as a forward transaction, on the other. The spot transaction is entered as an FX spot transaction, and the forward transaction is entered as an FX forward transaction.
- Gains on FX forwards and swaps are entered as exchange rate gains on foreign exchange transactions.

## Risk management

46. The Central Bank of Iceland is a public institution that, by law, has a specific role focusing primarily on monetary policy, via its interest rate decisions and the investment of the nation's foreign exchange reserves. Risk in its operations is therefore of a different type than in the operation of other financial institutions, although the same terminology is used. The Central Bank of Iceland's financial risk entails claims risk, liquidity risk, and market risk. Claims risk is the risk of loss due to counterparties' or issuers' inability to fulfil their financial obligations at the designated time. Claims risk comprises issuer risk, counterparty risk, and settlement risk. Liquidity risk is the risk that the Central Bank will be unable to fulfil its tasks and commitments

due to insufficient assets, inability to sell assets in time, or inability to sell assets except at significant discounts. Market risk is defined as the risk of loss or reduction of financial assets due to changes in market value. Market risk comprises exchange rate risk, interest rate risk, claims risk, and gold price risk. In addition, the Bank operates under operational risk, which is the risk of human error or the failure of internal processes and systems. Operational risk is managed by the Bank's employees on a day-to-day basis, and every effort is made to implement monitoring and procedures that minimise this risk.

- The assets side of the Central Bank's consolidated accounts consists primarily of the foreign part, which is stored in the Bank's foreign exchange reserves, and domestic financial assets, where the counterparties are primarily financial institutions and the Treasury. The following is a statement on the main financial risk of the Central Bank, which is primarily due to the foreign exchange reserves, market transactions with financial institutions, and claims against financial institutions through the Central Bank of Iceland Holding Company ehf. (ESI).

#### Foreign exchange reserves

- The foreign exchange reserves are managed in accordance with rules of procedure on the maintenance of the reserves, which were approved in March 2013. The rules define outside limits for acceptable financial risk due to the foreign exchange reserves.

#### Claims risk

- Below is an itemisation of the Bank's foreign exchange reserves, by type, credit rating, country of issuance, and counterparty.

<i>Type of issuer and counterparty in reserves:</i>	<i>2016</i>	<i>2015</i>
Treasuries .....	68.8%	44.2%
Government institutions .....	9.0%	17.7%
International institutions .....	3.6%	8.0%
Federal states .....	0.0%	1.3%
Covered bonds .....	0.1%	0.7%
Financial institutions .....	1.1%	2.5%
Deposits with central banks and BIS .....	12.7%	19.5%
Deposits with IMF .....	3.4%	3.6%
Deposits with financial institutions .....	0.2%	2.6%
Gold .....	1.0%	

- Credit ratings of issuers and counterparties in the foreign exchange reserves

<i>Credit rating</i>	2016	2015
AAA .....	75.2%	70.5%
AA+ .....	17.1%	17.9%
AA .....	2.8%	3.4%
AA- .....	1.6%	3.5%
A+ .....	0.0%	0.5%
A .....	0.2%	1.2%
A- .....	0.0%	0.8%
BBB+ .....	2.0%	1.9%
BBB .....	0.0%	0.2%
Gold .....	1.0%	

- Deposits with central banks and the Bank for International Settlements in the foreign exchange reserves comprise 13% of the reserves. In general, central banks are not assigned credit ratings, and their creditworthiness is deemed to be the same as that of the sovereign. It is assumed that the Bank for International Settlements has a credit rating of AAA (counterparty risk).
- Deposits with commercial banks in the foreign exchange reserves comprise less than 1% of the reserves and are in various currencies at various banks. The Bank attempts to keep these deposits at a minimum (counterparty risk).

Distribution of foreign assets in the foreign exchange reserves, by country of issuance/counterparty:

<i>Country</i>	<i>Credit rating</i>	2016	2015
United States .....	AAA	42.98%	26.12%
Germany .....	AAA	21.20%	24.81%
International institutions .....	AAA	7.04%	11.09%
Netherlands .....	AAA	5.56%	8.42%
France .....	AA+	5.72%	6.60%
Finland .....	AAA	1.95%	3.29%
United Kingdom .....	AA+	9.04%	4.69%
Norway .....	AAA	0.44%	1.50%
Canada .....	AAA	0.00%	1.63%
Bank for International Settlements (BIS) <sup>1</sup> .....	AAA	0.00%	4.22%
Luxembourg .....	AAA	0.86%	1.70%
Austria .....	AAA	0.45%	1.04%
Italy .....	BBB+	1.05%	1.10%
Sweden .....	AAA	0.99%	1.19%
Denmark .....	AAA	0.16%	0.51%
Spain .....	BBB	0.83%	1.45%
Ireland .....	BBB+	0.15%	0.22%
China .....	A+	0.14%	0.21%
Japan .....	A+	0.02%	0.01%
Australia .....	AAA	0.05%	0.10%
Switzerland .....	AAA	0.00%	0.10%
Belgium .....	AA	0.30%	0.00%
Gold .....	-	1.06%	

1. The Bank for International Settlements is owned by a large number of central banks and is therefore not classified under a given country.

## Settlement risk

- Settlement risk is the risk that settlement will not take place as expected; for instance, if a counterparty does not deliver securities when the Bank has delivered payment, etc. Because of the low number of transactions, settlement risk in the foreign exchange reserves is generally very limited. The largest transactions are usually bond trades, which are not settled by the securities depository until both securities and payment are delivered; therefore, settlement risk is very limited. The Bank's rules on claims risk and liquidity risk set boundaries for settlement risk.

## Liquidity risk

- Liquidity risk is the risk that the Central Bank will be unable to fulfil its tasks and commitments due to insufficient assets, inability to sell assets in time, or inability to sell assets except at significant discounts. The vast majority of the Bank's foreign exchange reserves are invested in highly liquid securities, deposits in central banks, and deposits with the Bank for International Settlements.
- The following table specifies the Central Bank's total assets and liabilities, by maturity. The table shows the difference based on foreign and domestic maturities.

*Outstanding balances of assets and liabilities in domestic and foreign currency 2015 (in ISK millions):*

	Matured	Payable on demand	Within 3 mo.	3-12 mo.	1-5 yr.	Over 5 yr.	Total
<i>Foreign-denominated assets</i>							
Gold .....		23	8,767				8,790
Foreign assets .....		613,205	27,524	120	758		641,607
FX balance with the IMF .....		3,369					3,369
Domestic financial assets .....			423		56,314		56,737
Other assets .....		7					7
<i>ISK-denominated assets</i>							
Domestic financial assets .....	54,557	200		98,413	24,814	16,039	194,023
Fixed assets and liquid assets .....		4,811					4,811
Other assets .....		6,125		1,493	13		7,632
	54,557	627,743	36,714	100,025	81,899	16,039	916,977
<i>Foreign-denominated liabilities</i>							
Foreign liabilities .....				2,060			2,060
Counterpart to IMF .....		20,156					20,156
Deposits of financial institutions .....		744					744
Other deposits .....		320,170					320,170
Other liabilities .....	2						2
<i>ISK-denominated liabilities</i>							
Banknotes and coin .....		55,671					55,671
Deposits of financial institutions .....		66,899					66,899
Other deposits .....		128,359					128,359
Domestic financial liabilities .....			242,079			120	242,199
Income tax liabilities .....					3		3
Pension obligations .....				35	80	143	258
Other liabilities: .....			880	816			1,696
	2	591,999	242,959	2,911	83	263	838,218

	<i>Matured</i>	<i>Payable on demand</i>	<i>Within 3 mo.</i>	<i>3-12 mo.</i>	<i>1-5 yr.</i>	<i>Over 5 yr.</i>	<i>Total</i>
Foreign maturity gap.....	(2)	275,535	36,714	(1,940)	57,072	0	367,379
Domestic maturity gap.....	54,557	(239,792)	(242,959)	99,055	24,745	15,776	(288,619)
Total balance.....	54,555	35,743	(206,245)	97,114	81,816	15,776	78,760

*Outstanding balances of assets and liabilities in domestic and foreign currency 2016 (in ISK millions):*

	<i>Matured</i>	<i>Payable on demand</i>	<i>Within 3 mo.</i>	<i>3-12 mo.</i>	<i>1-5 yr.</i>	<i>Over 5 yr.</i>	<i>Total</i>
<i>Foreign-denominated assets</i>							
Gold.....		22	8,288				8,310
Foreign assets.....		796,120		938	654		797,712
FX balance with the IMF.....		10,596					10,596
Domestic financial assets.....					84		84
<i>ISK-denominated assets</i>							
Domestic financial assets.....	1,365	4,207			40,815	4,974	51,363
Fixed assets and liquid assets.....		4,794					4,794
Other assets.....		1,752		1,311	149		3,213
	1,365	817,492	8,288	2,249	41,703	4,974	876,071
<i>Foreign-denominated liabilities</i>							
Foreign liabilities.....				579			579
Counterpart to IMF.....		17,030					17,030
Deposits of financial institutions...		1,170					1,170
Other deposits.....		185,729					185,729
<i>ISK-denominated liabilities</i>							
Banknotes and coin.....		62,328					62,328
Foreign liabilities.....				23,961			23,961
Deposits of financial institutions...		69,988					69,988
Other deposits.....		122,097					122,097
Domestic financial liabilities.....			290,547	48,451		1,039	340,037
Income tax liabilities.....					2		2
Pension obligations.....				35	80	126	241
Other liabilities.....			1,528	7,314			8,842
	0	458,342	292,075	80,340	82	1,165	832,003
Foreign maturity gap.....	0	602,809	8,288	359	739	0	612,194
Domestic maturity gap.....	1,365	(243,660)	(292,075)	(78,451)	40,883	3,809	(568,127)
Total balance.....	1,365	359,149	(283,787)	(78,091)	41,621	3,809	44,067

## Market risk

47. Exchange rate risk is the risk of loss due to changes in the exchange rate of foreign currencies vis-à-vis the Icelandic króna. Attempts are made to minimise the Bank's exchange rate risk at all times by keeping assets in the same currencies and the same amounts as foreign liabilities, insofar as is possible. These are the consolidated accounts of the Central Bank and ESÍ. The exchange rate risk exposure of the Bank's net foreign exchange assets (foreign exchange balance) is then kept in a given currency composition. The Bank uses derivatives to manage its exchange rate risk. The Central Bank's foreign exchange balance was as follows at year-end 2015 and 2016:

### Currencies in financial assets and liabilities 2015 (in ISK millions):

Assets:	Euro	USD	Pound sterling	Yen	Other currencies	Gold	Total
Gold .....						8,790	8,790
Foreign assets .....	285,501	305,398	52,757	1,545	954		646,155
FX balance with the IMF .....	1,120	1,605	400	244			3,369
Domestic financial assets .....	1,104	32,909	8,943	9,190	4,854		57,000
Other assets .....	5	1					7
	<u>287,725</u>	<u>339,911</u>	<u>62,100</u>	<u>10,979</u>	<u>5,808</u>	<u>8,790</u>	<u>715,321</u>
<b>Liabilities:</b>							
Foreign liabilities .....	2,453				5,124		7,578
Counterpart to IMF .....	6,701	9,600	2,393	1,462			20,156
Deposits of financial institutions .....	252	167	37	9	280		744
Other deposits .....	136,224	177,093	6,470		100		319,887
Other liabilities .....	6	12	1				18
	<u>145,636</u>	<u>186,871</u>	<u>8,900</u>	<u>1,471</u>	<u>5,505</u>	<u>0</u>	<u>348,383</u>
Net ISK assets .....	<u>142,089</u>	<u>153,040</u>	<u>53,200</u>	<u>9,508</u>	<u>303</u>	<u>8,790</u>	<u>366,938</u>

### Currencies in financial assets and liabilities 2016 (in ISK millions):

Assets:	Euro	USD	Pound sterling	Yen	Other currencies	Gold	Total
Gold .....						8,310	8,310
Foreign assets .....	295,801	388,275	85,127	23,788	3,186		796,178
FX balance with the IMF .....	3,217	4,589	834	802	1,154		10,596
Domestic financial assets .....	1,500			48	37		1,584
Other assets .....	5	1					6
	<u>300,523</u>	<u>392,865</u>	<u>85,961</u>	<u>24,638</u>	<u>4,377</u>	<u>8,310</u>	<u>816,674</u>
<b>Liabilities:</b>							
Foreign liabilities .....	1,791						1,791
Counterpart to IMF .....	5,170	7,375	1,340	1,290	1,855		17,030
Deposits of financial institutions .....	310	343	169	79	269		1,170
Other deposits .....	106,256	79,249	1				185,505
Domestic financial debt .....	585	99	37		87		808
Other liabilities .....	5						5
	<u>114,117</u>	<u>87,066</u>	<u>1,547</u>	<u>1,368</u>	<u>2,211</u>	<u>0</u>	<u>206,309</u>
Net ISK assets .....	<u>186,406</u>	<u>305,799</u>	<u>84,414</u>	<u>23,270</u>	<u>2,167</u>	<u>8,310</u>	<u>610,365</u>

### Interest rate risk

- Interest rate risk is the risk of loss due to changes in market interest rates. The Bank's investment strategy aims at enabling the Bank to be able to fulfil its tasks and commitments at all times. As a consequence, the Bank attempts to invest in foreign assets that are liquid and issued by reliable parties. However, returns are also considered. Interest rate risk in foreign currencies is reduced by using assets to offset liabilities.

### Gold price risk

- Gold is a part of the foreign exchange reserves, and changes in its market price therefore constitute a risk for the Bank. Gold does not comprise a large share of the reserves, however; the Bank owns about 64,000 ounces of gold, or 1.3% of the total foreign exchange reserves. The Bank loaned gold to foreign financial institutions during the year.

### Market transactions

- The Bank's market transactions with domestic financial institutions are of two types: short-term collateralised loans granted by the Bank to financial institutions, and financial institutions' deposits with the Bank.
- The claims risk attached to Central Bank loan facilities is negligible. Collateral accepted by the Central Bank for these loans is issued by the Icelandic Government or with a Treasury guarantee. In the vast majority of cases, the Central Bank grants loans for short periods of time. If a counterparty is unable to repay the loan, the Bank retains the underlying collateral securities, which are highly liquid and have secure payment flows. The Bank always takes delivery of the collateral before granting the loan and does not return it until the loan has been repaid. As a result, its settlement risk is negligible.
- Market risk: The Bank monitors the market price of collateral it accepts for loans or as payment system collateral. A haircut is always taken from the market price before the loan is granted. In case of a change in the market price of assets, the Bank may require same-day delivery of additional collateral.
- Liquidity risk: All regular transactions with financial institutions are conducted in Icelandic krónur, and there is little likelihood that the Central Bank will be unable to meet its obligations.

### Central Bank of Iceland Holding Company ehf.

- Claims risk: ESI and its subsidiaries own claims against financial institutions in winding-up proceedings; real estate-backed loans to legal entities; real estate; and land. The said claims were acquired by ESI following the financial crisis of 2008, and they originate in transactions between the Central Bank of Iceland and financial institutions in the prelude to the collapse. The majority of assets



owned by ESÍ and its subsidiaries at the year-end consisted of cash and cash equivalents.

- ESÍ and its subsidiaries monitor their asset portfolio with respect to claims risk and take the measures necessary at any given time to maintain the value of their assets insofar as is possible, in accordance with the approved authorisations of the Board and directors of the companies. These measures may include cancellation of claims, change of debtor, direct capital outlays, trading of claims, takeovers, and mergers.



# Appendices to the Consolidated Annual Accounts

# Central Bank of Iceland

## Profit and Loss Account for the year 2016

	2016	2015
Interest income		
From domestic assets .....	15,955,687	29,902,690
From foreign assets .....	8,351,686	7,449,528
	<u>24,307,373</u>	<u>37,352,218</u>
Interest expense		
From domestic liabilities .....	(28,578,978)	(22,129,198)
From foreign liabilities .....	(364,737)	(652,231)
	<u>(28,943,715)</u>	<u>(22,781,429)</u>
Net (interest expense) / interest income	(4,636,341)	14,570,789
Operating revenues		
Service revenues .....	326,132	323,702
Service expenses .....	(298,714)	(168,220)
Withdrawn banknotes .....	180	750
Revenues from shareholdings .....	39,644	44,490
Value adjustments of domestic assets .....	402,764	21
Value adjustments of foreign assets .....	(2,896,298)	(7,392,174)
Value adjustments of gold .....	861,025	(1,067,425)
Exchange rate gains (losses) on FX transactions .....	28,389,483	(119,155)
	<u>26,824,215</u>	<u>(8,378,013)</u>
Net operating revenues	22,187,874	6,192,776
Operating expenses		
Wages and salaries and related expenses .....	(2,348,530)	(2,144,108)
Other operating expense .....	(874,570)	(770,283)
Expense due to banknotes and coin .....	(148,548)	(166,012)
Depreciation of property and equipment .....	(90,069)	(87,013)
	<u>(3,461,716)</u>	<u>(3,167,415)</u>
Share in earnings of subsidiaries .....	34,770,780	10,857,925
Profit w/o exchange rate difference	53,496,938	13,883,287
Exchange rate difference .....	(88,193,360)	(8,231,973)
(Loss) Profit for the year	<u>(34,696,422)</u>	<u>5,651,314</u>

## Balance Sheet 31 December 2016

	2016	2015
<b>Assets</b>		
Gold .....	8,309,617	8,790,287
Foreign assets .....	797,683,993	640,849,174
FX balance with the IMF .....	10,596,223	3,369,392
Domestic financial assets .....	43,246,939	271,425,163
Fixed operational assets .....	4,625,809	4,584,710
Other assets .....	36,180,700	19,321,609
	<u>900,643,282</u>	<u>948,340,335</u>
<b>Equity and liabilities</b>		
Capital .....	85,634,079	83,501,000
Uncalled capital .....	(54,133,079)	(52,000,000)
Revaluation of real estate and liquid assets .....	4,250,168	4,299,112
Translation reserve .....	(8,359)	(12,572)
Unrealised share in profit of associates .....	34,770,780	0
Other equity (negative) .....	(26,446,217)	42,972,042
Equity	<u>44,067,372</u>	<u>78,759,581</u>
Banknotes and coin .....	62,327,943	55,671,137
Foreign liabilities .....	24,539,750	2,060,342
Counterpart to IMF .....	17,030,072	20,155,612
Deposits of financial institutions .....	71,157,714	67,643,670
Other deposits .....	340,547,975	480,943,537
Domestic financial liabilities .....	340,036,916	242,199,120
Pension obligations .....	241,090	257,906
Other liabilities .....	694,450	649,430
Liabilities	<u>856,575,910</u>	<u>869,580,754</u>
Equity and liabilities	<u>900,643,282</u>	<u>948,340,335</u>

Amounts are in ISK thousands.

# Central Bank of Iceland Holding Company ehf. (ESÍ)

## Profit and Loss Account for the year 2016

	2016	2015
Interest income .....	3,702,423	8,191,493
Interest expense .....	(11,220,762)	(19,826,876)
<b>Net interest expense</b>	<b>(7,518,338)</b>	<b>(11,635,383)</b>
Service revenues .....	29,139	181,757
Salaries and related expenses .....	(267,506)	(251,090)
Revenues from shareholdings .....	14,439	41,433
Value adjustment of securities .....	46,274,927	19,033,096
Other operating expenses .....	(199,105)	(316,429)
Reversed impairment of claims .....	4,212,827	6,116,655
Service expenses .....	(162,316)	(291,567)
	<u>49,902,404</u>	<u>24,513,855</u>
<b>Profit</b>	<b>42,384,066</b>	<b>12,878,472</b>
Share in earnings of subsidiaries and associates .....	0	(24,675)
<b>Profit w/o exchange rate difference</b>	<b>42,384,066</b>	<b>12,853,797</b>
Exchange rate difference .....	(555,572)	(121,041)
<b>Profit before tax</b>	<b>41,828,494</b>	<b>12,732,756</b>
Income tax .....	(7,153,015)	(2,151,791)
<b>Profit for the year</b>	<b><u>34,675,480</u></b>	<b><u>10,580,965</u></b>

## Balance Sheet 31 December 2016

	2016	2015
<b>Assets</b>		
<b>Foreign assets</b>		
Bank deposits .....	27,725	0
	<u>27,725</u>	<u>0</u>
<b>Domestic assets</b>		
<b>Fixed assets</b>		
Equity shareholdings .....	220,008	260,492
Holdings in subsidiaries .....	10,000	139,195
Bond holdings and other long-term claims .....	961,033	38,462,220
General claims against financial institutions in winding-up proceedings .....	1,365,425	54,557,267
Appropriated assets .....	1,164,916	4,905,532
Deferred tax assets .....	149,171	13,402
	<u>3,870,554</u>	<u>98,338,109</u>
<b>Current assets</b>		
Marketable securities .....	0	26,715
Other current receivables .....	2,893,709	3,495,410
Bank deposits .....	35,937,158	31,694,877
	<u>38,830,867</u>	<u>35,217,002</u>
	<u>42,729,146</u>	<u>133,555,110</u>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital .....	1,001	1,001
Statutory reserves .....	250	250
Translation reserve .....	(8,359)	(12,572)
Unrealised share in profit of associates .....	1,802,933	0
Retained earnings* .....	32,885,138	10,580,965
	<u>34,680,963</u>	<u>10,569,644</u>
<b>Domestic liabilities</b>		
<b>Long-term liabilities</b>		
Debt to related parties .....	0	114,861,615
	<u>0</u>	<u>114,861,615</u>
<b>Current liabilities</b>		
Unpaid tax .....	7,289,073	774,371
Other liabilities .....	759,109	7,349,480
	<u>8,048,182</u>	<u>8,123,851</u>
<b>Liabilities</b>	<u>8,048,182</u>	<u>122,985,466</u>
<b>Equity and liabilities</b>	<u>42,729,146</u>	<u>133,555,110</u>

\* ESI paid the Central Bank of Iceland a dividend in the amount of 10.6 b.kr. in 2016.

Amounts are in ISK thousands.

# Greidsluveitan ehf.

## Profit and Loss Account for the year 2016

	2016	2015
Operating revenues	944,589	922,403
System operation .....	(480,037)	(452,068)
Salaries and related expenses .....	(242,630)	(224,622)
Other operating expenses.....	(85,133)	(59,425)
Depreciation .....	(69,192)	(95,570)
Profit before financial expenses	<u>67,597</u>	<u>90,718</u>
Financial income.....	51,615	40,665
Financial expenses.....	(83)	(1,886)
Profit before tax .....	<u>119,130</u>	<u>129,496</u>
Income tax.....	(23,829)	(25,903)
Profit for the year	<u><u>95,301</u></u>	<u><u>103,593</u></u>



## Balance Sheet 31 December 2016

	2016	2015
<b>Assets</b>		
Fixed assets		
Fixed operational assets .....	175,548	234,136
	<u>175,548</u>	<u>234,136</u>
Current assets		
Accounts receivable .....	112,580	104,223
Other current receivables .....	46,724	25,703
Cash and cash equivalents .....	992,005	920,190
	<u>1,151,309</u>	<u>1,050,117</u>
<b>Assets</b>	<u><u>1,326,857</u></u>	<u><u>1,284,253</u></u>
<i>Equity and liabilities</i>		
<b>Equity</b>		
Share capital .....	20,000	20,000
Additional paid-in capital .....	108,240	108,240
Statutory reserves .....	5,000	5,000
Development account .....	548,167	593,196
Retained earnings .....	533,923	393,594
<b>Equity</b>	<u>1,215,330</u>	<u>1,120,030</u>
Long-term liabilities and obligations		
Deferred tax liabilities .....	1,764	2,962
	<u>1,764</u>	<u>2,962</u>
Current liabilities		
Accounts payable .....	52,899	17,123
Unpaid tax .....	25,027	41,484
Other current liabilities .....	31,836	102,654
	<u>109,762</u>	<u>161,261</u>
<b>Liabilities</b>	<u>111,526</u>	<u>164,223</u>
<b>Equity and liabilities</b>	<u><u>1,326,857</u></u>	<u><u>1,284,253</u></u>

Amounts are in ISK thousands.



## APPENDICES



## Press releases from the Central Bank of Iceland 2016

No. 1	8 January 2016	Pension funds receive limited authorisation for foreign investment
– 2	18 January 2016	Domestic foreign exchange market and foreign exchange reserves 2015
– 3	25 January 2016	The first meeting of the Financial Stability Council in 2016
– 4	10 February 2016	Statement of the Monetary Policy Committee 10 February 2016
– 5	18 February 2016	The final exemption for settlement of the failed banks' estates has been granted
– 6	2 March 2016	Balance of payments in the fourth quarter of 2015 and the international investment position
– 7	16 March 2016	Statement of the Monetary Policy Committee 16 March 2016
– 8	11 May 2016	Statement of the Monetary Policy Committee 11 May 2016
– 9	19 May 2016	Pension funds' authorisation for foreign investment
– 10	25 May 2016	Central Bank of Iceland foreign currency auction 16 June 2016
– 11	1 June 2016	Statement of the Monetary Policy Committee 1 June 2016
– 12	2 June 2016	Balance of payments in the first quarter of 2016 and the international investment position
– 13	4 June 2016	New policy instrument to temper and affect the composition of capital inflows
– 14	9 June 2016	Amended Terms of Auction for the purchase of Icelandic krónur by the Central Bank of Iceland in exchange for foreign currency
– 15	13 June 2016	Amended Terms of Auction for the purchase of Icelandic krónur by the Central Bank of Iceland in exchange for foreign currency, posted 13 June 2016
– 16	16 June 2016	About the foreign currency auction
– 17	21 June 2016	Results of foreign currency auction of 16 June 2016
– 18	28 June 2016	Bank for International Settlements Annual Meeting
– 19	29 June 2016	The Central Bank foreign currency auction of 16 June
– 20	1 July 2016	Pension funds' authorisation for foreign investment
– 21	5 July 2016	Sigríður Benediktsdóttir, Director of Financial Stability, to leave the Central Bank
– 22	24 August 2016	Statement of the Monetary Policy Committee 24 August 2016
– 23	2 September 2016	Balance of payments in the second quarter of 2016 and the external position
– 24	5 October 2016	Statement of the Monetary Policy Committee 5 October 2016
– 25	14 October 2016	Governors' meetings in Brussels 27-28 September 2016
– 26	19 October 2016	New authorisation for pension funds' foreign investment
– 27	21 October 2016	Amendments to the Foreign Exchange Act
– 28	16 November 2016	Statement of the Monetary Policy Committee 16 November 2016
– 29	21 November 2016	Expiry of agreement on insurance contracts providing for saving abroad
– 30	2 December 2016	Balance of payments in the third quarter of 2016 and the external position
– 31	14 December 2016	Statement of the Monetary Policy Committee 14 December 2016
– 32	21 December 2016	The People's Bank of China and the Central Bank of Iceland have renewed their currency swap agreement
– 33	28 December 2016	Pension funds' authorisation for foreign investment in 2017

## Publications by the Central Bank of Iceland 2016

### *In Icelandic:*

Ársskýrsla 2015

Fjármálastöðugleiki 2016, two issues

Peningamál 2016, four issues

Fjármálainnvidir 2016

Hagvísar 2016, four issues

Efnahagsmál, 8. rit: Peningastefnunefnd í sjö ár, September 2016

Sérarit Sedlabanka Íslands 10: Losun fjármagnshafta, December 2016

### *In English:*

Annual Report 2015

Financial Stability 2016, two issues

Monetary Bulletin 2016, four issues

Economic Indicators 2016, four issues

Economy of Iceland 2016

Central Bank of Iceland Working Paper No. 72, The long history of financial boom-bust cycles in Iceland – Part II: Financial cycles, by Bjarni G. Einarsson, Kristófer Gunnlaugsson, Thorvardur Tjörvi Ólafsson and Thórarinn G. Pétursson (August 2016)

Central Bank of Iceland Working Paper No.73, Small open economies in the vast ocean of global high finance, by Bjarni G. Einarsson, Kristófer Gunnlaugsson, Thorvardur Tjörvi Ólafsson and Thórarinn G. Pétursson (October 2016)

Central Bank of Iceland Working Paper no. 74, Estimating the Natural Interest Rate for Iceland: An Exploratory Study, by Ásgeir Daniélsson, Ólafur Sindri Helgason and Stefán Thórarinnsson (December 2016)

All of these publications are posted on the Central Bank of Iceland website.

## TABLES

## Contents of tables

97	Table 1	Central Bank interest rates
98	Table 2	Exchange rate indices
98	Table 3	Banknotes and coin in circulation by denomination
99	Table 4	Summary of the accounts of deposit money banks
100	Table 5	Summary of the accounts of the banking system
101	Table 6	Liquidity and reserve ratios in %
101	Table 7	Main interest rates announced pursuant to Article 10, Paragraph 2, and Temporary Provision III of the Act on Interest and Price Indexation, no. 38/2001
101	Table 8	Selected annual nominal yields of deposit money banks and penalty rates in % per annum
102	Table 9	Balance Sheet of the Central Bank of Iceland



Table 1 Central Bank interest rates<sup>1</sup>

	<i>Bank's current accounts, nominal rates</i>	<i>Reserves requirements, nominal rates</i>	<i>Overnight lending, discount rate</i>	<i>7 day collateral lending, nominal rates</i>	<i>28 day certificate of deposit, max. rate</i>	<i>7 day term deposit</i>
2 February 2011	3.25	3.25	5.25	4.25	4.00	
16 March 2011	3.25	3.25	5.25	4.25	4.00	
20 April 2011	3.25	3.25	5.25	4.25	4.00	
15 June 2011	3.25	3.25	5.25	4.25	4.00	
17 August 2011	3.50	3.50	5.50	4.50	4.25	
21 September 2011	3.50	3.50	5.50	4.50	4.25	
2 November 2011	3.75	3.75	5.75	4.75	4.50	
7 December 2011	3.75	3.75	5.75	4.75	4.50	
8 February 2012	3.75	3.75	5.75	4.75	4.50	
21 March 2012	4.00	4.00	6.00	5.00	4.75	
16 May 2012	4.50	4.50	6.50	5.50	5.25	
13 June 2012	4.75	4.75	6.75	5.75	5.50	
22 August 2012	4.75	4.75	6.75	5.75	5.50	
3 October 2012	4.75	4.75	6.75	5.75	5.50	
14 November 2012	5.00	5.00	7.00	6.00	5.75	
12 December 2012	5.00	5.00	7.00	6.00	5.75	
6 February 2013	5.00	5.00	7.00	6.00	5.75	
20 March 2013	5.00	5.00	7.00	6.00	5.75	
15 May 2013	5.00	5.00	7.00	6.00	5.75	
12 June 2013	5.00	5.00	7.00	6.00	5.75	
21 August 2013	5.00	5.00	7.00	6.00	5.75	
2 October 2013	5.00	5.00	7.00	6.00	5.75	
6 November 2013	5.00	5.00	7.00	6.00	5.75	
11 December 2013	5.00	5.00	7.00	6.00	5.75	
12 February 2014	5.00	5.00	7.00	6.00	5.75	
19 March 2014	5.00	5.00	7.00	6.00	5.75	
21 May 2014	5.00	5.00	7.00	6.00		5.25
11 June 2014	5.00	5.00	7.00	6.00		5.25
20 August 2014	5.00	5.00	7.00	6.00		5.25
1 October 2014	5.00	5.00	7.00	6.00		5.25
5 November 2014	4.75	4.75	6.75	5.75		5.00
10 December 2014	4.25	4.25	6.25	5.25		4.50
4 February 2015	4.25	4.25	6.25	5.25		4.50
18 March 2015	4.25	4.25	6.25	5.25		4.50
13 May 2015	4.25	4.25	6.25	5.25		4.50
10 June 2015	4.75	4.75	6.75	5.75		5.00
19 August 2015	5.25	5.25	7.25	6.25		5.50
30 September 2015	5.25	5.25	7.25	6.25		5.50
4 November 2015	5.50	5.50	7.50	6.50		5.75
9 December 2015	5.50	5.50	7.50	6.50		5.75
10 February 2016	5.50	5.50	7.50	6.50		5.75
16 March 2016	5.50	5.50	7.50	6.50		5.75
11 May 2016	5.50	5.50	7.50	6.50		5.75
1 June 2016	5.50	5.50	7.50	6.50		5.75
24 August 2016	5.00	5.00	7.00	6.00		5.25
5 October 2016	5.00	5.00	7.00	6.00		5.25
16 November 2016	5.00	5.00	7.00	6.00		5.25
14 December 2016	4.75	4.75	6.75	5.75		5.00

1. Rates on published day, except for current accounts and required deposits, which change on the 1<sup>st</sup>, 11<sup>th</sup>, or 21<sup>st</sup> of each month.

Table 2 Exchange rate indices

	Narrow trade index <sup>1</sup>	Average exchange rate index <sup>2</sup>			Real exchange rate <sup>3</sup> 2005=100			
		Based on		Based on	Based on relative prices		Based on unit labour cost	
		Average	import weights	export weights	Index	% change	Index	% change
2000	101.5	96.1	96.3	95.7	86.9	2.9	84.1	3.7
2001	121.4	115.4	115.1	115.3	75.6	-12.9	72.7	-13.5
2002	118.5	112.0	111.7	112.0	80.1	5.9	78.8	8.4
2003	113.4	105.3	104.8	105.4	85.3	6.6	85.1	7.9
2004	112.1	103.1	102.4	103.5	88.2	3.4	86.8	2.0
2005	100.8	92.6	91.9	93.0	100.1	13.5	100.0	15.3
2006	112.7	103.4	102.6	104.0	93.6	-6.4	97.7	-2.3
2007	110.9	100.9	99.9	101.5	98.6	5.3	102.0	4.3
2008	157.3	141.9	140.9	142.4	78.2	-20.7	74.0	-27.4
2009	210.6	191.0	190.0	191.4	63.6	-18.7	50.6	-31.6
2010	204.0	185.0	184.4	185.0	67.7	6.4	56.5	11.6
2011	204.5	183.5	183.0	183.3	68.3	0.9	59.7	5.7
2012	209.1	189.0	188.6	188.8	68.7	0.6	60.1	0.7
2013	206.5	186.3	185.9	186.1	71.2	3.8	62.3	3.8
2014	195.1	177.2	176.2	177.5	76.0	6.7	67.4	8.1
2015	189.5	176.3	175.0	177.1	79.1	4.0	73.9	9.7
2016	169.4	158.9	158.1	159.1	89.2	12.8	87.1	17.8

1. The index shows the average exchange rate of foreign currencies against the Icelandic króna. 31 January 2000 = 100. 2. The index shows the average exchange rate of foreign currencies against the Icelandic króna. 31 December 1994 = 100. 3. The index shows the real exchange rate of the króna in terms of relative prices and wages in Iceland's main trading partner countries. 2005 = 100.

Table 3 Banknotes and coin in circulation by denomination

	2012		2013		2014		2015		2016	
	ISK thousands	%	ISK thousands	%	ISK thousands	%	ISK thousands	%	ISK thousands	%
<i>Notes:</i>										
10,000 kr.	.	.	5,535,000	12.5	13,197,500	28.1	20,057,500	38.2	27,742,500	47.2
5,000 kr.	37,138,500	87.3	33,311,000	75.3	28,156,000	59.9	26,056,000	49.6	23,868,500	40.6
2,000 kr.	389,000	0.9	294,000	0.7	260,000	0.6	238,000	0.5	229,000	0.4
1,000 kr.	3,826,000	9.0	3,927,000	8.9	4,216,500	9.0	4,876,000	9.3	5,535,500	9.4
500 kr.	1,180,250	2.8	1,178,750	2.7	1,210,750	2.6	1,280,000	2.4	1,445,000	2.5
Total	42,533,750	100.0	44,245,750	100.0	47,040,750	100.0	52,507,500	100.0	58,820,500	100.0
<i>Coin:</i>										
100 kr.	1,519,600	58.3	1,624,600	58.7	1,730,600	59.4	1,905,300	60.2	2,142,300	61.1
50 kr.	453,890	17.4	482,890	17.4	494,940	17.0	532,540	16.8	592,740	16.9
10 kr.	429,320	16.5	450,120	16.3	471,850	16.2	500,730	15.8	537,410	15.3
5 kr.	103,434	4.0	107,434	3.9	110,149	3.8	114,609	3.6	120,454	3.4
1 kr.	102,054	3.9	104,714	3.8	107,026	3.7	110,458	3.5	114,539	3.3
Total	2,608,298	100.0	2,769,758	100.0	2,914,565	100.0	3,163,637	100.0	3,507,443	100.0
Total in circulation	45,142,048		47,015,508		49,955,315		55,671,137		62,327,943	

Table 4 Summary of the accounts of deposit money banks<sup>1</sup>

<i>M.kr. at year-end</i>	2010	2011	2012	2013	2014	2015	2016
<i>Assets:</i>							
Domestic assets, total	2,479,410	2,564,836	2,543,041	2,590,418	2,602,667	2,848,550	2,960,041
Cash and cash balances with Central Bank	117,766	121,303	159,955	184,106	139,069	294,597	385,042
Deposits in domestic banks	10,666	5,229	4,543	3,993	5,286	2,888	4,237
Domestic credit and marketable securities	2,136,555	2,186,617	2,184,177	2,211,173	2,314,376	2,421,376	2,464,746
Lending <sup>2</sup>	1,725,928	1,766,476	1,774,800	1,860,835	1,939,689	2,025,061	2,140,247
Redeemed liabilities	2,757	969	531	364	237	56	32
Overdrafts	199,407	190,635	175,868	181,882	176,407	174,058	159,907
Bills	1,287	663	255	223	141	29	0
Unindexed bonds	847,574	836,334	732,824	754,046	774,870	778,048	794,179
Indexed bonds	727,302	847,355	807,573	834,788	783,035	815,027	903,067
Foreign currency bonds	1,664,990	722,556	549,114	402,652	362,942	349,405	320,431
Foreign currency overdrafts	58,393	34,825	20,838	20,208	21,269	20,322	34,327
Provisions	-1,775,781	-866,860	-512,203	-333,329	-179,212	-111,884	-71,697
Leasing contracts	46,632	38,356	40,273	40,860	40,654	47,144	51,174
Marketable bonds and bills	353,616	345,054	333,885	266,856	270,133	263,711	206,055
Equities	10,379	36,731	35,219	42,623	63,900	85,460	67,269
Derivatives	1,508	1,245	1,066	2,390	2,144	3,180	5,341
Share in associates	8,324	14,575	13,817	24,200	9,244	2,075	2,054
Share in affiliated undertakings	92,566	113,247	93,981	80,214	71,116	65,095	46,906
Other assets	112,025	122,619	85,502	84,342	61,433	59,339	51,716
Foreign assets, total	286,003	349,512	366,209	437,998	394,722	348,513	251,353
Deposits in foreign banks	55,650	67,083	101,666	84,187	91,729	99,074	56,309
Foreign credit marketable securities	223,683	277,742	254,542	348,582	297,602	243,646	188,317
Foreign lending	267,638	286,991	266,919	298,374	168,881	156,393	145,874
Provisions	-90,619	-94,155	-101,040	-114,296	-6,405	-13,793	-13,322
Marketable bonds and bills	43,350	81,593	83,331	163,054	133,415	99,227	53,590
Equities	3,314	3,313	5,332	1,451	1,709	1,818	2,175
Derivatives	23	315	1,227	864	1,167	1,955	2,328
Share in associates	1,367	0	3,945	0	0	0	0
Share in affiliated undertakings	2,528	1,726	1,914	1,320	1,076	26	23
Other assets	2,751	2,646	2,914	3,045	3,149	3,811	4,375
Assets, total	2,765,413	2,914,347	2,909,250	3,028,416	2,997,389	3,197,062	3,211,393
<i>Liabilities:</i>							
Domestic liabilities, total	2,142,689	2,316,087	2,279,183	2,333,757	2,242,985	2,256,318	2,074,935
Central Bank facilities	41,844	0	12,508	52,998	55,102	56,024	0
Deposits of residents, total	1,414,301	1,512,350	1,438,653	1,507,208	1,608,177	1,695,739	1,614,643
Current accounts	385,995	394,547	345,425	341,828	341,463	352,955	415,612
Current accounts in foreign currency	15,944	19,303	28,639	41,196	28,038	33,446	15,278
Sight deposits	498,940	553,501	500,901	515,790	572,154	552,629	519,436
Indexed deposits	213,420	223,018	219,437	210,213	192,856	178,820	163,112
Holiday pay accounts	6,733	7,462	7,922	8,446	9,125	10,134	11,280
Supplementary pension deposits	80,769	86,327	89,010	93,750	99,198	106,678	114,552
Other time deposits	212,499	228,192	247,319	295,985	365,343	461,077	375,373
Deposits from deposit taking corporations	144,117	66,198	70,418	133,816	17,351	4,593	1,523
Bond issue	7,557	134,623	150,962	179,333	181,652	234,480	301,280
Subordinated loans	48,846	55,358	58,966	55,129	54,239	31,152	1,078
Direct borrowing	404,194	450,992	418,802	279,614	229,196	145,407	65,234
Derivatives	19,164	29,825	49,102	34,837	21,153	19,780	9,828
Other liabilities	62,666	66,741	79,772	90,822	76,115	69,143	81,349
Foreign liabilities, total	207,607	153,335	121,549	143,927	150,800	282,531	508,284
Deposits from foreign deposit taking corporations	160,489	107,438	63,451	57,966	46,931	49,082	18,869
Deposits from foreign parties, other than deposit taking corporations	45,850	44,205	57,786	67,362	66,266	50,766	76,405
Derivatives	807	1,692	142	128	125	1,238	1,374
Bond issue	0	0	0	18,294	37,262	175,207	406,055

Table 4 Summary of the accounts of deposit money banks (cont.)<sup>1</sup>

<i>M.kr. at year-end</i>	2010	2011	2012	2013	2014	2015	2016
Direct borrowing	0	0	0	0	0	6,138	5,169
Other foreign liabilities	462	0	170	177	216	100	412
Total equity and minority interest	415,117	444,925	508,519	550,732	603,604	658,214	628,174
Total liabilities and equity	2,765,413	2,914,347	2,909,250	3,028,416	2,997,389	3,197,062	3,211,393

1. The latest data is preliminary. The data only represents DMBs that are operating at each time. 2. Loans that were acquired at a discount in autumn 2008 are published on claim value instead of book value before.

Table 5 Summary of the accounts of the banking system<sup>1</sup>

<i>M.kr. at year-end</i>	2010	2011	2012	2013	2014	2015	2016
Foreign assets, total	952,439	1,396,981	906,155	925,622	924,958	1,001,522	1,067,544
Foreign credit and marketable securities	441,505	549,814	661,827	780,348	778,115	734,309	855,451
Other foreign assets	510,934	847,167	244,328	145,275	146,843	267,212	212,093
Foreign liabilities, total	487,759	553,059	315,129	316,217	239,804	313,771	547,482
Foreign bond issue	0	0	0	18,294	37,262	175,207	406,055
Other foreign liabilities	487,759	553,059	315,129	297,923	202,542	138,565	141,426
Domestic assets, total	2,925,230	2,981,214	2,902,883	2,862,512	2,832,981	2,792,887	2,654,038
Domestic credit and marketable securities	2,307,080	2,378,522	2,369,303	2,390,705	2,470,081	2,521,943	2,507,824
Treasury and Government institutions	408,682	413,844	402,619	393,879	371,800	309,627	206,609
Municipalities	22,714	18,801	15,430	12,844	18,931	19,626	18,365
Financial companies	144,098	63,144	58,819	46,745	82,318	51,252	49,491
Holding companies	903,608	431,930	303,495	234,287	179,256	177,708	146,903
Non-financial companies	1,866,479	1,525,343	1,304,039	1,171,214	1,102,579	1,160,414	1,199,305
Households	737,280	792,319	797,105	865,065	887,453	907,667	951,116
Non-profit institutions serving households	0	0	0	0	6,955	7,534	7,731
Provisions	-1,775,781	-866,860	-512,203	-333,329	-179,212	-111,884	-71,697
Other domestic assets	618,150	602,692	533,580	471,807	362,901	270,944	146,214
Domestic liabilities, total	3,389,910	3,825,136	3,493,909	3,471,917	3,518,135	3,480,637	3,174,100
Broad money and bonds (M4) <sup>2</sup>	1,431,999	1,665,273	1,610,062	1,703,647	1,813,507	1,957,272	1,945,156
Domestic bond issue	7,557	134,623	150,962	179,333	181,652	234,480	301,280
Broad money (M3)	1,424,442	1,530,650	1,459,100	1,524,314	1,631,855	1,722,792	1,643,876
Time deposits	509,011	540,280	558,879	604,200	663,068	754,656	662,718
Money supply and sight deposits (M2)	915,431	990,370	900,222	920,114	968,788	968,135	981,159
Sight deposits	487,258	542,584	490,491	504,357	561,074	538,682	501,598
Money supply (M1)	428,173	447,786	409,730	415,757	407,713	429,453	479,561
Demand deposits	393,507	408,395	368,868	374,140	363,686	380,549	424,464
Notes and coin in circulation	34,666	39,391	40,862	41,617	44,028	48,904	55,097
Other domestic liabilities	1,957,911	2,159,863	1,883,847	1,768,270	1,704,628	1,523,365	1,228,944
Equity	484,496	528,702	606,618	640,539	678,631	736,973	667,754
Other domestic liabilities n.i.e.	1,473,415	1,631,161	1,277,228	1,127,731	1,025,997	786,392	561,190
Liabilities and equity, total	3,877,668	4,378,195	3,809,038	3,788,134	3,757,939	3,794,408	3,721,582

1. The latest data is preliminary. The data only represents DMBs that are operating at each time. 2. The money supply compilations include the deposits of all entities other than the Central Bank, deposit-taking institutions, the Treasury, and non-residents.

Table 6 Liquidity and reserve ratios in %<sup>1</sup>

<i>Effective date:</i>	<i>Reserve requirement ratio:</i>	<i>Effective date:</i>	<i>Reserve requirement ratio:</i>
1 June 1979	28.0	1 November 1992	6.0
17 April 1985	18.0	1 December 1992	5.0
1 March 1987	13.0	1 November 1993	4.0 (2.5) <sup>2</sup>
1 August 1988	12.0	21 May 1998	4.0 (1.5) <sup>2</sup>
1 March 1989	11.0	21 March 2003	3.0 (1.0) <sup>2</sup>
1 May 1990	10.0	21 December 2003	2.0 (0.0) <sup>3</sup>
1 June 1990	7.0	21 October 2015	4.0 (0.0) <sup>4</sup>
31 October 1991	6.0	21 December 2015	2.5 (0.0) <sup>4</sup>
1 January 1992	7.0	21 June 2016	2.0 (0.0) <sup>4</sup>

1. Percentage of bank total deposits as of 1 June 1979, of domestic disposable funds as of 1 March 1989, and of all disposable funds as of 21 May 1998. 2. Figure in parentheses refers to the reserve ratio for bond issues and term deposits. 3. Figure in parentheses refers to the reserve ratio for deposits and bond issues with an original maturity of more than two years, and securities eligible as collateral for transactions with the Central Bank. 4. Figure in parentheses refers to the reserve ratio for deposits and bond issues with maturity more than two years, according to rules on reserves ratio no. 870 from 30 September 2015.

Table 7 Main interest rates announced pursuant to Article 10, Paragraph 2, and Temporary Provision III of the Act on Interest and Price Indexation, no. 38/2001

<i>2016</i>	<i>Non-indexed loans</i>	<i>Indexed loans</i>	<i>Penalty rates</i>	<i>General interest damage claims</i>
1 January	7.05	3.65	13.50	4.70
1 February	7.05	3.65	13.50	4.70
1 March	7.05	3.65	13.50	4.70
1 April	7.05	3.65	13.50	4.70
1 May	7.05	3.65	13.50	4.70
1 June	7.05	3.65	13.50	4.70
1 July	7.05	3.65	13.50	4.70
1 August	7.05	3.65	13.50	4.70
1 September	7.05	3.65	13.50	4.70
1 October	6.55	3.65	13.00	4.37
1 November	6.55	3.65	13.00	4.37
1 December	6.55	3.65	13.00	4.37
Average 2016	6.92	3.65	13.37	4.62
Average 2015	6.28	3.64	12.73	4.19

Table 8 Selected annual nominal yields of deposit money banks and penalty rates in % per annum

	<i>Non-indexed loans<sup>1</sup></i>		<i>Indexed loans<sup>1</sup></i>		<i>Penalty rates</i>		<i>Credit terms index, 12-month change<sup>3</sup></i>
	<i>Nominal<sup>2</sup></i>	<i>Real</i>	<i>Nominal<sup>2</sup></i>	<i>Real</i>	<i>Nominal<sup>2</sup></i>	<i>Real</i>	
2003	12.0	9.0	12.0	9.1	17.3	14.1	2.7
2004	12.2	8.0	12.3	8.0	17.3	12.8	3.9
2005	14.8	10.2	11.6	7.2	20.3	15.5	4.2
2006	17.8	10.2	14.6	7.1	22.5	14.6	6.9
2007	19.3	12.7	15.2	8.8	25.0	18.1	5.9
2008	20.5	3.6	28.1	10.1	25.8	8.1	16.4
2009	16.4	7.1	17.3	8.0	21.2	11.6	8.6
2010	10.4	7.6	9.1	6.4	15.1	12.1	2.6
2011	7.7	2.4	11.7	6.1	11.4	5.9	5.2
2012	8.2	3.5	10.6	5.8	12.4	7.5	4.5
2013	8.2	4.4	9.1	5.3	13.0	9.0	3.7
2014	7.8	6.7	6.4	5.3	13.0	11.8	1.0
2015	7.6	5.5	7.3	5.2	12.7	10.5	2.0
2016	8.3	6.0	7.5	5.3	13.4	11.1	2.1

1. Weighted average interest rate on new loans. 2. Flat interest. 3. Change in credit terms index (between January values), according to Statistics Iceland.

Table 9 Balance Sheet of the Central Bank of Iceland<sup>1</sup>

M.kr.	Year-end					
	2010	2011	2012	2013	2014	2015
<b>Assets:</b>	<b>1,328,240</b>	<b>1,585,775</b>	<b>1,074,954</b>	<b>1,003,777</b>	<b>957,277</b>	<b>948,340</b>
<i>Foreign assets</i>	666,436	1,047,469	539,947	487,624	530,236	653,009
Gold	10,426	12,249	13,757	8,817	9,598	8,790
SDR	13,079	87,295	1,767	953	1,014	20,072
Currency balance with the IMF	3,322	3,525	3,710	3,326	3,447	3,369
Foreign deposits	420,098	672,144	113,242	42,578	35,375	129,809
Foreign securities	217,821	272,072	407,286	431,765	480,514	490,663
Other reserve assets	0	0	0	0	104	120
Other foreign assets	1,690	184	184	184	184	184
<i>Domestic assets</i>	661,804	538,306	535,007	516,153	427,041	295,331
<i>Deposit money banks</i>	90,037	4,312	17,792	53,327	57,048	55,993
Collateral loans	40,825	0	12,346	0	0	0
Overnight loans	995	0	0	0	0	0
Other claims in foreign currency	48,217	4,312	5,446	53,327	57,048	55,993
Other claims	0	0	0	0	0	0
<i>Other financial institutions</i>	3,004	3,122	3,050	2,782	2,342	2,154
Listed securities	3,004	3,122	3,050	2,782	2,342	2,154
Collateral loans	0	0	0	0	0	0
Overnight loans	0	0	0	0	0	0
<i>Central government</i>	170,525	191,905	185,126	179,531	153,362	98,413
Listed securities	0	18,582	13,965	7,192	7,374	7,357
Bonds receivable	170,525	173,323	171,161	172,339	145,989	91,056
<i>Other sectors</i>	393,125	334,320	324,423	275,912	209,728	134,187
Sundry accounts	93	349	436	208	138	7,644
Equity holdings	1,509	4,688	10,475	25,207	30,053	11,682
Securities	391,524	329,283	313,512	250,498	179,537	114,862
Unlisted bonds	0	0	0	0	0	0
<i>Properties</i>	4,370	4,320	4,270	4,226	4,202	4,152
<i>Other assets</i>	743	327	344	374	358	433
<b>Liabilities and Capital:</b>	<b>1,328,240</b>	<b>1,585,775</b>	<b>1,074,954</b>	<b>1,003,777</b>	<b>957,277</b>	<b>948,340</b>
<i>Foreign liabilities</i>	280,152	399,724	193,581	172,290	89,004	37,378
Short term	66,943	36,979	35,874	29,782	24,596	17,221
Long term	193,238	341,604	135,493	122,610	43,787	1
IMF SDR allocation	19,971	21,141	22,214	19,898	20,621	20,156
<i>Domestic liabilities</i>	978,709	1,102,274	783,273	741,680	793,247	832,202
<i>Notes and coin</i>	38,269	43,205	45,142	47,016	49,955	55,671
<i>Deposit money banks</i>	170,537	118,114	158,377	185,662	133,546	288,064
Sight deposits	55,660	31,286	53,215	51,643	31,372	48,254
Time deposits	0	0	0	0	100,602	239,064
Certificates of deposit	60,957	70,015	100,658	126,689	0	0
Other claims	47,903	0	0	77	0	1
Sight deposits in foreign currency	6,017	16,813	4,504	7,253	1,572	744
<i>Other financial institutions</i>	316,915	358,224	42,334	48,020	65,070	53,236
Sight deposits	36,916	13,898	14,887	18,273	36,072	31,753
Time deposits	0	0	0	0	5,059	3,015
Certificates of deposit	4,505	8,511	4,716	6,420	0	0
Sight deposits in foreign currency	22,515	157,557	13,832	14,133	13,909	8,414
Time deposits in foreign currency	252,979	178,258	8,899	9,194	10,030	10,054
<i>Central government</i>	424,648	528,816	489,189	404,706	514,372	392,458
Treasury current accounts	130,050	143,851	141,052	88,022	143,215	89,054
Government institutions, current accounts	1,427	1,111	1,068	2,157	2,735	1,732
Treasury sight deposits in foreign currency	175,842	376,466	338,491	306,636	360,885	301,344
Governm. institutions foreign exch. deposits	0	0	0	0	0	0
Treasury time deposits in foreign currency	117,328	7,388	8,578	7,891	7,452	0
Other claims	0	0	0	0	84	328
<i>Other liabilities</i>	28,340	53,915	48,230	56,276	30,304	42,774
<i>Capital and reserves</i>	69,379	83,777	98,100	89,807	75,027	78,760

1. Based on the Central Bank of Iceland annual accounts.

## End of month 2016

January	February	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
946,465	959,294	892,476	914,291	932,511	881,133	902,886	914,042	937,759	924,645	923,134	900,643
707,340	720,973	740,914	763,166	781,244	699,184	721,287	733,533	779,035	799,770	806,699	816,590
9,277	10,299	9,766	10,188	9,731	10,407	10,353	9,792	9,666	9,252	8,431	8,310
20,013	20,034	19,446	19,457	19,557	19,167	18,578	18,161	17,855	17,334	16,940	16,963
3,359	12,517	12,149	12,157	12,219	11,975	11,607	11,346	11,155	10,829	10,582	10,596
150,339	72,962	84,627	120,207	140,292	97,697	130,669	155,572	140,030	180,639	211,516	111,836
524,016	604,804	608,358	597,963	599,026	559,359	549,761	538,453	581,227	580,752	554,560	667,109
151	172	193	214	234	394	134	24	126	54	3,832	938
184	186	6,374	2,981	185	184	184	184	18,976	910	838	839
239,125	238,322	151,563	151,125	151,267	181,949	181,599	180,509	158,724	124,874	116,435	84,053
393	119	488	150	150	612	171	83	182	404	188	162
0	0	0	0	0	0	0	0	0	0	0	0
0	0	350	0	0	450	0	0	0	0	0	0
393	119	138	150	150	162	171	83	182	404	188	162
0	0	0	0	0	0	0	0	0	0	0	0
1,928	1,841	1,852	1,830	1,855	2,409	2,400	2,314	2,315	2,250	2,262	2,267
1,928	1,841	1,852	1,830	1,855	2,409	2,400	2,314	2,315	2,250	2,262	2,267
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
98,123	97,814	72,785	72,788	72,792	95,132	95,231	94,153	90,027	78,390	77,157	40,815
7,332	7,429	7,488	7,500	7,504	29,845	29,934	28,866	24,730	13,138	11,895	12,060
90,790	90,385	65,298	65,288	65,288	65,288	65,298	65,288	65,298	65,252	65,261	28,755
134,097	133,952	71,862	71,779	71,837	79,183	79,180	79,344	61,601	39,227	32,213	36,183
7,379	7,305	180	96	154	7,500	7,498	7,662	176	471	340	295
11,682	11,682	11,682	11,682	11,682	11,682	11,682	11,682	31,114	31,114	31,114	35,889
115,036	114,965	60,000	60,000	60,000	60,000	60,000	60,000	0	0	0	0
0	0	0	0	0	0	0	0	30,312	7,643	759	0
4,152	4,152	4,140	4,140	4,140	4,127	4,127	4,127	4,115	4,115	4,115	4,102
433	444	436	438	495	487	489	489	484	488	500	524
946,465	959,294	892,476	914,291	932,511	881,133	902,886	914,042	937,759	924,645	923,134	900,643
38,887	38,964	44,187	40,438	37,990	27,209	26,453	27,746	45,177	46,319	45,311	43,879
18,789	18,846	24,659	20,898	18,351	4,101	4,019	5,536	23,453	4,591	4,335	2,886
1	1	1	1	1	3,862	3,780	3,976	3,796	24,324	23,969	23,962
20,096	20,117	19,526	19,538	19,638	19,246	18,654	18,234	17,927	17,404	17,007	17,030
826,290	839,391	779,572	808,529	828,677	765,342	805,543	829,951	813,518	817,830	838,671	812,697
53,872	54,096	55,223	54,652	55,736	57,134	58,532	58,340	58,024	57,988	58,710	62,328
299,855	266,366	278,226	281,944	280,509	299,642	342,195	324,712	333,430	379,137	404,741	377,922
86,840	53,787	66,772	55,947	53,560	59,935	57,503	40,179	56,798	40,575	55,858	44,762
212,261	211,824	210,805	225,348	226,299	232,989	278,027	240,661	230,396	277,104	299,225	283,537
0	0	0	0	0	5,450	5,442	42,662	44,992	60,260	48,484	48,451
0	4	1	1	4	14	9	23	2	0	5	2
753	752	648	648	646	1,255	1,214	1,187	1,241	1,197	1,169	1,170
59,583	58,161	51,953	51,006	46,863	47,984	62,106	61,184	51,633	51,730	66,236	77,824
38,216	37,051	30,714	29,975	43,253	44,535	58,096	57,667	46,820	47,448	62,996	70,815
3,013	3,002	3,501	3,902	3,603	3,444	4,010	3,517	4,813	4,282	3,240	7,010
0	0	0	0	0	0	0	0	0	0	0	0
18,354	18,108	17,738	17,129	6	6	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
372,952	395,754	373,160	395,114	400,773	299,537	279,529	321,273	336,912	291,782	270,855	255,995
60,920	73,400	73,815	94,830	85,121	75,183	56,415	97,937	105,955	61,661	52,719	66,379
572	112	741	1,086	1,324	1,436	1,285	1,471	1,564	1,715	1,828	2,085
296,143	296,423	287,586	286,273	288,032	221,693	215,629	210,949	216,611	211,197	197,696	184,917
0	0	0	0	0	0	0	0	0	0	0	454
0	0	0	0	0	0	0	0	0	0	0	0
15,318	25,819	11,018	12,925	26,296	1,225	6,201	10,917	12,781	17,209	18,612	2,160
40,028	65,015	21,010	25,814	44,797	61,045	63,180	64,442	33,520	37,193	38,128	38,628
81,289	80,940	68,718	65,324	65,844	88,582	70,891	56,345	79,064	60,495	39,152	44,067