



Annual Report 2017

ANNUAL REPORT 2017

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The Supervisory Board at year-end 2017. From left: Bára Valdís Ármannsdóttir (alternate), Thórunn Gudmundsdóttir, Chairman of the Board, Sveinn Agnarsson, Deputy Chairman, Audur Hermannsdóttir, Sigurdur Kári Kristjánsson, Thór Saari and Hildur Traustadóttir (alternate). Bára and Hildur attended this meeting in place of Frosti Sigurjónsson and Björn Valur Gíslason.

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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 Central Bank of Iceland's principal objective is to promote price stability. The Bank shall also promote financial stability. With the approval of the Prime 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 the previous twelve months.¹ The Act on 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 stipulates that, in addition to promoting price stability and financial stability, the Bank is obliged to manage Iceland's international reserves and to promote a safe and effective financial system, including domestic and cross-border payment systems. The Act also requires that the Bank report publicly on monetary policy and developments in monetary, exchange rate, and currency matters, as well as its 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 rate decisions, 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.² 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 Prime Minister.

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*. *Monetary Bulletin* also includes an in-depth analysis of economic and monetary developments and prospects.

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.³

1. The declaration was published in *Monetary Bulletin* 2001/2 and can be found 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.

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 Central Bank attempts to maintain a constant, clear overview of the position of credit institutions, financial markets, households, and businesses. It publishes an analysis of factors relating to financial stability in its *Financial Stability* report. 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.

International 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 international reserves. The reserves 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. The reserves 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 of the Bank. The Central Bank administers domestic and foreign borrowings and debt management for the Treasury on behalf of the Ministry of Finance and Economic Affairs.

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 exchange rate in 2017

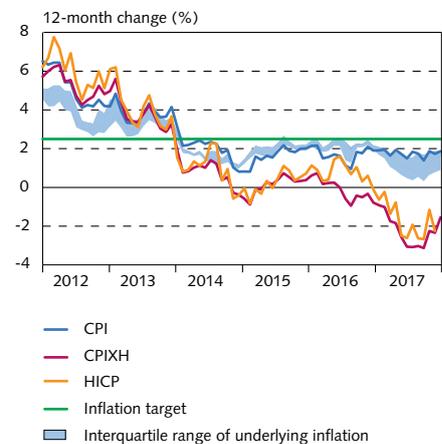
Inflation measured 1.8% in 2017 as a whole, the fourth year in a row with average inflation of 2% or less.¹ Underlying inflation subsided during the year, with twelve-month inflation in terms of core index 3 excluding tax effects measuring 1.9% in December 2017, down from 2.1% a year earlier.²

The main driver of inflation in 2017 was rising house prices, as CPI inflation excluding housing measured -2.2%. It was the second year in a row with deflation according to the CPI excluding housing. House price inflation eased somewhat in the latter half of the year. The twelve-month rise in the housing component of the CPI measured 12% in December, after peaking at 19% in July 2017. The decline in various imported goods prices – such as clothing, footwear, and furniture – had a significant downward impact on the CPI during the year. Prices of new motor vehicles and spare parts also fell.

During the prelude to the liberalisation of the capital controls, the Monetary Policy Committee considered it necessary to build up the international reserves and prevent an overshooting of the króna. After important steps were taken in the liberalisation process in early 2017, the Committee no longer deemed such considerations necessary. Intervention in the foreign exchange market would therefore aim primarily at mitigating excess short-term exchange rate volatility, as needed.³ Consequently, the Bank substantially reduced its foreign exchange market activity as 2017 progressed and conducted very few transactions in the second half of the year. The Bank's net purchases in the interbank foreign exchange market totalled 70.3 b.kr. in 2017, about 20% of total market turnover for the year, down from 55% in 2016. Total market turnover contracted by 42% between 2016 and 2017.

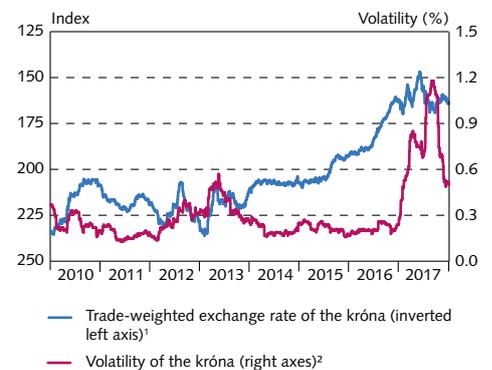
The króna appreciated markedly in the first half of the year, owing mainly to developments in economic fundamentals as reflected in the current account surplus. Exchange rate volatility increased in the

Chart II-1
Headline and underlying inflation¹
January 2012 - December 2017



1. Underlying inflation measured using core indices (indices excluding the effects of indirect taxes, volatile food items, petrol, public services, and owner-occupied rent) and statistical measures (weighted median, trimmed mean, and a dynamic factor model).
Sources: Statistics Iceland, Central Bank of Iceland.

Chart II-2
Exchange rate and volatility of the króna
Daily data 4 January 2010 - 29 December 2017



1. Price of foreign currency in terms of the króna. Inverted axis shows a stronger króna as a rise. 2. Volatility is measured by the standard deviation of daily changes in the past 3 months.
Source: Central Bank of Iceland.

1. In September 2017, a year had passed since Statistics Iceland corrected the error it made in calculating the CPI during the period from March through August 2016, which caused an underestimation of inflation over that period and an overestimation for the same period in 2017.

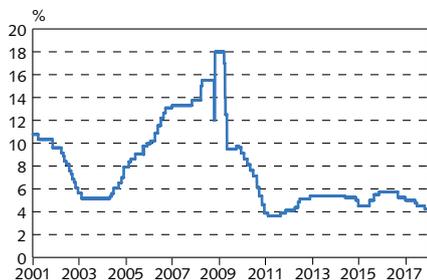
2. Core index 3 excluding tax effects excludes the effects of indirect taxes, volatile food items, petrol, public services, and real mortgage interest expense.

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).

Chart II-3

Central Bank of Iceland key interest rate¹

Daily data 3 January 2001 - 29 December 2017

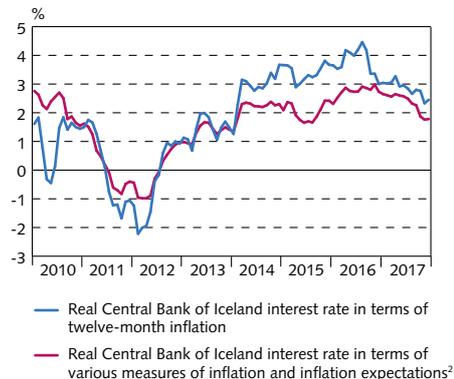


1. The Central Bank's key interest rate is defined as follows: the 7-day collateralised lending rate (until 31 March 2009), the rate on deposit institutions' current accounts with the Central Bank (1 April 2009 - 30 September 2009), the average of the current account rate and the rate on 28-day certificates of deposit (1 October 2009 - 20 May 2014), and the rate on 7-day term deposits (from 21 May 2014 onwards).
Source: Central Bank of Iceland.

Chart II-4

Real Central Bank of Iceland interest rates¹

January 2010 - December 2017



1. Until 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.

spring, however, and the króna began to weaken in early June, after appreciating by 10½% since the beginning of the year. Volatility receded in the second half of 2017, however, as the foreign exchange market adjusted to the reinstatement of free movement of capital. By the end of the year, the króna had depreciated by 0.7% in trade-weighted terms, as opposed to an appreciation of 18.6% in 2016.

The Monetary Policy Committee (MPC) kept the Bank's interest rates unchanged until May 2017, when it lowered them by 0.25 percentage points. It lowered them by 0.25 percentage points again in June, followed by another 0.25-point rate cut in October. At the end of 2017, the Bank's key interest rate – i.e., the seven-day term deposit rate – was 4.25%. The monetary stance eased during the year. The Bank's real rate in terms of the average of various measures of inflation and inflation expectations had fallen by a percentage point over the course of the year, to 1.7% by the end of December. The Bank's real rate in terms of twelve-month inflation also fell, to 2.3% by the year-end.

A tight monetary stance in the recent term has provided a firmer anchor for inflation expectations. The grounds for lowering interest rates in the first half of the year were that lower inflation expectations caused the Bank's real rate to rise, tightening the monetary stance more than the MPC had intended or considered necessary to promote price stability. At the October meeting, the Committee was of the view that, because of developments in inflation and inflation expectations, together with signs of diminishing demand pressures, there was scope for an additional rate cut of 0.25 percentage points.

Bond market yields fell by up to 0.4 percentage points in the first half of the year, in line with reductions in Central Bank interest rates. Nominal Treasury bond yields rose towards the end of summer and again after the fall of the Government in mid-September. The increase appeared to stem primarily from a temporary rise in risk premia on long-term interest rates, as it receded to an extent over the course of the year. Yields rose again towards the end of the year, however, and by end-2017 most nominal Treasury bond yields lay in the 4.8-5% range, a decline of as much as 0.3 percentage points since year-end 2016.⁴ Indexed bond yields ranged between 1.8% and 2.2% at the end of December, up to a percentage point lower than at the end of 2016.

New inflows of foreign currency for investment in the domestic Treasury bond market were relatively stable once they resumed after the liberalisation of most of the capital controls in March 2017. They were much less than before the Bank's capital flow management measure was activated in June 2016, however. Inflows for the year totalled 30.4 b.kr., including 18.3 b.kr. invested in Treasury bonds and 12.1 b.kr. deposited in special reserve accounts in accordance with Central Bank rules. At the same time, outflows of capital previously imported for new investment in the bond market increased. Net inflows invested

4. The yield on the nominal Treasury bond maturing in 2019 fell more during the year, and the interest rate differential versus other Treasury bonds widened. Differing developments between the 2019 bond and other short-term Treasury bonds were likely due to a change in market expectations in mid-2017, owing to the Treasury's plan to buy back the bond and the impact of that plan on pricing.

in domestic bonds totalled only 7.5 b.kr. in 2017. Inflows into listed equities, which do not fall within the scope of the special reserve requirement, increased significantly, however, to a total of 48 b.kr., while inflows into other assets shrank, apart from those in connection with non-residents' purchase of a holding in a domestic commercial bank.

Monetary policy decisions

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 Monetary Policy Committee and its decisions

By law, the MPC takes decisions on the application of the Bank's monetary policy instruments. In this context, these monetary policy instruments are 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. In 2017, Katrín Ólafsdóttir was reappointed to a second five-year term.

The Act on the Central Bank requires that the MPC meet at least eight times each year. After each rate-setting meeting, the Committee issues a statement on its decision. The MPC is required to publish the minutes of its meetings and account for its decisions and the premises upon which they are based. The minutes are published two weeks after 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' position. The MPC reports to Parliament on its activities twice a year, as is provided for by law.

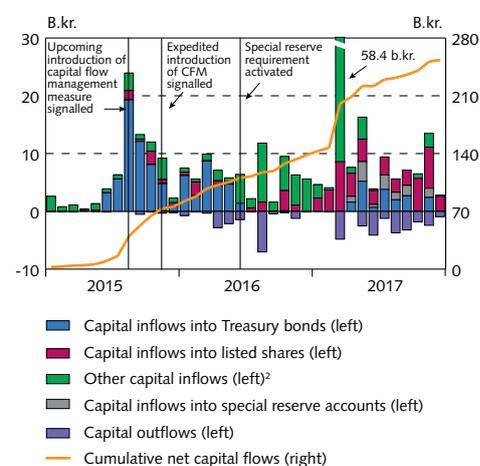
To pursue forward-looking monetary policy, a central bank needs models for assessing the economic outlook, especially inflation. The Bank is constantly developing models for use in assessing the economic outlook and analysing the impact of monetary policy. One means of enhancing transparency is to make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

Interest rate decisions 2017

Eight rate-setting meetings were held in 2017. In addition, the MPC met with the Systemic Risk Committee (see Chapter I) in order to discuss the interactions between monetary policy, macroprudential policy, and financial stability. According to the Rules of Procedure for the MPC, adopted in 2010, the Bank's *Annual Report* shall specify how individual Committee members voted during the year. The Committee's interest rate decisions in 2017 were as follows:

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

Chart II-5
Capital flows due to registered new investments¹
January 2015 - December 2017



1. Investment commencing after 31 October 2009 and based on new inflows of foreign currency that is converted to domestic currency at a financial institution in Iceland. For further information, see the Foreign Exchange Act, no. 87/1992. 2. Other inflows in March 2017 derive almost entirely from non-residents' acquisition of a holding in a domestic commercial bank.

Source: Central Bank of Iceland.

Following an important step towards full capital account liberalisation early in the year, the MPC also decided that the Bank's foreign exchange transactions should reflect the fact that there was no need to build up the international reserves further and that the risk of temporary overshooting of the króna during the run-up to capital account liberalisation had receded. The main purpose of the Bank's intervention policy would once again be to mitigate short-term exchange rate volatility.

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

17 May: The Governor proposed that the Bank's interest rates be lowered by 0.25 percentage points. All Committee members voted in favour of the proposal.

14 June: The Governor proposed that the Bank's interest rates be lowered by 0.25 percentage points. All Committee members voted in favour of the proposal. Gylfi Zoëga and Katrín Ólafsdóttir would have preferred to lower rates by 0.5 percentage points but were nonetheless willing to vote in favour of the Governor's proposal.

23 August: The Governor proposed that the Bank's interest rates be held unchanged. All Committee members voted in favour of the proposal. Gylfi Zoëga would have preferred to lower rates by 0.25 percentage points but was nonetheless willing to vote in favour of the Governor's proposal.



The Monetary Policy Committee at the end of 2017 together with Rannveig Sigurdardóttir, secretary of the Committee on the far left. The Committee from left: Gylfi Zoëga, Arnór Sighvatsson, Már Gudmundsson, Chairman, Katrín Ólafsdóttir and Þórarinn G. Pétursson.

4 October: The Governor proposed that the Bank's interest rates be lowered by 0.25 percentage points. All Committee members voted in favour of the proposal.

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

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

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 monetary policy.

The Bank's primary functions in the field of financial stability are to conduct analyses and assessment of risks that could erode the stability of the financial system and to issue and monitor rules on liquidity, funding, and foreign exchange balance with which credit institutions are required to comply. The Bank's analysis of the current position at any given time is published in its semi-annual *Financial Stability* report. The Central Bank also participates actively in shaping policy on the financial system framework and in formulating prudential rules. This requires close interactions with other institutions – particularly the Financial Supervisory Authority and the Ministry of Finance and Economic Affairs – and participation in international cooperation.

The Bank attempts to maintain a constant, clear overview of the position of credit institutions, financial markets, households, and businesses. In recent years, it has also been important to monitor closely the external position of the economy, capital flows, and refinancing risks faced by domestic entities in foreign credit markets. During the year, as in 2016, a stress test was conducted on the large commercial banks and the results published in *Financial Stability*. The stress test is used in risk assessment and gives indications of the banks' vulnerability to adverse developments or shocks. The results showed that, on the whole, the banks were relatively well prepared to withstand shocks. The adaptation period according to liquidity and funding rules ended at the beginning of 2017, and the minimum liquidity ratio and the minimum net stable funding ratio in foreign currency stipulated by the Central Bank rose from 0.9 to 1.0 at that time. As in previous years, the Central Bank prepared the meetings of the Systemic Risk Committee in consultation with the Financial Supervisory Authority and compiled analytical materials for the meetings.

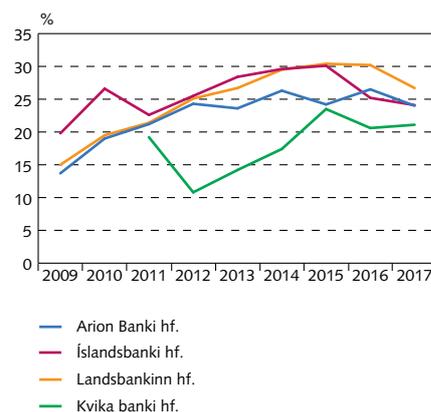
Table III-1 Rules imposed by the Central Bank on credit institutions

Rules	Value	Effective date
Liquidity rules	In foreign currencies: 1.0 Total: 1.0	1 January 2017
Funding rules	In foreign currencies: 1.0	1 January 2017
Foreign exchange balance	+/- 15% of capital base	1 January 2011

Developments in financial stability

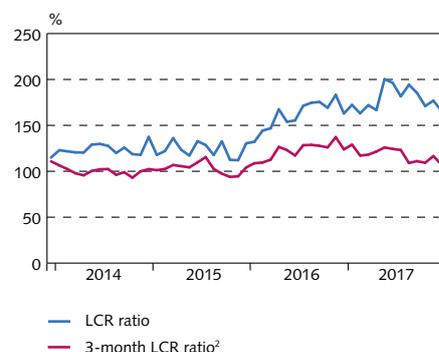
Economic conditions were broadly favourable for the financial system in 2017. Household and corporate debt levels were historically low relative to both disposable income and GDP. With reduced indebted-

Chart III-1
Commercial banks' capital adequacy ratios¹



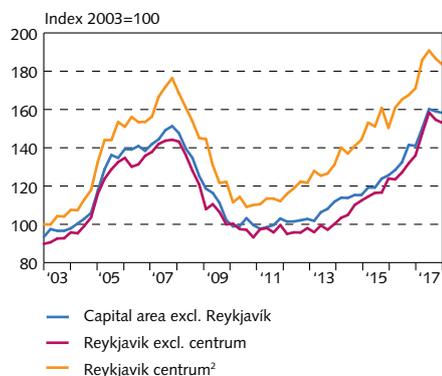
1. Consolidated figures. Capital base as % of risk-weighted base. CAR for MP Bank 2011-2014.
Sources: Commercial banks' annual accounts.

Chart III-2
The three large commercial banks' liquidity coverage ratio¹



1. Consolidated figures. New LCR rules were implemented in March 2017. 2. In accordance with older liquidity rules, the Central Bank also monitors three-month liquidity coverage ratios.
Source: Central Bank of Iceland.

Chart III-3
Capital area apartment price¹, per m²



1. At constant prices. 2. Reykjavik centrum north of Hringbraut and west of Snorrabraut, Hagar, Melar, Grandar and Hlidar.
Sources: Registers Iceland, Statistics Iceland, Central Bank of Iceland.

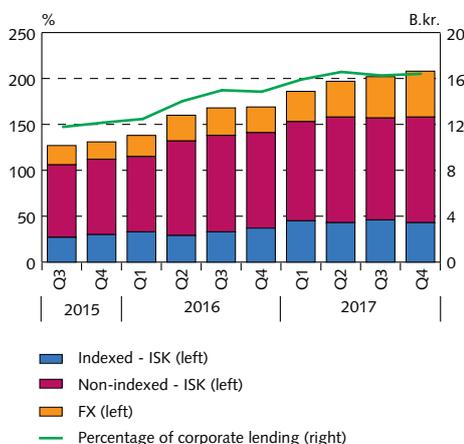
ness and increased net wealth, households and businesses are better equipped to withstand shocks than they have been for a long time. Increased revenues from exports – tourism in particular – and favourable terms of trade contributed to a current account surplus. Both Iceland's sovereign credit ratings and the large commercial banks' ratings were upgraded during the year. The large commercial banks' position was sound at the end of the year. The banks recorded substantial profits during the year, albeit less than in 2016, owing mainly to reduced irregular income and write-offs relating to energy-intensive industrial projects. Their capital ratios were high despite sizeable dividend payments, and their liquidity was well above the limits specified in Central Bank rules. Credit risk subsided during the year as private sector debt declined. As a result of credit rating upgrades, the banks' access to foreign credit markets improved, as did the borrowing terms offered to them. There are some signs of tension in the domestic economy during the year, particularly in connection with growth in tourism and in the housing market, which could be conducive to financial imbalances in the long run. If the tourism industry should suffer a setback that brought an economic contraction with it, the banks' capital would deteriorate. In *Financial Stability 2017/2*, the Bank published stress test results showing, among other things, that based on the scenarios designed for the test, a setback in tourism and an adjustment in the real estate market should not jeopardise the stability of the financial system.

At the spring legislative session, Parliament passed an amendment to the Central Bank Act authorising the Bank to set rules on credit institutions' foreign currency-linked lending to borrowers who are unprotected from foreign exchange risk upon receiving an opinion from the Financial Stability Council.

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, and the Systemic Risk Committee works for the Council.¹ 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. As is provided for in the Cooperation Agreement between the Central Bank of Iceland and the Financial Supervisory Authority, the Committee uses analyses prepared by the two institutions, including work carried out by joint risk assessment groups. The Committee compiles risk reports for the Financial Stability Council and presents proposals to the Council in accordance with the law and the Committee's rules of procedure. Administrative matters relating to the Committee are handled by the Central Bank. Last year the Systemic Risk Committee met four times and prepared a wide range of materials for the Financial Stability Council's meetings.

Chart III-4
D-SIB lending to tourism industry



Source: Central Bank of Iceland.

1. 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 Systemic Risk Committee is chaired by the Governor of the Central Bank. Other members are the Director General of the Financial Supervisory Authority, who acts as deputy chairman; the Deputy Governor of the Central Bank; the Deputy Director General of the Financial Supervisory Authority; and one expert who is appointed by the Minister without nomination for a term of five years.

If analysis indicates that financial stability is under threat, the Financial Stability 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 Council met three times in 2017. Among other matters, the Council reviewed risks to the financial system at its meetings. The Council has published criteria for its decision on systemically important financial institutions and has confirmed the systemic importance of Landsbankinn hf., Arion Banki hf., Íslandsbanki 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 by law. Upon receiving an opinion from the Council, the Financial Supervisory Authority issued rules during the year on maximum loan-to-value ratios for new residential mortgages.

Table III-2 Capital buffers

Capital buffer	FSR recommendation	FME decision	Value	Effective date
Systemic risk buffer, systemically important banks ¹	22.1.2016	1.3.2016	3%	1.1.2017
Systemic risk buffer, other deposit institutions	22.1.2016	1.3.2016	1.5%	1.1.2017
			2%	1.1.2018
			3%	1.1.2019
Capital buffer for systemic importance ¹	22.1.2016	1.3.2016	2%	1.4.2016
Countercyclical capital buffer	22.1.2016	1.3.2016	1%	1.3.2017
	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 Bank hf., Íslandsbanki hf., and Landsbankinn hf.

Source: Central Bank of Iceland.

Table III-3 Other macroprudential tools

Loan-to-value (LTV) ratio	Value	Effective date
Maximum LTV ratio for new residential mortgage loans to consumers	85% (90% for first-time buyers)	20.7.2017

Source: Financial Supervisory Authority.

Financial market infrastructure

The Central Bank's oversight of financial market infrastructure is aimed at promoting security, efficiency, and cost-effectiveness of core payments infrastructure in the Icelandic financial system, thereby safeguarding financial stability. The Financial Stability Council has confirmed that the Central Bank's real-time gross settlement (RTGS) system, the netting system owned by Greidsluveitan ehf. (a company wholly owned by the Bank), and the Nasdaq CSD Iceland hf. securities settlement system are classified as systemically important financial market infrastructure.

The operation and oversight of the Central Bank's interbank payment systems shall be carried out in accordance with the BIS/CPMI

and IOSCO Principles for Financial Market Infrastructures (PFMI). In general, operation of interbank systems went smoothly in 2017; however, a few incidents arose which prompted oversight bodies to recommend improvements. Preparation for the renewal of the Bank's underlying software solutions continued during the year.

As regards swapping out other key payment intermediation infrastructure – i.e., supervised entities' deposit, payment, and securities settlement systems – the Central Bank and the Financial Supervisory Authority collaborate on contingency, analysis, and assessment of systemic risk upon system implementation through a joint risk assessment group on financial market infrastructure. The institutions' joint contingency processes with respect to payment intermediation have been reviewed.

The central banks in the Nordic countries held their first joint conference on cybersecurity in Copenhagen in November 2017. The aim is to hold such a conference annually.

With regard to oversight, significant work was done during the year towards developing a payment intermediation database so as to assess operational and liquidity risks in systemically important financial market infrastructure, develop indicators for the Systemic Risk Committee, and monitor developments in payment services in Iceland more closely. In the area of retail payment intermediation and services, there are changes ahead with the new Payment Services Directive (PSD2). In view of these changes, it is clear that regular reassessment in connection with information gathering will be important, including in cooperation with providers of payment-related services.

A new securities depository received an operating licence at the end of the year and is preparing to operate a new securities settlement system. Work towards reforming legislation on the activities of securities depositories and securities settlement systems is still underway, as is a review of legislation on payment services and cybersecurity, all in connection with the implementation of EEA regulatory instruments (CSDR, PSD2, and NISD).

The arrangements for settlement of debit card transactions were reviewed by the Central Bank during the year from the standpoint of preparedness and financial stability, as was the possibility of issuing electronic krónur.

System operations – systemically important financial infrastructure

RTGS and netting system operations went smoothly in 2017. At the beginning of the year, the Housing Financing Fund withdrew its participation in the systems. There are now 11 direct participants, plus one indirect participant in the netting system. A comprehensive incident record is maintained for system operations. All incidents are recorded in it, and regular summaries and an annual report are prepared as well. In 2017, a total of 175 incidents occurred during system operations. Two of them interrupted services in the RTGS system, causing a delay in system opening for a combined 15 minutes. The system's up-time ratio was 99.998%. Incidents pertaining to RTGS and netting system operations are discussed in greater detail in the Bank's *Financial Market Infrastructure* report.

Total turnover in the RTGS system contracted by 3% year-on-year in 2017, to just over 17 trillion krónur, while the number of payment orders increased by 9.7% between years, to approximately 107,000. Total netting system turnover increased by 7.3% year-on-year in 2017, to 3.8 trillion krónur. The number of payment orders increased by nearly 5% year-on-year, to 83.6 million.

Two contingency exercises relating to the RTGS and netting systems were held during the year: a separate exercise carried out by Greiðsluveitan ehf. and the Icelandic Banks' Data Centre, and a joint exercise including all market participants and the Icelandic Banks' Data Centre following the launch of Sopra, Landsbankinn's new deposit and internal payment intermediation system. Both exercises went well and delivered the intended results.

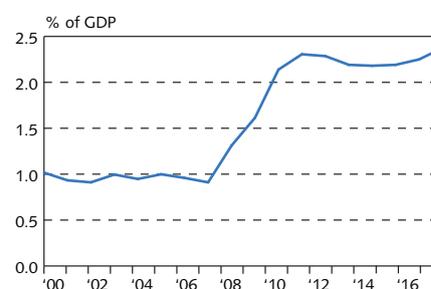
The launch of Landsbankinn's Sopra system on 19 November put considerable strain on the RTGS and netting systems and caused some of the 175 incidents occurring during the year.

On 22 February 2017, the Central Bank and Italian software developer SIA signed a formal agreement on the renewal of the Bank's interbank systems; i.e., the RTGS system and the netting system. At that time, preparatory work with SIA had been under way for eight months. The project moved steadily forwards during the year, and the new systems are to be launched in 2018. Once the launch is complete, the Danish, Norwegian, Swedish, and Icelandic central banks will all be using RTGS systems from the same software developer.

Cash

Cash in circulation outside deposit institutions and the Central Bank totalled 60.3 b.kr. at the end of 2017, an increase of 5.2 b.kr., or 9.4%, between years. Circulation of cash has increased markedly in recent years, although it is limited in international context. At the end of 2017, cash in circulation amounted to 2.4% of GDP. In value terms, 10,000 kr. notes accounted for 52.3% of issued banknotes, or 33.6 b.kr. The share of 5,000 kr. notes has declined sharply, to 35.5%. In 2017, the Central Bank's note processing department received 7.4 million banknotes from commercial banks and savings banks. A total of 5.9 million notes were destroyed.

Chart III-5
Cash in circulation



Sources: Statistics Iceland, Central Bank of Iceland.



During the year, the Bank undertook a major project in the renewal of its trading systems. The photograph shows members of the project team (from left): Ólafur Gauti Hilmarsson, Kjartan Hansson, Arnar Björnsson (project manager), Helga Guðrún Lárusdóttir, Halldór Kristinsson, Daniel Gunnar Sigurdsson, and Sigurdur Hermannsson. Missing from the photo are Helga Rún Helgadóttir and Tómas Áki Gestsson.

IV International reserves

The Central Bank of Iceland manages the country's international reserves. The reserves are one of the tools enabling the Bank to achieve its objectives and carry out its role as a central bank. The international reserves mitigate the effects of external risks related to the balance of payments, including changes in access to foreign credit, and they can be useful 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 support the implementation of 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 2017, the Bank's international reserves amounted to 687 b.kr. (6.6 billion US dollars), which is equivalent to about 27% of 2017 GDP. At the end of the year, the reserves corresponded to eight months' worth of goods and services imports¹ and 39% of M3.

Main drivers of change

From their high level at the end of 2016, the international reserves declined by 129 b.kr. (0.6 b.US dollars) in 2017. They declined by 7% relative to GDP, by 10% relative to money holdings (M3) and by three months' worth of goods and services imports.

The main factors reducing the reserves during the year were buybacks of the Treasury's US dollar bond and eurobond, in the amount of 116 b.kr. and 49 b.kr., respectively. Foreign exchange transactions in connection with the Bank's purchase of offshore króna assets during the period from March through June reduced the reserves by 99 b.kr.

To offset the above-mentioned 49 b.kr. buyback, the Treasury issued a eurobond that expanded the reserves by 62 b.kr. Other transactions that significantly increased the reserves were the Central Bank's net foreign currency purchases in the interbank market, in the amount of 70 b.kr., and other foreign exchange transactions totalling 33 b.kr.

Financial result

Returns on the Bank's international reserves were negative in the amount of 8.0 b.kr. in 2017, owing mainly to the appreciation of the króna against the US dollar. The recognised exchange rate difference was negative by 12.9 b.kr. Interest income on the reserves was positive in the amount of 9.1 b.kr., whereas changes in the market value of securities holdings and gold reduced the reserves by 4.1 b.kr. During the year, the return on bonds and deposits was 0.4%.

Chart IV-1
International reserves
January 2014 - December 2017

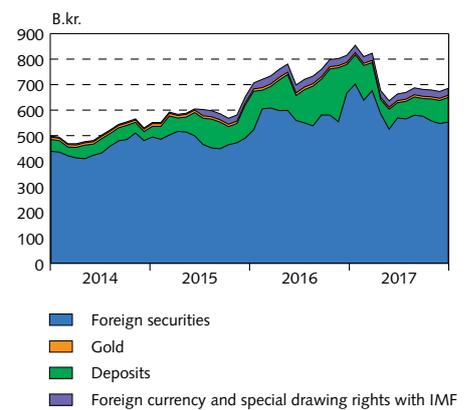
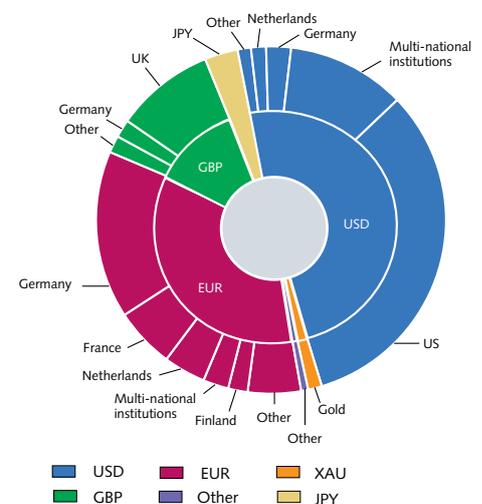
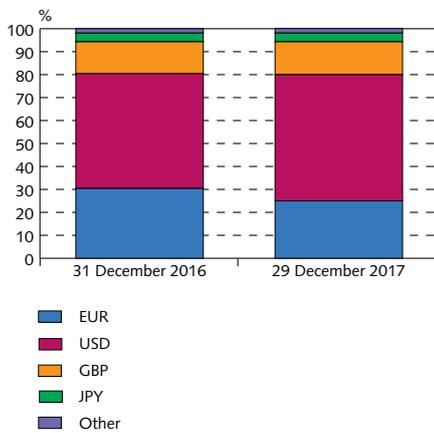


Chart IV-2
Distribution of reserve assets by currency and counterparty country



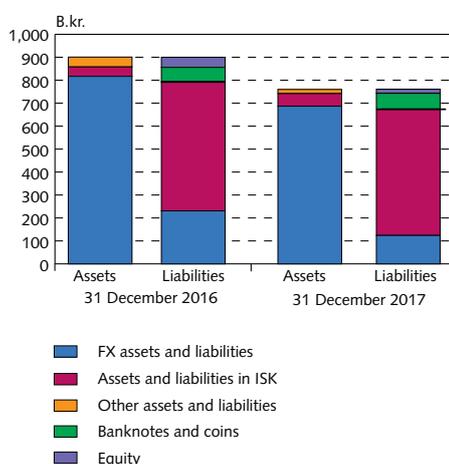
1. Average of five-year monthly imports of goods and services.

Chart IV-3
Foreign exchange balance, currency distribution



Source: Central Bank of Iceland.

Chart IV-4
Central Bank of Iceland balance sheet



Source: Central Bank of Iceland.

Management of the international reserves

Rules on the management of the international reserves are set by the Governor and confirmed by the Supervisory Board. The rules define outer limits for acceptable financial risk in managing 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 are assembled and used as benchmarks for investment policy execution. The reserves are measured, managed, and administered with reference to these benchmarks. Work towards adapting reserve management to a new investment framework began in 2017. The asset portfolios were restructured and criteria for bond portfolios changed. The adaptation is made over time; therefore, no comparison with benchmarks is made in this *Annual Report*.

Exchange rate risk remains the principal source of risk for the Bank's balance sheet. The risk stems from the fact that the Bank manages the reserves so as to enable it to achieve its objectives and carry out its role as a central bank. The foreign exchange balance² is kept within the limits specified in the investment policy and managed with reference to defined benchmarks. The Bank uses derivatives (i.e., currency swaps), among other instruments, to manage its foreign exchange balance.

At the end of 2017, the foreign exchange balance was positive by 587 b.kr., or 5.6 billion US dollars. The financial result of the 2017 foreign exchange balance was 1.6 b.kr. above the set benchmark. This is equivalent to an excess return of 0.25% on the average foreign exchange balance during the year.

The international reserves are invested to a large extent in foreign bonds. At the end of 2017, bonds constituted 81% of the total reserves. Deposits, most of them held with central banks and the Bank for International Settlements, accounted for 13% of the reserves. At the end of 2017, deposits with financial institutions accounted for less than 1% of the reserves.

The Bank's gold holdings were unchanged year-on-year in terms of weight. They were valued at 8.7 b.kr. and accounted for 1% of the total reserves at the end of 2017. The book value of the gold increased by 0.4 b.kr., or approximately 5%.

According to the rules on reserve maintenance, highly liquid assets include bonds denominated in US dollars, euros, or pounds sterling and issued by the government in its own currency, and deposits with the central banks in these regions or with the Bank for International Settlements.³ Highly liquid assets accounted for 68% of the Central Bank's international reserves at the end of 2017.

2. The Central Bank's foreign exchange balance is defined as its foreign-denominated assets net of its foreign-denominated liabilities.
3. Issuers of securities must have a minimum credit rating of AA in order for the instruments to be classified as highly liquid assets.

Chart IV-2 gives a breakdown of reserve assets by country and currency as of year-end 2017. Further discussion of the management of the Bank's financial risk can be found in the notes to the financial statements.



During the year, a major project was undertaken in the renewal of the Bank's interbank systems. In the photograph are members of the project team (from left): Kristín Ólafsdóttir, Thóra Helgadóttir (project manager), Eythór Gunnarsson, Hulda Sigmundsdóttir, Jón Bjarnason, Kristín Thórsdóttir, and Hafthór Pálsson.



The Finance Department oversees the finances of the Bank and companies owned by it. In the photograph are the department's staff members (from left): Gudný Kjartansdóttir, Díana Dögg Gunnarsdóttir, Brynja Kristín Gudmundsdóttir, Kristbergur Ómar Steinarsson, Erla Gudmundsdóttir (Director), Daniel Gunnar Sigurdsson, Salome Birgisdóttir (Deputy Director), Hekla Sörensen, Oddný Lára Eiríksdóttir, Guðrún María Traustadóttir, Sigurdur Hermannsson, and Hafðís Helgadóttir. Missing from the photo are Eyþór Gunnarsson, Guðrún Steindórsdóttir, and Jónína Guðbjartsdóttir.

V Treasury debt management

Agreement on Treasury debt management

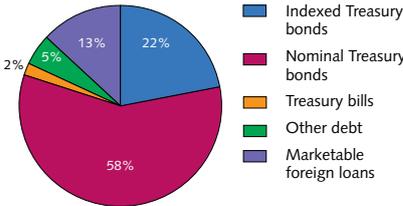
The Central Bank of Iceland oversees Treasury foreign borrowing and conducts domestic auctions, buybacks, and Treasury bond redemptions. It also executes primary dealer agreements and oversees securities lending to primary dealers in accordance with an agreement made with the Ministry of Finance and 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 guarantee fees. The Central Bank also manages the issuance of bonds for relending of Government funds.

Domestic debt management

Domestic liabilities declined by just over 126 b.kr. in 2017, to 795 b.kr. by the year-end. During the year, the Treasury met its bond issuance target of 45 b.kr. The Treasury bond RIKB 17 0206 matured in the amount of 37 b.kr. during the year. A Treasury bond issued in 2008 to recapitalise the Central Bank after the collapse of the commercial banks was paid in full during the year. Its balance at the beginning of 2017 was 29 b.kr. The Treasury also bought back bonds in the amount of 102 b.kr. in RIKH 18 1009, a series originally issued to recapitalise financial institutions.

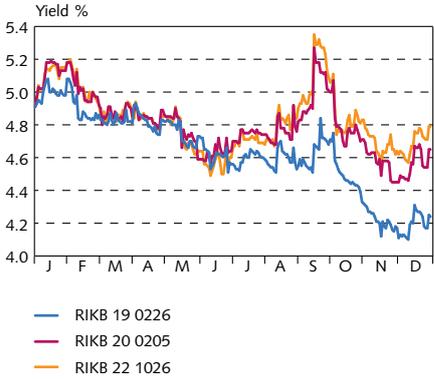
The issuance calendar for 2017 assumed that the balance of Treasury bills would decline by 9 b.kr. from the previous year, to a year-end total of 10 b.kr. That target was accompanied by the proviso that the Treasury's financial need and increased investor demand could cause the year-end balance to be higher. At the beginning of the year, foreign investors owned nearly all outstanding Treasury bills, after the bills were included in the exemption list referred to in the Rules on Foreign Exchange. The demand pushed interest rates very low, prompting dissatisfied domestic investors to shift their investments to other comparable short-term deposits. After the Bank made an agreement to purchase offshore krónur from their owners at a pre-set exchange rate during the year, the element that distorted Treasury bill pricing was eliminated. Resident investors then shifted their focus back to Treasury bills, as can be seen in their increased participation in Treasury bill auctions during the year. It was therefore decided to satisfy some of this demand with increased issuance, bringing the year-end Treasury bill balance to 15.8 b.kr.

Chart V-1
Breakdown of Treasury debt
Year-end 2017



Source: Central Bank of Iceland.

Chart V-2
Nominal Treasury bonds shorter than 5 years



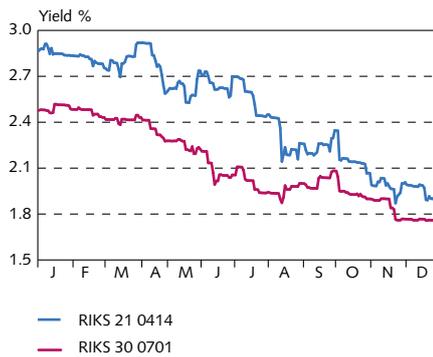
Source: Central Bank of Iceland.

Chart V-3
Nominal Treasury bonds longer than 5 years



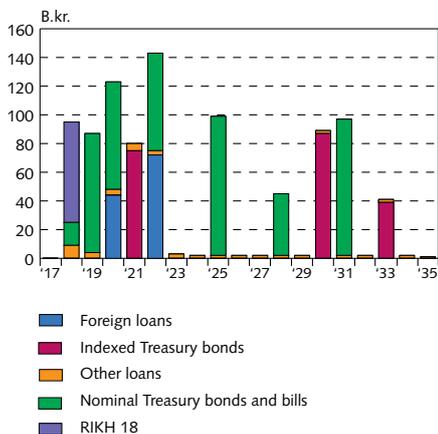
Source: Central Bank of Iceland.

Chart V-4
Indexed Treasury bonds



Source: Central Bank of Iceland.

Chart V-5
Redemption profile of Treasury debt



Source: Central Bank of Iceland.

Nominal bond yields rose early in the year because of the fishermen's strike, which caused a drop in the exchange rate, among other things. Yields soon began to fall again, however, after S&P Global Ratings announced its upgrade of Iceland's sovereign credit rating to A- and Fitch changed the outlook on its ratings for Iceland from stable to positive. Nominal yields continued to fall until mid-year, in response to lower inflation expectations and the reduction in the Central Bank's key interest rate by a total of 0.50 percentage points. The Bank's announcement that nearly all of the capital controls on Icelandic households, businesses, and pension funds would be lifted also pushed nominal yields downwards.

Nominal yields then increased sharply towards the end of the summer, when market agents rebalanced their portfolios after summer holidays and the króna had depreciated. In September, political uncertainty caused yields to rise abruptly. They reversed quickly, however, when it became clear that the rise in house prices, the main driver of inflation, had lost momentum. In October, the Central Bank's key rate was lowered by 0.25 percentage points, pushing nominal bond yields downwards. Yields rose again towards the year-end, however, when the new Government took office, owing to market concerns about increased public spending – concerns that were borne out in the fiscal budget passed in December.

According to the Icelandic Government's debt management strategy for 2017-2021, the Government's financing needs and payment obligations must be met at the lowest possible cost consistent with a prudent degree of risk. The strategy also specified that active Treasury liquidity management should commence in 2017. 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. If the balance falls below 40 b.kr., the Treasury may take a short-term money market loan, and if it exceeds 40 b.kr., the Treasury may issue short-term collateralised loans. During the year, all primary dealers in Treasury securities signed special Central Bank terms and conditions relating to these money market loans. Ever since active liquidity management began, the Treasury's deposit balance has moved closer to the benchmark each time an agreement has been made with primary dealers. Furthermore, arrangements for Treasury bill issuance were modified at the end of the year and made more flexible, so as to address temporary intrayear fluctuations in the Treasury account more effectively.

Foreign debt management

At the end of 2017, Treasury foreign debt totalled 116.5 b.kr., a reduction of more than 86 b.kr. between years. The decline was due primarily to debt retirement, as the Treasury bought back 908 million US dollars' worth of its US dollar bond maturing in 2022.

New Treasury loans taken in foreign currencies are used mainly to expand the Central Bank's international reserves, refinance outstanding market issues, and maintain access to foreign credit markets. The Treasury's foreign exchange position was good during the year and the non-borrowed international reserves sufficient; therefore, it

was not considered necessary to build up the reserves with new borrowings. Instead, it was decided to issue a new eurobond towards the end of the year, alongside the buyback of an existing 2.5% bond maturing in 2020. The buyback totalled just over 398 million euros, and the outstanding balance of that bond is now 352 million euros. The new bond, a five-year 500 million euro issue, bears 0.5% fixed interest and was issued at a yield of 0.56%.

State guarantees

The Treasury may not undertake a guarantee unless authorised by law, as is provided for in Act no. 121/1997. Because of 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 Treasury's ownership of 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 911 b.kr. at the end of 2017, as opposed to 1,039 b.kr. at year-end 2016.

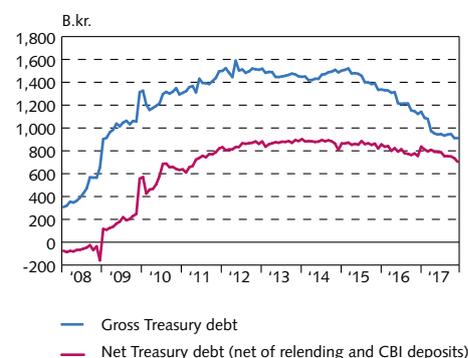
Sovereign credit rating of the Republic of Iceland

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. Iceland's sovereign credit ratings strongly affect the terms offered to domestic borrowers in the international credit market. S&P upgraded Iceland's long-term rating by one notch in January 2016, and Moody's upgraded the sovereign rating by two notches that September. Both Fitch and S&P upgraded Iceland's sovereign ratings twice in 2017. Iceland now has single-A ratings from all three major credit rating agencies.

Fitch Ratings changed the outlook on Iceland's sovereign rating to positive in January 2017. It then upgraded the rating in July, concurrent with the publication of its annual report on Iceland. The rating for long-term obligations was upgraded to A- from BBB+, with a positive outlook. The main drivers of the upgrade were Iceland's improved external position, reduced public debt, and strong GDP growth. In December, Fitch upgraded Iceland's long-term rating to A, with a stable outlook. The rating on short-term obligations was upgraded to F1, with a stable outlook. The reasons cited for the upgrade were broadly the same as in July.

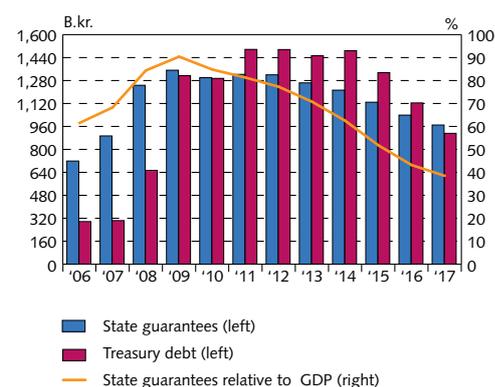
S&P Global Ratings upgraded Iceland's long-term rating to A- from BBB+ in January, citing a strong external position, particularly to include an improving balance of payments and expanded international reserves. S&P also affirmed the short-term rating of A-2, with a stable outlook. In March, S&P upgraded Iceland's long-term rating by another notch, to A, following the almost-complete liberalisation of capital controls, which the agency considered to strengthen Iceland's

Chart V-6
Treasury debt development 2008-2017



Source: Central Bank of Iceland.

Chart V-7
Treasury debt and state guarantees
2006-2017



Sources: Statistics Iceland, Central Bank of Iceland.

external position even further. At the same time, the short-term rating was upgraded to A-1, with a stable outlook.

At the end of 2017, Iceland's long-term rating from Moody's was A3, and the outlook was stable.



A separate Human Resources Department was established during the year. Staff members are (from left): Íris Guðrún Ragnarsdóttir (Director), Telma Ýr Unnsteinsdóttir, and Birna Kristín Jónsdóttir.

VI International cooperation

The Central Bank of Iceland cooperates and conducts transactions with international institutions in its field.

International Monetary Fund

The Central Bank formally represents Iceland at the International Monetary Fund (IMF). A mission from the IMF conducted a regular Article IV consultation on the current situation and prospects for the domestic economy with the Icelandic authorities in March. The IMF Executive Board discussed the Article IV report 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 Board in 2017 was Thomas Östros from Sweden. Twice a year, the Nordic-Baltic office at the Fund compiles a report on the 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 International Monetary and Financial Committee (IMFC) meets each spring and autumn. Central Bank Governor Már Gudmundsson represents Iceland on the IMF Board of Governors, which meets each year at the Fund's Annual Meetings.

Bank for International Settlements

The Central Bank is a shareholder in the Bank for International Settlements (BIS). The BIS 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 issue periodic reports setting forth the Organisation's assessment of economic developments and prospects in the country.

Cooperation 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 regularly attends meetings of central bank governors and financial supervisors in the Nordic and Baltic countries, and the Bank is a member of the Nordic-Baltic Stability Group (NBSG).

Since 2017, the Governor has attended meetings of the European Systemic Risk Board as a non-voting member. A Bank representative also attends meetings of the European Banking Authority (EBA).

Furthermore, the Bank participates in cooperation on financial stability through the Financial Stability Board (FSB), the principal harmonisation forum for global financial stability.

Other financial institutions

The Central Bank cooperates with a large number of foreign financial institutions in connection with the management of its international reserves, Treasury foreign debt, and other topics related to its operations. The Bank also communicates regularly with international credit rating agencies (see Chapter V).



The staff of the Bank's cafeteria ensures that the Bank's employees and many guests are fed with tasty and wholesome food (from left): Rósa Borg Halldórsdóttir, Gudlaug Erla Ingólfssdóttir, Janthuan Uansa-Ard, Sigurberg Jónsson (supervisor), Sunisa Saengroong, and Sigrídur L. Gunnarsdóttir.

VII Special projects

Capital Controls Surveillance Unit

The Central Bank of Iceland monitors implementation of the Foreign Exchange Act, no. 87/1992, and rules adopted on the basis of the Act, including the Rules on Special Reserve Requirements for New Foreign Currency Inflows, and the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016. The Capital Controls Surveillance Unit (CCSU) conducts general and specialised monitoring of compliance with the aforementioned regulatory instruments and provides guidance to individuals and legal entities. The CCSU also processes applications for exemptions from the Foreign Exchange Act and applications for withdrawals from accounts subject to special restrictions. The Unit also investigates alleged violations of the Foreign Exchange Act, the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, and rules issued on the basis of these Acts. The CCSU carries out other tasks as well, including matters related to capital account liberalisation, new investment in Iceland, the special reserve requirement for new inflows of foreign-denominated capital, and issuance of rules. The CCSU took over the supervision and implementation of the Central Bank's Investment Programme in August 2017. This entails, among other things, answering queries on the Investment Programme, including requests for changes in requirements, supervision of requirements, statistical processing, and other matters pertaining to the Investment Programme or participation in it.

In 2017, the Central Bank received 92 requests for exemptions from the Foreign Exchange Act, no. 87/1992, as opposed to 1,020 in the previous year. The reduction in the number of exemption requests submitted is due to the nearly full liberalisation of capital controls during the year. Of the 315 requests processed by the CCSU during the year, 152 pertained to cases not requiring exemptions, 82 exemption requests were granted, 41 exemption requests were withdrawn, 22 requests were rejected, and 18 cases were concluded in some other manner. The Central Bank granted exemptions to pension funds for foreign investment in the combined amount of 100 b.kr. at the beginning of the year; however, once the capital controls had been lifted in March, foreign investment was no longer restricted. The pension funds invested for a total of 89 b.kr. during the year. In 2017, the Bank received 312 notifications of new investment, cf. Article 13(m) of the Foreign Exchange Act, in the total amount of 127.5 b.kr. Of these, 37 notifications pertained to investment subject to special reserve requirements pursuant to the Rules on Special Reserve Requirements for New Foreign Currency Inflows, no. 490/2016, and 12.2 b.kr. were deposited to special reserve accounts in accordance with the Rules. A total of 57 requests for confirmation of hedging transactions were submitted on the basis of the Rules on Foreign Exchange, and 46 confirmations were granted and another 6 withdrawn.

At the end of 2017, offshore króna assets amounted to 88 b.kr., as opposed to 191 b.kr. at the beginning of the year. The reduction

was due for the most part to the Central Bank's purchase of offshore króna assets, as is discussed in greater depth later in this report. During the year, withdrawals on the basis of Article 12 of the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions were confirmed for a total of 379 m.kr.

During the year, 13 new cases involving possible violations of the Act and the Rules were registered. A total of 67 investigations were concluded at the administrative level by settlement or dismissal of the case, and one was referred to the police. 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

Continued liberalisation of capital controls on households and businesses

The latter phase of the strategy for liberalisation of capital controls on households and businesses, laid down in the Foreign Exchange Act and approved by Parliament on 21 October 2016, was implemented on 1 January 2017. At the beginning of the year, the ceiling on investment in financial instruments issued in foreign currency, other monetary claims in foreign currency, and prepayment and full payment (retirement) of foreign-denominated loans was raised from 30 m.kr. to 100 m.kr. Individuals were also granted permission to purchase and withdraw foreign currency in cash, subject to the above-specified ceiling, without presenting a ticket confirming overseas travel. Furthermore, the transfer of deposits was authorised, also subject to the above-mentioned limit, and the requirement concerning domestic custody of foreign securities holdings was abolished. Taking effect at the same time were new Rules on Foreign Exchange providing for more extensive authorisations for foreign exchange transactions and cross-border movement of capital. The main changes put in place were that reinvestments in foreign currency were no longer subject to a time limit and capital transfers from foreign financial undertakings' domestic currency accounts (Vostro accounts) were authorised if it were demonstrated that such transfers derived from the exercise of authorisations under the aforementioned maximum amount. Investment in financial instruments issued in foreign currency between two resident entities were authorised as well, subject to the same maximum. Other minor amendments were also made, including increased authorisations for gifts and grants, for purchases and withdrawals of foreign-denominated cash by individuals under the age of 18, and for capital transfers pertaining to payment of alimony and child support abroad. As a result of these amendments, the capital controls affect far fewer individuals than before, and the vast majority are subject to few restrictions, if any.

This step towards capital account liberalisation did not include offshore króna assets, nor did it include pension funds (in excess of the above-mentioned ceiling). The Central Bank decided, however, to grant exemptions for foreign investment to pension funds and other domestic custodians of third-pillar pension savings, as is stated above.

Central Bank purchase of offshore krónur

On 12 March 2017, the Central Bank of Iceland announced an agreement with the largest holders of offshore króna assets, under which the Bank purchased offshore krónur in the amount of 90 b.kr. at an exchange rate of 137.5 krónur per euro. The Bank also announced its intention to offer other owners of offshore króna assets on the same terms. The final settlement of the transactions took place on 22 June 2017, and on the next day the Bank announced that, since 12 March 2017, it had bought offshore króna assets in two stages for a total of 112.4 b.kr. at an exchange rate of 137.5 per euro. The offshore króna assets purchased by the Bank fell into the following categories:

Table VII-1 Offshore króna assets

Offshore asset class, b.kr.

Cash and certificates of deposit (CBI2016)	46.5
Treasury bonds and bills	62.0
Housing Financing Fund bonds	3.9
Total	112.4

Source: Central Bank of Iceland.

At its peak in 2009, the stock of offshore króna assets totalled approximately 40% of GDP. Measures such as the Avens agreement, the foreign currency auctions held between 2011 and 2015, the foreign currency auction held in June 2016, and the transactions conducted in 2017 have reduced the offshore króna balance to 3.5% of GDP.

Liberalisation of capital controls on households, businesses, and pension funds

Amendments made to the Foreign Exchange Act in October 2016 necessitated a review of the 100 m.kr. ceiling on investments in foreign-denominated financial instruments, other monetary claims in foreign currency, and prepayment and retirement of loans before 1 July 2017. A review began in H1/2017 and culminated with the adoption of new Rules on Foreign Exchange on 14 March 2017. The new Rules granted general exemptions from nearly all of the restrictions in the Foreign Exchange Act and abolished the repatriation requirement for foreign currency. With the introduction of the amended Rules, households and businesses were no longer subject to the restrictions that the Foreign Exchange Act places on, among other things, foreign exchange transactions, foreign investment, hedging, and lending activity. The amendments also authorised unrestricted foreign investment by pension funds, funds for collective investment (UCITS), and other investors in excess of the maximum amounts provided for in the Foreign Exchange Act, which until then had required explicit exemptions by the Central Bank. Derivatives trading for purposes other than hedging and other specified transactions are still restricted, however, in order to prevent carry trade on the basis of investment not subject to the special reserve requirement provided for in the Foreign Exchange Act and the Rules on Special Reserve Requirements for New Foreign Currency Inflows.

The above-mentioned amendments to the Rules on Foreign Exchange were possible because the risk of balance of payments dis-

equilibrium that could cause monetary, exchange rate, or financial instability had diminished significantly. First of all, restrictions on capital transfers in excess of specified maximum amounts had already been lifted without discernible impact on the foreign exchange market or on cross-border movement of capital. Second, the Central Bank's international reserves had grown markedly, to a total of 800 b.kr. as of end-February 2017. The strengthening of the reserves was due in large part to the large current account surplus. The outlook was for a continuing current account surplus, foreign liabilities had declined, and Iceland's net external position was positive for the first time since measurements began, all of which further reduced the risk of instability. Furthermore, global economic conditions were favourable for capital account liberalisation. Third, it was foreseeable that the Bank's purchase of offshore krónur from the largest holders would reduce risk in the long run and facilitate full liberalisation of the capital controls.

Amendments to the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions

Amendments to the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions entered into force on 27 May 2017. The Act was an element in the authorities' capital account liberalisation strategy, and the amendments provided for two types of change, both of which expanded authorisations for withdrawals from accounts subject to special restrictions. This provision increased the maximum withdrawal from accounts subject to special restrictions that may be made by an individual who has owned offshore króna assets continuously since 28 November 2008, the date the capital controls were imposed, from 1 m.kr. to 100 m.kr., in line with individuals' authorisation for foreign exchange transactions and cross-border movement of capital pursuant to the Foreign Exchange Act. Withdrawals from such restricted accounts of balances deriving from contractual instalment payments on the principal amount of loan obligations, plus indexation, were also authorised. These are payments falling under the current account, which, according to the International Monetary Fund Articles of Agreement, may not be restricted without an explicit exemption from the Articles due to economic conditions, such as the exemption previously granted to Iceland. The latter amendment was therefore made in recognition of the improving economic situation and the authorities' capital account liberalisation measures, which obviated the need for this exemption.

Currently applicable restrictions and capital flow management tools

Restrictions on specified cross-border capital transfers and foreign exchange transactions remain in place in order to reduce the risk of carry trade associated with investments not falling under the Rules on Special Reserve Requirements for New Foreign Currency Inflows. In order to ensure that the special reserve requirement would be effective after the capital controls were lifted, the Rules on Foreign Exchange were amended in June 2017 so as to specify that the exemption for hedging-related derivatives trading with financial institutions in Iceland does not include hedging in connection with króna-denominated

bonds issued abroad. In addition, other amendments were made to the Rules so as to prevent investments in Iceland that could provide a channel for carry trade.

Greiðsluveitan ehf.

Greiðsluveitan 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. Greiðsluveitan is also responsible for specific operational aspects of interbank systems such as the real-time gross settlement (RTGS) and netting systems, two systemically important financial infrastructure elements that are to some degree integrated.

Four Central Bank employees served on the board of the company in 2017: Guðmundur Kr. Tómasson (Chairman), Tómas Örn Kristinsson, Gerdur Ísberg, and Páll Kolka Ísberg. Also sitting on the Board as an impartial member was Helga Hlín Hákonardóttir, who was appointed by the Governor.

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 2017, 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 2017, ESÍ's consolidated balance sheet totalled 8.2 b.kr., and its assets had declined by just over 33.6 b.kr. since year-end 2016, primarily due to dividends paid to the Central Bank. The consolidated after-tax profit for the year amounted to 1.9 b.kr.

In October 2017, a resolution committee was appointed for ESÍ. Members are Guðmundur Ingvi Sigurdsson, Supreme Court Attorney, and ESÍ managing director Haukur C. Benediktsson. The call for claims against the company concluded in December. Resolution committees were also appointed for ESÍ's subsidiaries, Hilda ehf. and SPB ehf., in April, and the call for claims against the companies concluded in July. Members of the Hilda ehf. Resolution Committee are Haukur C. Benediktsson and Steinar Thór Gudgeirsson, Supreme Court Attorney. Members of the SPB ehf. Resolution Committee are Guðmundur Ingvi Sigurdsson, Supreme Court Attorney, and Haukur C. Benediktsson.

Jóhannes Nordal cultural heritage grants

The sixth allocation of cultural heritage grants in the name of former Central Bank Governor Jóhannes Nordal took place on 11 May 2017. A record-breaking 48 applications were received, and the adjudication panel awarded three grants.

Ugla Huld Hauksdóttir received a grant of 1.5 m.kr. for a television series based on the folk tales of Jón Árnason, a cultural treasure trove that will be used as raw material for the production of the series, which will comprise 10 episodes.

Thórhallur Arnórsson and Jón Páll Halldórsson received a grant of 750,000 kr. for their project Vargöld – Book 2, a graphic book series focusing on Nordic mythology from the creation of the nine worlds to the twilight of the gods. The book will be published in Icelandic and English.

Hallfrídur Ólafsdóttir received a grant of 750,000 kr. for *Maxímús Músíkús Explores Iceland*, a story about Icelandic nature, music, and culture. Four books about Maxi the musical mouse have been published to date. The most recent was originally published in English as an introduction to Iceland and its culture but will now be rewritten in Icelandic.

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



Computer hardware and software systems and related services play a major role in the Bank's activities. The photo shows IT Department staff. Top row, from left: Lóa Jóhannsdóttir, Daniel Snorrason, Jón Vidar Thorsteinsson, Ragnhildur Björg Konrádsdóttir, Hafthór Thórarinnsson, Svanfrídur Helgadóttir, and Fridrik Gunnlaugsson. Bottom row, from left: Ólafur Gauti Hilmarsson, Guðmundur Hardarson, Helga Guðrún Lárusdóttir, Gísli Geir Gylfason, Arnar Freyr Guðmundsson (supervisor), Guðrún Sif Hilmarsdóttir, Tómas Thór Tómasson, and Gylfi Vilberg Árnason. Missing from the photo is Jón Ágúst Sigurdsson.

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 23,254 m.kr. in 2017, compared with a loss of 34,696 m.kr. in the previous year. Excluding exchange rate differences and income tax, the Bank's operations generated a loss of 7,261 m.kr. in 2017, as opposed to a profit of 61,226 m.kr. in 2016. 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 is due to exchange rate movements and the Bank's large international reserves. It totalled 15,931 m.kr. in 2017, as opposed to a loss of 88,745 m.kr. in 2016. The króna depreciated by 0.7% in trade-weighted terms from the beginning to the end of the year. It depreciated by 4.7% against the euro but appreciated by 8% against the US dollar.

The Bank's operating results were negative but improved by 11,442 m.kr. from the prior year. Net interest expense totalled 14,157 m.kr. at the end of 2017, compared with 12,107 m.kr. in 2016. Interest income on domestic assets declined by 2,348 m.kr., due to asset sales and retirement of debt owed to the Bank, as the Treasury paid off the bond issued in 2008. Interest expense on domestic sight deposits and term deposits increased by 1,163 m.kr. between years.

Other operating income declined by 68,578 m.kr. year-on-year. This was due to ESÍ's one-off profit in the amount of 65,289 m.kr. as a result of the settlement of the failed financial institutions in 2016 and the offshore króna auctions in 2016 and 2017. Excluding these items, other operating income declined by 3.2 m.kr. between years. The revaluation of foreign securities resulted in a charge of 5,353 m.kr. in 2017, whereas the market value of the Bank's holdings in gold rose by 1,089 m.kr. Services income net of services expense declined by 510 m.kr. between years, owing to service expenses in connection with the offshore króna auction held during the year. Foreign exchange transactions generated exchange rate gains in the amount of 14,002 m.kr., which are attributable to the same auction.

It was decided in October 2017 to wind up the Central Bank of Iceland Holding Company ehf. (ESÍ) and appoint a resolution committee for the company. For this reason, the consolidated entity ESÍ is now kept separate from the Central Bank of Iceland. ESÍ generated a consolidated profit of 1,931 m.kr. The Bank's operating expense declined by 211 m.kr. between years, mainly as a result of a reduction in "other operating expense", which is due primarily to a reduction in the cost of outsourced services.

The Bank's assets totalled 763,782 m.kr. at year-end 2016, as opposed to 876,071 m.kr. at the end of 2016. Foreign assets declined by 129,380 m.kr. during the year. The Bank bought foreign currency from market makers in the amount of 70.3 b.kr. during the year. Because of amendments made to the Annual Accounts Act, the Bank's

Table VIII-1 Profit and loss account highlights

(Figures in ISK millions)	2017	2016	Change
Performance for the year	(23,254)	(34,696)	11,442
<i>Changes specify as follows:</i>			
Net interest expense	(14,157)	(12,107)	(2,051)
Other income	9,093	77,670	(68,578)
including			
a) Exchange rate gain, offshore ISK auction	14,386	29,188	(14,801)
b) ESÍ-related income	0	50,488	(50,488)
Operating expenses	(4,127)	(4,338)	211
Impact of companies outside the group	1,931	0	1,931
Exchange rate difference	(15,931)	(88,745)	72,814
Income tax	(62)	(7,177)	7,115

Table VIII-2 Balance sheet highlights

(Figures in ISK millions)	2017	2016	Change
Equity:	22,202	44,067	(21,865)
<i>Changes specify as follows</i>			
<i>Assets:</i>			
Gold	8,732	8,310	422
Foreign assets	668,332	797,712	(129,380)
FX balance with the IMF	10,389	10,596	(207)
Domestic financial assets	61,886	51,447	10,439
Fixed operational assets	6,193	4,794	1,399
Other assets	8,251	3,213	5,038
<i>Liabilities:</i>			
Banknotes and coin	68,007	62,328	5,679
Foreign liabilities	23,047	24,540	(1,493)
Counterpart to IMF	16,698	17,030	(332)
Deposits of financial institutions	102,388	71,158	31,231
Other deposits	226,790	307,826	(81,036)
Domestic financial liabilities	303,822	340,037	(36,215)
Other liabilities	827	9,085	(8,258)
Equity	22,202	44,067	(21,865)

real estate must be reappraised annually, as it has previously been reappraised. The increase in tangible operational assets derives from this. The Bank's equity totalled 22,202 m.kr. at year-end 2017, and its equity ratio was 2.9%, as compared with 5.0% at year-end 2016. At the end of the year, foreign assets comprised 90% of the Bank's total assets, as compared with 93% at year-end 2016.

The Central Bank's accounts are presented later in this report, together with detailed explanatory notes on individual items.

Outlook and capital adequacy criteria

According to the Central Bank Act, the Bank shall have the financial strength needed to enable it to carry out its legally mandated role. Therefore, the Bank analyses operational prospects and risks and prepares a scenario analysis that takes account of the effects of possible measures to improve its performance over the horizon of the analysis. An element of this is that, in accordance with Article 34 of the Act, each year the Bank shall determine capital adequacy criteria that reflect its need for capital and interest-bearing assets. The capital adequacy criteria are based on the Bank's operating expenses and the risks and uncertainties facing it at any given time. The decision on capital adequacy criteria is confirmed by the Supervisory Board.

Last year the capital adequacy criteria were set at 150 b.kr., on the basis of extrapolations made at that time. The analysis prepared then showed that, without calling in equity, the Bank's operating performance would be negative in the amount of 18 b.kr. per year from 2018 onwards. Nevertheless, the Bank did not call in equity from the Treasury in 2017, as was authorised by law up to a limit of 52 b.kr. at the price level prevailing when the law entered into force. This was decided because it was considered likely that the Bank's operating position would improve during the year because of planned transactions with offshore krónur. This projection was borne out. Second, it was deemed likely that the interest rate differential with abroad would narrow. This also materialised. Additional ways to improve the Bank's operating performance have been under examination. Revised extrapolation concerning the Bank's operating performance and capital shows that the outlook for the Bank's performance in 2018-2025 without further measures has improved by 3 b.kr. per year. Nevertheless, the fact remains that the Bank's equity will soon be negative if no action is taken. At present, however, the Bank sees no reason to change its capital adequacy criteria. It has proposed that the target remain unchanged at 150 b.kr. and has received confirmation from the Supervisory Board. A new extrapolation and capital adequacy assessment will take place in 2018, however, to reflect new operational figures and the results of new methods under consideration, and it will then be determined whether and when it will be necessary to call in equity.

The disposition of the Bank's profit is determined annually using methodology incorporated into the law with the passage of Act no. 122/2014. The Bank's profit, after allocations have been made to the reserve fund, is transferred to the Treasury, to the extent that it is not used to strengthen the Bank's capital. Because the Bank's operating results for 2017 were negative, no decision on the disposition of profit need be made.

Assessment of seigniorage gains

The Central Bank of Iceland has the exclusive right to issue banknotes and coin in Iceland. Because the Bank uses its issuance of banknotes and coin to finance the purchase of interest-bearing assets, the issuance generates a profit. Although these seigniorage gain can be measured in various ways, two methods are considered most appropriate for Iceland.

The first method entails measuring the increase in banknotes and coin in a single year and designating that as the seigniorage gains for that year. By this measure, Iceland's gain amounted to 0.21% of GDP in 2017, or about 5.4 b.kr., and an average of 0.17% of GDP per year over the period 1995-2017.

The second method for measuring seigniorage gains takes account of interest income. By this measure, seigniorage gains entail interest income on the assets that the Bank can acquire by issuing banknotes and coin. Because there are no specific assets earmarked explicitly for this purpose, this must be estimated. That is done here by assuming that the Bank used issued currency to acquire assets bearing risk-free short-term interest, which is estimated using the Bank's key interest rate. By this measure, the Bank's seigniorage gains amounted to 0.11% of GDP, or just under 3 b.kr., both in 2017 and as an average over the period 1995-2017.

It should be noted, however, that this is a rough estimate and is based on the assumption that the cost of issuing currency — i.e., minting, administration, and salaries — is zero.

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. At the beginning of 2017, 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. Alternates were Heidrún Lind Marteinsdóttir, Bára Valdís Ármannsdóttir, Thórlindur Kjartansson, Leó Löve, Sigrún Elsa Smáradóttir, Hildur Traustadóttir, and Sunna Jóhannsdóttir. On 25 April 2017, the Supervisory Board comprising Thórunn Gudmundsdóttir, Björn Valur Gíslason, Sigurdur Kári Kristjánsson, Thór Saari, Sveinn Agnarsson, Frosti Sigurjónsson, and Audur Hermannsdóttir was elected. Kristín Thoroddsen, Hildur Traustadóttir, Thórlindur Kjartansson, Ólafur Margeirsson, Audbjörg Ólafsdóttir, Bára Valdís Ármannsdóttir, and Sunna Jóhannsdóttir were elected as alternates. The Supervisory Board held 13 meetings in the course of 2017.

Governor and Deputy Governor

During the year, Már Gudmundsson served as Governor of the Central Bank. He was reappointed for a five-year term on 20 August 2014. Arnór Sighvatsson served as Deputy Governor. He was reappointed to a five-year term beginning on 1 July 2013.

Central Bank organisation

The Bank's activities take place in six main departments and four support departments, plus the International Relations and General Secretariat department. A separate Human Resources Department was established during the year. The International Relations and General Secretariat department is separate from the Bank's main departments. It provides general office and administrative service to the Governors, provides services to the Supervisory Board, 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 financial institutions. It also manages the Bank's balance sheet, handles the custody and investment of the international 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 from the Foreign Exchange Act. The CCSU is authorised to initiate investigations of possible violations of the Act.

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 the 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 pru-

dential 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 Greiðsluveitan ehf., a Central Bank-owned company that operates payment systems and other service systems in connection with payment intermediation.

The Bank has four support departments. During the year, Operations and Human Resources was split into two departments: Operations and Information Technology, on the one hand, and Human Resources, on the other. The other two support departments are Finance and Legal.

Operations and IT comprises five service units: Asset Management and Service, Internal Information Services, Catering and Cafeteria, Operations and Office Services, and Information Technology.

Human Resources is responsible for developing and implementing the Bank's human resources policy, with the aim of fostering a healthy corporate culture in collaboration with Bank staff. The department's main tasks include administration of new hiring, education and training, job development, employee satisfaction surveys, decisions on remuneration, employee health and well-being, and equal rights.

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, prepare 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 and whose aim is to enhance value and improve the operations

Table VIII-3 Number of employees by department

<i>Department</i>	<i>Number</i>
International Relations and General Secretariat	9
Governor and Deputy Governor	2
Finance	16
Financial Market Infrastructure	13
Financial Stability	13
Statistics	15
Capital Controls Surveillance Unit	21
Economics and Monetary Policy	19
Internal Auditor	1
Legal Department	4
Human resources	3
Treasury and Market Operations	23
Operations and Human Resources	42
Custodial	4
Total	185

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. The Internal Auditor underwent an external quality assessment in 2017, in accordance with International Auditing Standard no. 1312. The assessment determined that all peremptory provisions of the international framework for internal audit are being followed, including the code of ethics for internal audit and the standards for the execution of internal audit.

Human resources

At the end of the year, there were 181 employees and four part-time custodial employees, bringing the total to 185. During the year, 20 employees were hired and 20 left the Bank. Eight summer staff members were employed by the Bank in 2017. The gender ratio was relatively even and changed little during the year. At the beginning of the year, the Bank employed 98 men and 87 women, and at the end of the year there were 92 men and 93 women. The ratio of university-educated employees was 82% at the year-end. Six departmental directors were male and five were female, and 16 deputy directors were male and 11 female, giving a 60-40 ratio of men to women among deputy officials. As of year-end 2017, 13 employees worked for companies owned by the Bank, including 12 employed by Greiðsluveitan ehf. and one by the Central Bank of Iceland Holding Company ehf.

Central Bank of Iceland 31 December 2017

Supervisory Board

Principal members

Thórunn Guðmundsdóttir, Chairman
Sveinn Agnarsson, Deputy Chairman
Björn Valur Gíslason
Sigurdur Kári Kristjánsson
Thór Saari
Frosti Sigurjónsson
Audur Hermannsdóttir

Alternates

Kristín Thoroddsen
Hildur Traustadóttir
Thórlindur Kjartansson
Ólafur Margeirsson
Aubjörg Ólafsdóttir
Bára Valdís Ármannsdóttir
Sunna Jóhannsdóttir

Governor

Már Guðmundsson

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:
Human Resources:
Treasury and Market Operations:
Operations and IT:
Internal Auditor:

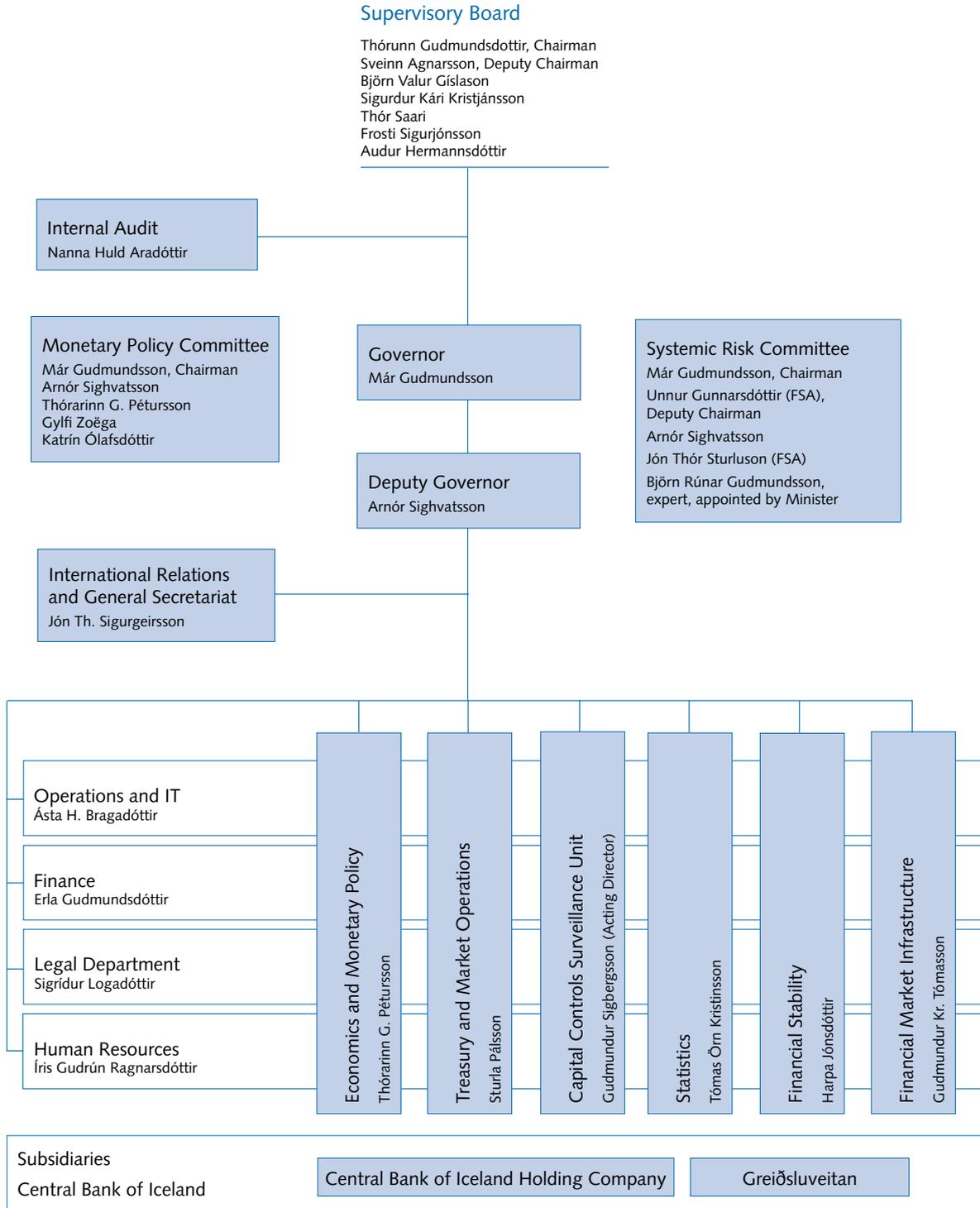
Jón Th. Sigurgeirsson, Director
Erla Guðmundsdóttir, Director
Guðmundur Kr. Tómasson, Director
Harpa Jónsdóttir, Director
Tómas Örn Kristinsson, Director
Guðmundur Sigbergsson, Acting Director
Thórarinn G. Pétursson, Chief Economist
Sigríður Logadóttir, General Counsel
Íris Guðrún Ragnarsdóttir, Director
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):
Greiðsluveitan ehf.:

Haukur C. Benediktsson, Director
Logi Ragnarsson, Director

The organisational chart of the Central Bank of Iceland





CONSOLIDATED ANNUAL ACCOUNTS 2017

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, 2017, 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, 2017, 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, 23 March 2018

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 2017 with their signatures. Frosti Sigurjónsson expresses the reservation that he does not consider it appropriate to include banknotes and coin with liabilities in the balance sheet.

Reykjavík, 21 March 2018

Confirmation by the Supervisory Board

Thórunn Guðmundsdóttir
Chairman

Sveinn Agnarsson
Sigurður Kári Kristjánsson
Audur Hermannsdóttir

Hildur Traustadóttir
Thór Saari
Frosti Sigurjónsson

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, 23 March 2018

Katrín Jakobsdóttir

Profit and Loss Account 2017

	Notes	2017	2016
Interest income			
From domestic assets		4,488,695	6,836,809
From foreign assets		9,130,552	8,351,686
	1	<u>13,619,246</u>	<u>15,188,495</u>
Interest expense			
From domestic liabilities		(27,576,697)	(26,930,669)
From foreign liabilities		(200,038)	(364,737)
	2	<u>(27,776,735)</u>	<u>(27,295,406)</u>
Net interest expense		(14,157,488)	(12,106,911)
Operating revenues			
Service revenues	3	1,257,360	1,274,332
Service expenses	4	(1,395,697)	(902,841)
Withdrawn banknotes		233	180
Revenues from shareholdings	5	46,094	54,083
Value adjustments of domestic asset prices	6	(552,480)	46,677,691
Value adjustments of foreign asset prices	6	(5,353,335)	(2,896,298)
Valuation adjustments of gold	7	1,088,994	861,025
Exchange rate gains on foreign exchange transactions	8	14,001,731	28,389,483
Reversed impairment of claims	13	0	4,212,827
		<u>9,092,898</u>	<u>77,670,481</u>
Outcome before operating expense		(5,064,590)	65,563,571
Operating expenses			
Salaries and related expenses	9	(2,780,915)	(2,868,652)
Other operating expenses	10	(870,586)	(1,161,519)
Expense due to banknotes and coin	12	(309,034)	(148,548)
Depreciation of property and equipment	27	(166,519)	(159,261)
		<u>(4,127,055)</u>	<u>(4,337,980)</u>
Impact of non-consolidated companies	29	1,930,670	0
Operating (loss) profit before tax and exchange rate difference		(7,260,975)	61,225,590
Income tax	15	(61,606)	(7,176,844)
(Loss) profit without exchange rate difference		(7,322,581)	54,048,746
Exchange rate difference	14	(15,931,345)	(88,745,168)
Loss for the year		<u>(23,253,926)</u>	<u>(34,696,422)</u>

Amounts are in ISK thousands.

Balance Sheet 31 December 2017

Assets	Notes	2017	2016
Gold	17	8,731,798	8,309,617
Foreign assets	18-21	668,331,558	797,711,719
FX balance with the IMF	22	10,389,136	10,596,223
Domestic financial assets	23-26	61,885,567	51,446,827
Fixed operational assets	27	6,192,902	4,793,857
Other assets	29	8,250,889	3,212,506
Assets		763,781,851	876,070,748
Equity and liabilities			
Capital		86,911,446	85,634,079
Uncalled capital	38	(55,410,446)	(54,133,079)
Revaluation of real estate and liquid assets		5,589,826	4,250,168
Translation reserve		(8,359)	(8,359)
Unrealised share in profit of associates	39	8,097,639	34,770,780
Other equity (negative)		(22,978,007)	(26,446,217)
Equity	40	22,202,098	44,067,372
Banknotes and coin	31	68,007,394	62,327,943
Foreign liabilities	32	23,046,769	24,539,750
Counterpart to IMF	22	16,698,397	17,030,072
Deposits of financial institutions	33	102,388,236	71,157,714
Other deposits	34	226,790,418	307,826,302
Domestic financial liabilities	35	303,821,539	340,036,916
Pension obligations	36	210,733	241,090
Other liabilities	37	616,266	8,843,589
Liabilities		741,579,753	832,003,376
Equity and liabilities		763,781,851	876,070,748

Statement of Cash Flows 2017

	2017	2016
Operating activities		
Collected interest income	11,381,562	25,451,857
Paid interest expense	(27,604,335)	(27,639,596)
	(16,222,773)	(2,187,739)
Collected service revenues	1,066,420	871,077
Paid service expense	(1,346,747)	(586,452)
Paid-in dividends on shareholdings	46,094	54,083
	(16,457,007)	(1,849,032)
Paid operating expense	(3,713,018)	(4,029,370)
Cash and equivalents to operations w/o tax	(20,170,025)	(5,878,402)
Paid income tax	(25,027)	(815,592)
Net cash to operating activities	(20,195,052)	(6,693,994)
Investment activities		
Purchased property and equipment	(232,017)	(191,946)
Dividends paid by non-consolidated companies	28,700,000	0
Appropriated assets, sales net of supplements	0	5,517,104
Ownership shares sold	0	126,683
Treasury securities purchased	(51,875,561)	(22,647,596)
General claims collected	0	66,421,568
Securities sold	0	61,722,770
Instalments on securities, etc.	48,451,135	122,531,809
Gold purchased	0	(42,900)
Securities purchased in international reserves	(135,427,621)	(545,835,931)
Securities sold in international reserves	231,453,345	269,232,370
Subsidiaries' investment tax	0	(434,913)
Special drawing rights with the IMF	0	(9,082,306)
	121,069,281	(52,683,287)
Financing activities		
Banknotes and coin	5,679,451	6,656,806
Certificates of deposit	(35,736,879)	72,202,706
Term deposits	(1,010,000)	48,270,000
Foreign currency deposits	(94,120,268)	(90,752,650)
DMB deposits	34,915,997	(3,491,069)
Deposits, other parties	(4,553,017)	27,418,448
Deposits, central government	9,505,746	(22,134,304)
Deposits, companies outside the group	(30,272,248)	0
Swap agreements	(105,142)	(109,874)
	(115,696,360)	38,060,063
Changes in cash position		
Foreign bank deposits, decrease	(14,822,130)	(21,289,493)
Exchange rate difference on bank deposits	(309,172)	3,343,797
Foreign cash balance at beginning of year	111,863,281	129,808,977
Foreign cash balance at year-end	96,731,979	111,863,281

Amounts are in ISK thousands.

Statement of Changes in Equity 2017

	Initial capital	Uncalled capital	Real estate revaluation	Translation reserve	Unrealised share in profit of associates	Other equity (negative)	Total equity
Equity 1 Jan 2016	83,501,000	(52,000,000)	4,299,112	(12,572)	0	42,972,042	78,759,582
Indexation of uncalled capital	2,133,079	(2,133,079)					0
Loss for the year 2016					34,770,780	(69,467,203)	(34,696,423)
Translation reserve				4,213			4,213
Depreciation of revalued assets 2016			(48,944)			48,944	0
Equity 31 Dec 2016	85,634,079	(54,133,079)	4,250,168	(8,359)	34,770,780	(26,446,217)	44,067,372
Equity 1 Jan 2017	85,634,079	(54,133,079)	4,250,168	(8,359)	34,770,780	(26,446,217)	44,067,372
Indexation of uncalled capital	1,277,367	(1,277,367)					0
Restricted dividends paid					(28,795,301)	28,795,301	0
Loss for the year 2017					2,122,159	(25,376,085)	(23,253,926)
Real estate revaluation			1,388,652				1,388,652
Depreciation of revalued assets 2017			(48,994)			48,994	0
Equity 31 Dec 2017	86,911,446	(55,410,446)	5,589,826	(8,359)	8,097,639	(22,978,007)	22,202,098

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 2017. Revenues and expenses in foreign currency are converted using the exchange rate on the transaction date.

	Average exchange rate for the year		End-of-period exchange rate	
	2017	2016	2017	2016
Euro (EUR).....	120.54	133.59	125.05	119.13
US dollar (USD).....	106.78	120.67	104.42	112.82
Pound sterling (GBP).....	137.45	163.80	140.98	138.91
Canadian dollar (CAD).....	82.36	91.08	83.32	83.72
Danish krone (DKK).....	16.20	17.94	16.80	16.02
Norwegian krone (NOK).....	12.93	14.37	12.73	13.11
Swedish krona (SEK).....	12.52	14.13	12.71	12.43
Swiss franc (CHF).....	108.43	122.50	107.07	110.81
Japanese yen (JPY).....	0.95	1.11	0.93	0.97
Polish zloty (PLN).....	28.30	30.62	29.97	26.92
Chinese yuan (CNY).....	15.80	18.18	16.05	16.25

Indexed assets and liabilities

- Indexed assets and liabilities are entered with accrued indexation as of year-end 2017, using the index value of January 2018, which reflects year-end 2017 price levels. Indexation is recognised in the profit and loss account, with interest.

Portfolio investment

- Securities in the Bank's international 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 international 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 2017

Interest income

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

	2017	2016
<i>Interest income on domestic assets:</i>		
Interest income on overnight loans	8,032	2,707
Interest income on marketable securities	3,882,477	1,395,279
Interest income on indexed securities	0	1,016,769
Interest income on other domestic assets	598,185	4,422,054
	<u>4,488,695</u>	<u>6,836,809</u>
<i>Interest income on foreign assets:</i>		
Interest income on gold	0	18,262
Interest income on bank accounts	479,630	214,920
Interest income on securities	8,197,881	7,798,714
Interest income on other foreign assets	453,040	319,789
	<u>9,130,552</u>	<u>8,351,686</u>

- Interest income on domestic assets declined by 2.3 b.kr. from the year 2016, or by 34%, owing mainly to retirement of loans.
- In 2017, a total of 13 overnight loans were granted in the amount of 18.6 b.kr., as opposed to 19 overnight loans totalling 10.7 b.kr. in 2016.
- Interest income on marketable securities increased by 2.5 b.kr. 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 and other domestic assets declined markedly between years because of asset sales by companies owned by the Bank.
- There was no interest income on gold in 2017. The Bank has not loaned out gold since June 2016.
- Interest income on foreign bank accounts rose by 264.7 m.kr. between years.
- Interest income on foreign securities rose by 399.2 m.kr. between years.

Interest expense

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

	2017	2016
<i>Interest expense on domestic liabilities:</i>		
Interest expense on certificates of deposit	224,355	128,337
Interest expense on term deposits	16,807,194	15,502,190
Interest expense on current accounts	7,168,385	5,328,878
Interest expense on Treasury current accounts	2,765,448	4,747,136
Interest expense on foreign currency accounts	159,325	483,998
Interest expense on other domestic liabilities	451,989	740,129
	<u>27,576,697</u>	<u>26,930,669</u>
<i>Interest expense on foreign liabilities:</i>		
Interest expense on balance with IMF	86,678	14,952
Interest expense on foreign bank accounts	107,574	339,069
Interest expense on foreign borrowings	5,786	10,716
	<u>200,038</u>	<u>364,737</u>

- Interest expense on domestic liabilities changed marginally between years, rising by 2.4%.
- Issuance of certificates of deposit commenced again in 2016, in connection with capital account liberalisation measures.
- Interest expense on term deposits totalled 16.8 b.kr. in 2017, as opposed to 15.5 b.kr. in 2016. 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 rose by 1.8 b.kr., or 34.5%. The Bank's current account rate was 4.75% at the beginning of 2017 and 4.00% at the year-end.
- Interest expense on Treasury current accounts declined by 41.7% between years.
- Interest expense on foreign bank accounts stems from negative interest on deposit balances.
- Interest expense on foreign liabilities declined by 45.2% between years.

Service revenues

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

	2017	2016
Revenues from payment intermediation	1,095,210	1,065,359
Revenues from market transactions	128,470	130,233
Other service revenues	33,680	78,740
	<u>1,257,360</u>	<u>1,274,332</u>

- Revenues from payment intermediation derive from Greiðsluveitan ehf., a company owned by the Bank.

Service expenses

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

	2017	2016
Expenses from payment intermediation	509,685	578,250
Expenses due to foreign currency auctions	793,326	121,323
Borrowing expense	47,993	31,914
Expenses due to securities transactions	44,693	54,175
Other service expenses	0	117,179
	<u>1,395,697</u>	<u>902,841</u>

- Service expenses rose by 55% 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):

	2017	2016
Dividend income from Bank for International Settlements	46,094	39,644
Other dividends	0	14,439
	<u>46,094</u>	<u>54,083</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):

	2017	2016
<i>Changes in fair value</i>		
Domestic securities	(778,731)	46,178,627
Domestic derivatives.....	226,251	(904,780)
Foreign securities.....	(5,198,352)	(3,714,244)
Foreign securities funds	72,080	(56,122)
Foreign derivatives.....	(227,062)	874,068
<i>Price adjustments</i>		
Appropriated assets	0	1,403,844
	<u>(5,905,814)</u>	<u>43,781,392</u>

- The failed financial institutions' settlement with ESÍ took place in 2016, resulting in a large capitalisation entry due to valuation adjustments of domestic bonds and claims.

<i>Nominal value of foreign securities and funds, by currency:</i>	2017	2016
EUR	1,594,000,000	1,954,000,000
GBP.....	545,000,000	525,000,012
USD	2,555,100,000	3,093,000,000
CNY.....	61,555	61,555

Value adjustment of gold

7. The increase in the Bank's gold reserves, at constant exchange rates, totalled 1,089 m.kr. in 2017, as opposed to just over 861 m.kr. in 2016. The market price of gold was 1,302.8 US dollars per ounce at year-end 2017, as compared with 1,147.5 US dollars per ounce at the beginning of the year, an increase of 13.5% year-on-year.

Exchange rate gains (losses) on foreign exchange transactions

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

	2017	2016
Exchange rate gains due to offshore króna auction	14,386,427	29,187,804
Exchange rate losses on foreign exchange transactions ..	(384,696)	(798,321)
	<u>14,001,731</u>	<u>28,389,483</u>

- Foreign exchange transactions in connection with the 2017 offshore króna auction generated exchange rate gains of 14.4 b.kr., as opposed to a gain of 29.2 b.kr. in 2016.
- 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):

	2017	2016
Wages and salaries	2,248,537	2,295,616
Pension fund	319,535	316,182
Salary-related expenses	202,425	233,360
Contribution to pension obligations	10,418	23,494
	<u>2,780,915</u>	<u>2,868,652</u>
Number of man-years	189	197

- In 2017, total remuneration to the Governor and the Supervisory Board amounted to 60.6 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 Governors and the Supervisory Board in 2017 specify as follows (in ISK millions):

	2017	2016
<i>Governor</i>		
Már Gudmundsson	25.0	24.4
<i>Deputy Governor</i>		
Arnór Sighvatsson	22.6	22.1
<i>Supervisory Board</i>		
Thórunn Gudmundsdóttir, Chairman	2.8	2.8
Sveinn Agnarsson, Deputy Chairman	1.4	0.0
Jón Helgi Egilsson, Deputy Chairman	0.7	2.1
Other Supervisory Board members and alternates	8.0	8.1
	<u>60.6</u>	<u>59.5</u>

Other operating expenses

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

	2017	2016
Outsourced services	461,775	712,607
Operation of property and liquid assets	221,436	256,497
Sundry operational items	187,375	192,415
	<u>870,586</u>	<u>1,161,519</u>

Remuneration to auditors

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

	2017	2016
Auditing of annual accounts and consolidated accounts		
Deloitte ehf.	26,746	36,620
Consultancy and other services		
Other auditing firms	4,961	32,527
	<u>31,708</u>	<u>69,147</u>

Expense due to banknotes and coin

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

	2017	2016
Banknote printing	308,096	0
Minting of coins	0	146,988
Equipment	938	1,559
	<u>309,034</u>	<u>148,548</u>

- During the year, 10,000 kr. and 1,000 kr. banknotes were printed and put into circulation.

Reversed impairment of claims

13. Impairment of claims was reversed in 2016, owing to larger-than-expected recoveries of ESÍ claims against failed financial institutions.

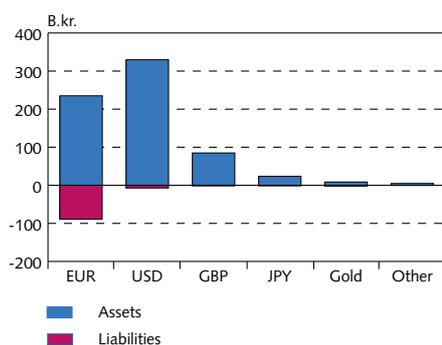
Exchange rate difference

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

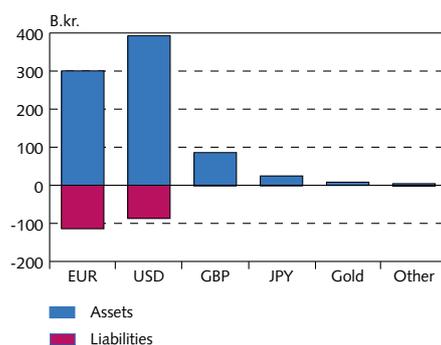
	2017	2016
Gold	(666,813)	(1,382,685)
International Monetary Fund	(212,992)	(1,845,952)
Foreign bank deposits	565,751	(24,187,756)
Foreign securities and funds	(12,720,240)	(96,157,327)
Foreign current liabilities	(60,946)	450,632
Foreign loans, FX accounts	(2,985,234)	37,650,134
Derivatives	149,027	(2,720,407)
Other	102	(551,808)
	<u>(15,931,345)</u>	<u>(88,745,168)</u>

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

	2017	2016
USD	-7.45	-12.94
EUR	4.97	-15.70
GBP	1.49	-27.67
NOK	-2.91	-11.11
DKK	4.82	-15.39
SEK	2.25	-19.25
JPY	-3.91	-10.29
CHF	-3.38	-15.09
CAD	-0.48	-10.24
XDR	-2.03	-15.53
CNY	-1.24	-18.59

Total assets and liabilities in foreign currency
2017

Source: Central Bank of Iceland.

Total assets and liabilities in foreign currency
2016

Source: Central Bank of Iceland.

Income tax

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ANNUAL REPORT 2017

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):

	2017	2016
Central Bank of Iceland Holding Company ehf. (ESÍ)	0	(7,074,040)
Greiðsluveitan ehf.	(61,606)	(23,829)
Hilda ehf.	0	(78,975)
	<u>(61,606)</u>	<u>(7,176,844)</u>

- Income tax payable in 2017 amounts to 67.4 m.kr.

Effective income taxes specify as follows (in ISK thousands):

	2017		2016	
	Amount	%	Amount	%
Profit of companies owned by the Bank	308,013		41,947,624	
Tax rate	(61,603)	-20.0	(8,389,525)	-20.0
Non-deductible expense.....	(3)	0.0	1,627	0.0
Share in earnings of Bank-owned companies not entering a tax credit.....	0	0.0	151,356	0.36
Deductible dividends received.....	0	0.0	1,658	0.00
Tax effect of capital gains/losses on sale of shares..	0	0.0	(5,953)	-0.01
Change in write-down of income tax	0	0.0	1,063,993	2.54
Income tax according to profit and loss.....	<u>(61,606)</u>	<u>-20.0</u>	<u>(7,176,844)</u>	<u>-17.1</u>

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 value adjustment reserve 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 eq-

uity. The Bank can thereby enter unrealised gains to the value adjustment reserve. 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 value adjustment reserve 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):

	2017	2016
Net interest expense.....	(14,157,488)	(12,106,911)
Value adjustment, realised and unrealised.....	(4,816,821)	48,855,244
Exchange rate difference, realised and unrealised.....	(1,929,615)	(60,355,686)
Income from shareholdings.....	46,094	54,083
Other income.....	3,188,029	1,274,332
Operating expenses.....	(5,522,519)	(5,240,641)
Income tax.....	(61,606)	(7,176,844)
Loss for the year.....	<u>(23,253,926)</u>	<u>(34,696,422)</u>

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

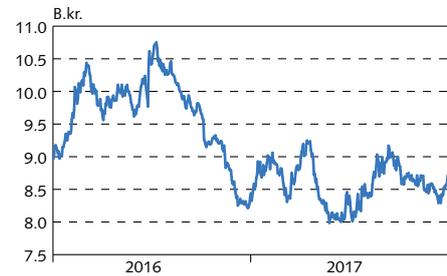
	2017	2016
Balance at beginning of year.....	0	0
Value adjustment of foreign securities.....	(4,678,209)	(3,500,976)
Value adjustment of domestic securities.....	(515,341)	496,909
Exchange rate difference.....	(5,761,725)	(77,016,983)
Value adjustment of gold.....	1,088,994	861,025
Transferred to retained earnings.....	9,866,281	79,160,025
Balance at year-end.....	<u>0</u>	<u>0</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 accounts is 23.3 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 2017.

Gold

17. The Bank's holdings in gold amounted to 64,186.28 ounces at year-end 2017. Holdings in gold, entered at fair value as of year-end 2017, were valued at 1,302.8 US dollars, or 136,038 kr., per ounce. Thus the Bank's holdings in gold were valued at 8.7 b.kr. as of year-end 2017.

Developments in gold holdings



Source: Seðlabanki Íslands.

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

	2017	2016
Balance at beginning of year	8,309,617	8,790,287
Purchases during the year	0	42,900
Value adjustment	1,088,994	861,025
Exchange rate difference	(666,813)	(1,382,685)
Change in accrued interest	0	(1,909)
Balance at year-end	<u>8,731,798</u>	<u>8,309,617</u>

Foreign assets

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

	2017	2016
Foreign bank deposits	96,731,979	111,863,281
Foreign securities	552,121,469	665,982,011
Foreign securities funds	1,114,998	1,126,693
Special drawing rights (SDR) with the IMF	16,673,764	16,963,159
Foreign derivatives	833,022	937,766
Foreign assets not held in reserves	856,326	838,808
	<u>668,331,558</u>	<u>797,711,719</u>

- Foreign derivatives are assessed at fair value following amendments made to the Annual Accounts Act in June 2016.

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

	2017	2016
Balance in foreign central banks	50,723,863	109,881,196
Deposits with the Bank for International Settlements	44,900,616	366
Balance in other foreign banks	1,107,500	1,981,719
	<u>96,731,979</u>	<u>111,863,281</u>
Deposits available for withdrawal	51,780,492	111,863,281
Term deposits, available within 3 months	44,951,487	0
	<u>96,731,979</u>	<u>111,863,281</u>

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

	2017	2016
Balance at beginning of year	667,108,704	490,663,410
Purchases during the year	135,427,621	545,835,931
Sold and collected during the year	(231,453,345)	(269,462,944)
Value adjustment	(5,126,272)	(3,770,366)
Exchange rate difference	(12,720,240)	(96,157,327)
Balance at year-end	<u>553,236,467</u>	<u>667,108,704</u>

21. Foreign assets not held in international reserves

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

	2017	2016
Shareholdings in the Bank for International Settlements ..	184,486	184,486
Other assets not held in international reserves	671,840	654,322
	<u>856,326</u>	<u>838,808</u>

International Monetary Fund (IMF)

22. Iceland's quota with the International Monetary Fund (IMF) totalled SDR 321.8 million at year-end 2017. 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. The SDR allocation totalled SDR 112.2 million.

Assets:	SDR (thous.)	ISK (thous.)
Central Bank of Iceland quota	321,800	47,842,006
IMF deposit with Central Bank of Iceland	(251,919)	(37,452,870)
Central Bank's FX balance with IMF	69,881	10,389,136
Central Bank's deposit balance with IMF	112,153	16,673,764
	<u>182,033</u>	<u>27,062,900</u>
<i>Liabilities:</i>		
Counterpart to IMF allocations	112,319	16,698,397
IMF current account with Central Bank of Iceland	7	1,009
	<u>112,325</u>	<u>16,699,405</u>

Domestic financial assets

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

	2017	2016
Financial institutions	84,379	4,664,896
Treasury	55,515,527	40,815,449
Other parties	6,285,661	5,966,481
	<u>61,885,567</u>	<u>51,446,827</u>

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

	2017	2016
Derivatives	0	77,745
Deposits	6,495	4,207,489
Loans	77,884	379,661
	<u>84,379</u>	<u>4,664,896</u>

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

	2017	2016
Bonds	0	28,754,996
Treasury bonds	55,515,527	12,060,453
	<u>55,515,527</u>	<u>40,815,449</u>

- The Treasury is authorised at any time to make extra payments or retire the entire debt without a prepayment penalty. The Treasury paid the bond in full in May 2017.

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

	2017	2016	2015	2014	2013
Balance at beginning of year ...	28,754,996	90,632,442	145,622,896	172,034,789	170,865,296
Reduction of principal				(26,000,000)	
Dividends allocated to principal			(1,905,815)		
Indexation					4,954,164
Accrued interest	(255,346)	(377,445)	(40,454)	(411,893)	978,760
Payment	(28,499,651)	(61,500,000)	(53,044,185)		(4,763,431)
Balance at year-end	0	28,754,996	90,632,442	145,622,896	172,034,789

- 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):

	2017	2016
Housing Bonds	6,168,077	2,266,864
Other parties	117,584	3,699,617
	6,285,661	5,966,481

Fixed operational assets

27. The Bank's real estate holdings were capitalised at an adjusted value based on the appraised value at the end of 2005. Because of amendments made to the Annual Accounts Act in summer 2016, the Bank's real estate must be reappraised annually, as it has previously been reappraised. Therefore, at the end of 2017, a new reappraisal of real estate was carried out. The reappraisal of one of the Bank's properties, Einholt 4, was based on an appraisal from an impartial real estate agent, resulting in an adjustment in book value from 339 m.kr. to 490 m.kr. Other Bank-owned real estate is reappraised internally by the Bank, using the listed official property value as of the year-end and a new estimate of the price per square metre, using the 2005 appraisal as a reference. As a result of this appraisal, the previous book value increases from 3,642 m.kr. to 4,880 m.kr. Because the said reappraisal is to be carried out annually pursuant to the Annual Accounts Act, all of the Bank's real estate will be reappraised in accordance with an impartial real estate agent's appraisal at year-end 2018. 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 assets into revenue-generating condi-

tion. The revaluation method uses fair value on the date the fixed operational assets are revalued, less depreciation and impairment.

- Tangible operational assets as of year-end 2017 specify as follows (in ISK thousands):

	<i>Land</i>	<i>Real estate</i>	<i>Liquid assets</i>	<i>Libraries and collections</i>	<i>Total</i>
<i>Cost price and valuation</i>					
Cost price at beginning of year 2016 ...		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 (valuation)			(1,303)		(1,303)
Capital gain on sales			317		317
Cost price at beginning of year 2017 ...	0	98,901	947,807	9,687	1,056,395
Valuation at beginning of year 2017 ...	24,000	4,575,331	30,226	237,000	4,866,557
Total at beginning of year 2017	24,000	4,674,232	978,033	246,687	5,922,952
Special revaluation		1,388,652			1,388,652
Capitalised during the year			177,099		177,099
Disposals during the year (cost price)			(14,511)		(14,511)
Cost price at year-end 2017	0	98,901	1,110,395	9,687	1,218,983
Valuation at year-end 2017	24,000	5,963,983	30,226	237,000	6,255,209
Total at year-end 2017	24,000	6,062,884	1,140,621	246,687	7,474,192
<i>Depreciation</i>					
Cost price at beginning of year 2016 ...		8,825	471,391		480,216
Valuation at beginning of year 2016 ...		537,219	30,226		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 beginning of year 2017 ...	0	9,966	502,690	0	512,656
Valuation at beginning of year 2017 ...	0	586,213	30,226	0	616,439
Total at beginning of year 2017	0	596,180	532,916	0	1,129,095
Depreciation for the year at cost price ..		1,141	116,570		117,711
Depr. for the year at valuation price		48,994			48,994
Disposals during the year (cost price) ...			(14,511)		(14,511)
Cost price at year-end 2017		11,108	604,749		615,856
Valuation at year-end 2017		635,208	30,226		665,433
Total at year-end 2017	0	646,315	634,974	0	1,281,290
<i>Book value</i>					
Book value at beginning of year 2016 ..	24,000	4,128,188	414,032	245,126	4,811,346
Book value at beginning of year 2017 ..	24,000	4,078,052	445,118	246,687	4,793,857
Book value at year-end 2017	24,000	5,416,569	505,647	246,687	6,192,902
Annual depreciation rate	0%	1-3%	10-33%	0%	

- The official year-end property valuation of tangible operational assets was 4.9 b.kr.

Deferred tax

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

	<i>Asset</i>	<i>Liability</i>	<i>Total</i>
Balance as of 1 January 2016	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
Calculated income tax for year 2017	(61,606)		(61,606)
ESÍ transferred from the group	(150,935)	1,764	(149,171)
Income tax for payment in 2018	67,426		67,426
Balance as of 31 December 2017	<u>4,056</u>	<u>0</u>	<u>4,056</u>

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

	2017	2016
Fixed operational assets	5,315	79,748
Precautionary write-down of claims	(265)	68,192
Deferred exchange rate difference	(995)	20,098
Write-down of tax credit due to uncertainty	0	(20,631)
	<u>4,056</u>	<u>147,407</u>

Other assets

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

	2017	2016
Equities	0	220,008
Shares in subsidiaries and associates	7,911,633	10,000
Appropriated assets and real estate held for sale	0	1,164,916
Deferred tax assets	4,056	149,171
Investment tax withheld	6,557	1,310,873
Other assets	328,644	357,538
	<u>8,250,889</u>	<u>3,212,506</u>

- In October 2017, it was agreed at a shareholders' meeting to wind up the Central Bank of Iceland Holding Company ehf. (ESÍ), and a resolution committee was then appointed for the company. Earlier in the year, Hilda ehf. and SPB ehf. were similarly subjected to winding-up proceedings. For this reason, and because these companies, due to their small size, have had negligible impact on the operations and balance sheet of the group, ESÍ is held outside the Central Bank of Iceland group, and the ownership share is entered among Shares in subsidiaries and associates, under Other assets.

Associates are valued using the equity method:

	<i>Location</i>	<i>Ownership share</i>	<i>Primary activities</i>
Central Bank of Iceland Holding Company ehf. (ESÍ)	Iceland	100%	Holding company
Holdings in subsidiaries and associates specify as follows (in ISK thousands):			
		2017	2016
Balance at beginning of year		10,000	139,176
(Sold) Purchased and taken over during the year		0	(77,931)
ESÍ transferred from the group		34,670,963	0
Dividend paid		(28,700,000)	0
Share in earnings		1,930,670	0
Impairment		0	(51,245)
Balance at year-end		7,911,633	10,000

The consolidated entity and companies owned by the Bank

30. Companies owned by the Bank:

	<i>Location</i>	<i>Ownership share</i>	<i>Primary activities</i>
<i>Companies within the group:</i>			
Greiðsluveitan ehf.	Iceland	100%	Payment system operations
<i>Companies outside the group:</i>			
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

Banknotes and coin

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

<i>Banknotes:</i>	2017	2016
10,000 krónur	33,577,500	27,742,500
5,000 krónur	22,788,500	23,868,500
2,000 krónur	220,000	229,000
1,000 krónur	6,084,500	5,535,500
500 krónur	1,559,250	1,445,000
	64,229,750	58,820,500
<i>Coin:</i>		
100 krónur	2,335,500	2,142,300
50 krónur	638,090	592,740
10 krónur	561,430	537,410
5 krónur	125,169	120,454
1 króna	117,455	114,539
	3,777,644	3,507,443
Total issued banknotes and coin	68,007,394	62,327,943

Foreign liabilities

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

	2017	2016
Other liabilities	987	578,595
Certificates of deposit held by non-residents	23,045,783	23,961,155
	<u>23,046,769</u>	<u>24,539,750</u>

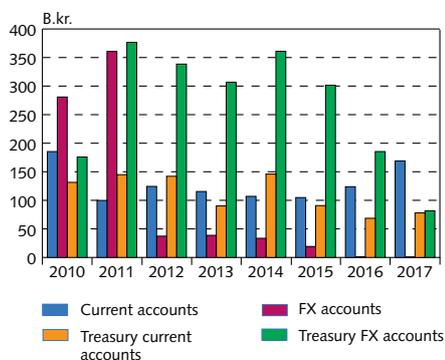
- Certificates of deposit held by non-residents derive from capital account liberalisation measures.

Deposits

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

	2017	2016
Current accounts of deposit institutions	79,678,344	44,762,347
Current accounts of other financial institutions	22,171,462	25,225,716
Foreign exchange accounts	538,430	1,169,651
	<u>102,388,236</u>	<u>71,157,714</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 2017, RTGS system collateral had a total market value of 16.5 b.kr.

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

	2017	2016
Treasury and Government institutions	77,993,940	68,589,391
FX accounts held by the Treasury and Government institutions	81,646,137	185,370,999
Non-residents with domestic deposits	582,130	2,209,016
Domestic deposits of other parties	66,568,210	51,656,896
	<u>226,790,418</u>	<u>307,826,302</u>

- Deposits held at the Bank by other parties decreased by 26.3%, to 226.8 b.kr. at year-end 2017, as opposed to 307.8 b.kr. at year-end 2016. The reduction is due for the most part to a reduction in the Treasury's foreign currency deposits, which in turn is due to a reduction in foreign liabilities.

Domestic financial liabilities

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

	2017	2016
Certificates of deposit	13,525,945	48,451,235
Term deposits	289,462,573	290,546,782
Derivative contract with the Treasury	833,022	1,038,899
	<u>303,821,539</u>	<u>340,036,916</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

36. 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 210.7 m.kr. as of year-end 2017. Payments related to these obligations totalled 40.8 m.kr. in 2017 and reduce the previously entered obligation. Increases in the Bank's obligations, after adjusting for payments, totalled 10.4 m.kr. in 2017 and are expensed.

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

	2017	2016
Pension obligations at beginning of year	241,090	257,906
Paid due to retirement	(40,775)	(40,310)
Change during the year	10,418	23,494
Pension obligations at year-end	<u>210,733</u>	<u>241,090</u>

Other liabilities

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

	2017	2016
Tax liabilities	0	1,764
Unpaid taxes	67,426	7,314,100
Other liabilities	548,840	1,527,725
	<u>616,266</u>	<u>8,843,589</u>

Callable equity

38. 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

39. Restricted earnings 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 totals 2.1 b.kr. for 2017 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

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

	2017	2016	2015	2014	2013
Equity at year-end (excl. revaluation)	16,612	39,817	74,460	70,679	85,409
Value adjustment of assets at year-end	5,590	4,250	4,299	4,348	4,450
Equity at year-end	<u>22,202</u>	<u>44,067</u>	<u>78,760</u>	<u>75,027</u>	<u>89,859</u>
<i>Stock figures/ratios at year-end</i>					
Total assets	763,782	876,071	916,977	953,589	1,002,200
Equity (excl. value adjustment of assets)	16,612	39,817	74,460	70,679	85,409
Equity ratio	2.9%	5.0%	8.6%	7.9%	9.0%

Treasury

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

	2017	2016
Interest income on bond	475,521	3,771,717
Interest income on Treasury bonds	3,268,010	1,287,833
	<u>3,743,531</u>	<u>5,059,550</u>
Interest expense on current accounts	2,765,448	4,747,136
Interest expense on foreign currency accounts	159,325	481,164
Interest expense on derivative contracts	316,245	296,304
	<u>3,241,017</u>	<u>5,524,604</u>
Net interest income/(expense)	<u>502,514</u>	<u>(465,054)</u>

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

	2017	2015
Bonds	0	28,754,996
Treasury bonds	55,515,527	12,060,453
	<u>55,515,527</u>	<u>40,815,449</u>
Treasury and Government institutions	77,993,940	68,589,391
Treasury, FX accounts	81,646,137	185,370,999
Derivative contract	833,022	1,038,899
	<u>160,473,099</u>	<u>254,999,289</u>

Guarantees, off-balance sheet assets, and other matters

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

- At year-end 2017, the Bank had access to loan facilities from the BIS in the form of repurchase agreements amounting to 400 million US dollars, or 41.8 b.kr. The Bank did not use these facilities in 2017.

Derivatives

43. Derivatives are classified according to whether the derivative is listed in the international reserves – that is, whether the contract is made with a foreign counterparty and in a foreign currency – or not. The value of derivatives is estimated and entered at fair value.

- 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

44. 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 country's international 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 international reserves, and domestic financial assets issued or guaranteed by the Treasury. The following is a statement on the main financial risk of the Central Bank, which is primarily due to the international reserves.

Reserve assets

- The international 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 international reserves.

Claims risk

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

<i>Type of issuer and counterparty in reserves:</i>	2017	2016
Treasuries	63.2%	68.8%
Government institutions	11.3%	9.0%
International institutions	5.6%	3.6%
Federal states	0.3%	0.0%
Covered bonds	0.0%	0.1%
Financial institutions	0.2%	1.1%
Deposits with central banks and BIS	13.2%	12.7%
Deposits with IMF	4.0%	3.4%
Deposits with financial institutions	0.9%	0.2%
Gold	1.3%	1.0%

- Credit ratings of issuers and counterparties in the international reserves

<i>Credit rating</i>	2017	2016
AAA	73.4%	75.2%
AA+	4.2%	17.1%
AA	15.0%	2.8%
AA-	0.9%	1.6%
A+	2.9%	0.0%
A	0.0%	0.2%
A-	0.1%	0.0%
BBB+	0.8%	2.0%
BBB	1.5%	0.0%
Gold	1.3%	1.0%

- Deposits with central banks and the Bank for International Settlements in the international 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 international 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 international reserves, by country of issuance/counterparty:

Country	Credit rating	2017	2016
United States	AAA	32.5%	42.6%
Germany	AAA	19.6%	22.0%
United Kingdom	AA	9.2%	8.6%
International institutions	AAA	8.9%	6.7%
Bank for International Settlements (BIS) ¹	AAA	6.6%	0.0%
France	AA	5.8%	5.6%
Netherlands	AAA	5.5%	5.8%
Japan	A+	2.8%	0.0%
Finland	AA+	2.0%	2.0%
Sweden	AAA	1.3%	0.9%
Italy	BBB	1.1%	1.0%
Luxembourg	AAA	1.1%	0.9%
Spain	BBB+	0.8%	0.8%
Austria	AA+	0.6%	0.5%
Denmark	AAA	0.5%	0.3%
Belgium	AA	0.4%	0.3%
China	A+	0.2%	0.1%
Norway	AAA	0.2%	0.4%
Switzerland	AAA	0.0%	0.0%
Canada	AAA	0.0%	0.2%
Ireland	A+	0.0%	0.2%
Gold	AAA	1.3%	1.0%

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 international 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 international reserves are invested in highly liquid securities, deposits in central banks, and deposits with the Bank for International Settlements. According to the rules of procedure 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 Bank for International Settlements. Issuers of securities must have a minimum credit rating of AA in order for the instruments to be

classified as highly liquid assets. Highly liquid assets accounted for 68% of the Central Bank's international reserves at the end of 2017.

- 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 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		8,310					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 and liquid assets		4,794					4,794
Other assets		1,752		1,311	149		3,213
	<u>1,365</u>	<u>825,780</u>	<u>0</u>	<u>2,249</u>	<u>41,703</u>	<u>4,974</u>	<u>876,071</u>
<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
	<u>0</u>	<u>458,342</u>	<u>292,075</u>	<u>80,340</u>	<u>82</u>	<u>1,165</u>	<u>832,003</u>
Foreign maturity gap	<u>0</u>	<u>611,097</u>	<u>0</u>	<u>359</u>	<u>739</u>	<u>0</u>	<u>612,194</u>
Domestic maturity gap	<u>1,365</u>	<u>(243,660)</u>	<u>(292,075)</u>	<u>(78,451)</u>	<u>40,883</u>	<u>3,809</u>	<u>(568,129)</u>
Total balance	<u>1,365</u>	<u>367,437</u>	<u>(292,075)</u>	<u>(78,091)</u>	<u>41,621</u>	<u>3,809</u>	<u>44,067</u>

Outstanding balances of assets and liabilities in domestic and foreign currency 2017 (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		8,732					8,732
Foreign assets		621,697	44,951	833	672		668,153
FX balance with the IMF		10,389					10,389
Domestic financial assets					78		78
Other assets		7					7
<i>ISK-denominated assets</i>							
Domestic financial assets		6			61,684	117	61,808
Fixed and liquid assets		6,193					6,193
Other assets		8,416		7			8,422
	<u>0</u>	<u>655,440</u>	<u>44,951</u>	<u>840</u>	<u>62,433</u>	<u>117</u>	<u>763,782</u>
<i>Foreign-denominated liabilities</i>							
Counterpart to IMF		16,698					16,698
Deposits of financial institutions		538					538
Other deposits		82,883					82,883
Domestic financial liabilities						833	833
Other liabilities		39					39
<i>ISK-denominated liabilities</i>							
Banknotes and coin		68,007					68,007
Foreign liabilities				23,047			23,047
Deposits of financial institutions		101,850					101,850
Other deposits		143,908					143,908
Domestic financial liabilities			289,463	13,526			302,989
Pension obligations				42	80	89	211
Other liabilities			510	67			577
	<u>0</u>	<u>413,923</u>	<u>289,972</u>	<u>36,682</u>	<u>80</u>	<u>922</u>	<u>741,580</u>
Foreign maturity gap	<u>0</u>	<u>540,666</u>	<u>44,951</u>	<u>833</u>	<u>750</u>	<u>(833)</u>	<u>586,367</u>
Domestic maturity gap	<u>0</u>	<u>(299,150)</u>	<u>(289,972)</u>	<u>(36,376)</u>	<u>61,604</u>	<u>29</u>	<u>(564,165)</u>
Total balance	<u>0</u>	<u>241,516</u>	<u>(245,021)</u>	<u>(35,843)</u>	<u>62,353</u>	<u>(804)</u>	<u>22,202</u>

Market risk

45. 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.
- 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 2016 and 2017:

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>
<i>Liabilities:</i>							
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 liabilities	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>

Currencies in financial assets and liabilities 2017 (in ISK millions):

Assets:	Euro	USD	Pound sterling	Yen	Other currencies	Gold	Total
Gold						8,732	8,732
Foreign assets	231,774	325,595	84,122	22,814	3,848		668,153
FX balance with the IMF	3,379	4,251	847	772	1,141		10,389
Domestic financial assets				44	34		78
Other assets	4	3					7
	<u>235,158</u>	<u>329,849</u>	<u>84,969</u>	<u>23,629</u>	<u>5,023</u>	<u>8,732</u>	<u>687,359</u>
<i>Liabilities:</i>							
Counterpart to IMF	5,432	6,832	1,361	1,240	1,834		16,698
Deposits of financial institutions	323				216		538
Other deposits	82,487	269	39		88		82,883
Domestic financial liabilities	833						833
Other liabilities	21	9	8				39
	<u>89,094</u>	<u>7,111</u>	<u>1,408</u>	<u>1,240</u>	<u>2,137</u>	<u>0</u>	<u>100,992</u>
Net ISK assets	<u>146,063</u>	<u>322,738</u>	<u>83,561</u>	<u>22,389</u>	<u>2,886</u>	<u>8,732</u>	<u>586,368</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 international 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 international reserves. The Bank did not loan gold to other 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, bears a Treasury guarantee, or consists of deposits held with the Central Bank. 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. 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 is limited. 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 delivery of additional collateral.
- Liquidity risk vis-à-vis the Central Bank is negligible. 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.

APPENDICES

Press releases from the Central Bank of Iceland 2017

No.	1	11 January 2017	Foreign exchange market, exchange rate developments, and foreign exchange reserves 2016	
	–	2	13 January 2017	Offshore króna assets as of end-2016
	–	3	8 February 2017	Statement of the Monetary Policy Committee 8 February 2017
	–	4	24 February 2017	New payment systems
	–	5	24 February 2017	Exemptions for derivatives trading for hedging purposes
	–	6	2 March 2017	Balance of payments in the fourth quarter of 2016 and the international investment position
	–	7	12 March 2017	Amended Rules on Special Reserve Requirements for New Foreign Currency Inflows
	–	8	12 March 2017	Central Bank of Iceland concludes agreement with owners of offshore króna assets
	–	9	12 March 2017	New Rules on Foreign Exchange
	–	10	15 March 2017	Statement of the Monetary Policy Committee 15 March 2017
	–	11	31 March 2017	New Central Bank rules on Liquidity Coverage Requirements
	–	12	4 April 2017	Purchase of offshore krónur by the Central Bank of Iceland
	–	13	5 May 2017	Central Bank purchase of offshore króna assets
	–	14	17 May 2017	Statement of the Monetary Policy Committee 17 May 2017
	–	15	18 May 2017	Central Bank suspends regular foreign currency purchases
	–	16	19 May 2017	Terms, conditions, purch. offshore kr. assets
	–	17	2 June 2017	Balance of payments in the first quarter of 2017 and the international investment position
	–	18	6 June 2017	Interest on Central Bank of Iceland certificates of deposit
	–	19	14 June 2017	Statement of the Monetary Policy Committee 14 June 2017
	–	20	23 June 2017	Central Bank purchase of offshore króna assets
	–	21	26 June 2017	Amendments to the Rules on Foreign Exchange - Restrictions on carry trade-related risk and foreign issuance of króna-denominated bonds
	–	22	23 August 2017	Statement of the Monetary Policy Committee 23 August 2017
	–	23	4 September 2017	Current account surplus 16.3 b.kr. in Q2 – net international investment position negative by 62 b.kr.
	–	24	4 October 2017	Statement of the Monetary Policy Committee 4 October 2017
	–	25	15 November 2017	Statement of the Monetary Policy Committee 15 November 2017
	–	26	4 December 2017	Current account surplus 68.1 b.kr. in Q3 – net IIP positive by 108 b.kr.
	–	27	13 December 2017	Statement of the Monetary Policy Committee 13 December 2017

Publications by the Central Bank of Iceland 2017

In Icelandic:

Ársskýrsla 2016

Fjármálastöðugleiki 2017, two issues

Peningamál 2017, four issues

Fjármálainnviðir 2017

Hagvísar 2017, four issues

Efnahagsmál, 9. rit: Samvirgni peningalegs og fjármálalegs stöðugleika, April 2017

Sérít Seðlabanka Íslands, 11. rit: Peningastefna byggð á verðbólgu-markmiði: Reynslan á Íslandi frá árinu 2001 og breytingar í kjölfar fjármálakreppunnar, September 2017.

In English:

Annual Report 2016

Financial Stability 2017, two issues

Monetary Bulletin 2017, four issues

Economic Indicators 2017, four issues

Special Publication no. 11: Monetary policy based on inflation targeting: Iceland's experience since 2001 and post-crisis changes (September 2017).

Central Bank of Iceland Working Paper No. 75, The Central Bank of Iceland's approach to stress testing the Icelandic banking system, by Eliisa Kaloinen, Jón Magnús Hannesson, Öundur Páll Ragnarsson, Harpa Jónsdóttur and Eggert Thröstur Thórarinsson (September 2017).

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

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Table 1 Central Bank interest rates¹

	<i>CBI current accounts, nominal rate</i>	<i>Reserve requirements, nominal rate</i>	<i>Overnight lending, discount rate</i>	<i>7-day collateral lending, nominal rate</i>	<i>28-day certificate of deposit, max. rate</i>	<i>7-day term deposits</i>
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
8 February 2017	4.75	4.75	6.75	5.75		5.00
15 March 2017	4.75	4.75	6.75	5.75		5.00
17 May 2017	4.50	4.50	6.50	5.50		4.75
14 June 2017	4.25	4.25	6.25	5.25		4.50
23 August 2017	4.25	4.25	6.25	5.25		4.50
4 October 2017	4.00	4.00	6.00	5.00		4.25
15 November 2017	4.00	4.00	6.00	5.00		4.25
13 December 2017	4.00	4.00	6.00	5.00		4.25

1. Rates on published day, except for current accounts and required deposits, which change on the 1st, 11th, or 21st of each month. From 14 December 2016 onwards, rates are changed on published day.

Table 2 Exchange rate indices

	Narrow trade index ¹	Average exchange rate index ²			Real exchange rate ³			
		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	84.9	3.2
2001	121.4	115.4	115.1	115.3	75.6	-13.0	73.0	-14.0
2002	118.5	112.0	111.7	112.0	80.1	5.9	78.6	7.7
2003	113.4	105.3	104.8	105.4	85.4	6.6	84.8	7.9
2004	112.1	103.1	102.4	103.5	88.2	3.3	86.5	1.9
2005	100.8	92.6	91.9	93.0	100.0	13.5	100.0	15.7
2006	112.7	103.4	102.6	104.0	93.7	-6.5	97.7	-2.3
2007	110.9	100.9	99.9	101.5	98.6	5.3	101.7	4.0
2008	157.3	141.9	140.9	142.4	78.2	-20.7	73.9	-27.3
2009	210.6	191.0	190.0	191.4	63.6	-18.7	50.2	-32.1
2010	204.0	185.0	184.4	185.0	67.7	6.4	56.3	12.2
2011	204.5	183.5	183.0	183.3	68.3	0.8	59.6	5.8
2012	209.1	189.0	188.6	188.8	68.7	0.5	60.5	1.6
2013	206.5	186.3	185.9	186.1	71.3	3.8	63.0	4.0
2014	195.1	177.2	176.2	177.5	76.0	6.7	68.4	8.6
2015	189.5	176.3	175.0	177.1	79.1	4.0	73.9	8.1
2016	169.4	158.9	158.1	159.1	89.2	12.8	85.7	15.9
2017	151.2	141.1	140.6	141.1	99.8	11.8	98.8	15.3

1. The index shows the average exchange rate of foreign currencies against the Icelandic króna. 3 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

	2013		2014		2015		2016		2017	
	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	33,577,500	52.3
5,000 kr.	33,311,000	75.3	28,156,000	59.9	26,056,000	49.6	23,868,500	40.6	22,788,500	35.5
2,000 kr.	294,000	0.7	260,000	0.6	238,000	0.5	229,000	0.4	220,000	0.3
1,000 kr.	3,927,000	8.9	4,216,500	9.0	4,876,000	9.3	5,535,500	9.4	6,084,500	9.5
500 kr.	1,178,750	2.7	1,210,750	2.6	1,280,000	2.4	1,445,000	2.5	1,559,250	2.4
Total	44,245,750	100.0	47,040,750	100.0	52,507,500	100.0	58,820,500	100.0	64,229,750	100.0
<i>Coin:</i>										
100 kr.	1,624,600	58.7	1,730,600	59.4	1,905,300	60.2	2,142,300	61.1	2,335,500	61.8
50 kr.	482,890	17.4	494,940	17.0	532,540	16.8	592,740	16.9	638,090	16.9
10 kr.	450,120	16.3	471,850	16.2	500,730	15.8	537,410	15.3	561,430	14.9
5 kr.	107,434	3.9	110,149	3.8	114,609	3.6	120,454	3.4	125,169	3.3
1 kr.	104,714	3.8	107,026	3.7	110,458	3.5	114,539	3.3	117,455	3.1
Total	2,769,758	100.0	2,914,565	100.0	3,163,637	100.0	3,507,443	100.0	3,777,644	100.0
Total in circulation	47,015,508		49,955,315		55,671,137		62,327,943		68,007,394	

Table 4 Summary of the accounts of deposit money banks¹

<i>M.kr. at year-end</i>	2011	2012	2013	2014	2015	2016	2017
<i>Assets:</i>							
Domestic assets, total	2,564,836	2,543,041	2,590,418	2,602,667	2,848,550	2,970,654	3,080,536
Cash and cash balances with Central Bank	121,303	159,955	184,106	139,069	294,597	385,042	378,701
Deposits in domestic banks	5,229	4,543	3,993	5,286	2,888	4,176	6,066
Domestic credit and marketable securities	2,186,617	2,184,177	2,211,173	2,314,376	2,421,376	2,461,081	2,582,960
Lending ²	1,766,476	1,774,800	1,860,835	1,939,689	2,025,061	2,136,566	2,357,793
Redeemed liabilities	969	531	364	237	56	32	172
Overdrafts	190,635	175,868	181,882	176,407	174,058	159,861	161,425
Bills	663	255	223	141	29	0	0
Unindexed bonds	836,334	732,824	754,046	774,870	778,048	794,271	860,692
Indexed bonds	847,355	807,573	834,788	783,035	815,027	902,996	989,598
Foreign currency bonds	722,556	549,114	402,652	362,942	349,405	320,431	366,185
Foreign currency overdrafts	34,825	20,838	20,208	21,269	20,322	34,321	29,812
Provisions	-866,860	-512,203	-333,329	-179,212	-111,884	-75,344	-50,091
Leasing contracts	38,356	40,273	40,860	40,654	47,144	51,174	49,970
Marketable bonds and bills	345,054	333,885	266,856	270,133	263,711	206,056	116,001
Equities	36,731	35,219	42,623	63,900	85,460	67,284	59,196
Derivatives	1,245	1,066	2,390	2,144	3,180	5,381	5,951
Share in associates	14,575	13,817	24,200	9,244	2,075	2,045	2,778
Share in affiliated undertakings	113,247	93,981	80,214	71,116	65,095	61,391	52,583
Other assets	122,619	85,502	84,342	61,433	59,339	51,539	51,496
Foreign assets, total	349,512	366,209	437,998	394,722	348,513	251,208	324,275
Deposits in foreign banks	67,083	101,666	84,187	91,729	99,074	56,299	77,887
Foreign credit marketable securities	277,742	254,542	348,582	297,602	243,646	188,183	233,895
Foreign lending	286,991	266,919	298,374	168,881	156,393	145,876	138,108
Provisions	-94,155	-101,040	-114,296	-6,405	-13,793	-13,457	-4,251
Marketable bonds and bills	81,593	83,331	163,054	133,415	99,227	53,590	85,778
Equities	3,313	5,332	1,451	1,709	1,818	2,175	14,260
Derivatives	315	1,227	864	1,167	1,955	2,328	7,951
Share in associates	0	3,945	0	0	0	0	0
Share in affiliated undertakings	1,726	1,914	1,320	1,076	26	23	16
Other assets	2,646	2,914	3,045	3,149	3,811	4,375	4,527
Assets, total	2,914,347	2,909,250	3,028,416	2,997,389	3,197,062	3,221,861	3,404,812
<i>Liabilities:</i>							
Domestic liabilities, total	2,316,087	2,279,183	2,333,757	2,242,985	2,256,318	2,073,439	2,156,184
Central Bank facilities	0	12,508	52,998	55,102	56,024	0	0
Deposits of residents, total	1,512,350	1,438,653	1,507,208	1,608,177	1,695,739	1,613,703	1,689,218
Current accounts	394,547	345,425	341,828	341,463	352,955	415,612	442,544
Current accounts in foreign currency	19,303	28,639	41,196	28,038	33,446	15,278	20,819
Sight deposits	553,501	500,901	515,790	572,154	552,629	519,050	571,616
Indexed deposits	223,018	219,437	210,213	192,856	178,820	163,112	153,826
Holiday pay accounts	7,462	7,922	8,446	9,125	10,134	11,280	12,412
Supplementary pension deposits	86,327	89,010	93,750	99,198	106,678	114,552	124,639
Other time deposits	228,192	247,319	295,985	365,343	461,077	374,818	363,363
Deposits from deposit taking corporations	66,198	70,418	133,816	17,351	4,593	1,521	1,555
Bond issue	134,623	150,962	179,333	181,652	234,480	301,280	379,085
Subordinated loans	55,358	58,966	55,129	54,239	31,152	1,078	1,253
Direct borrowing	450,992	418,802	279,614	229,196	145,407	65,234	1,797
Derivatives	29,825	49,102	34,837	21,153	19,780	9,867	8,853
Other liabilities	66,741	79,772	90,822	76,115	69,143	80,756	74,423
Foreign liabilities, total	153,335	121,549	143,927	150,800	282,531	508,325	591,271
Deposits from foreign deposit taking corporations	107,438	63,451	57,966	46,931	49,082	18,908	15,771
Deposits from foreign parties, other than deposit-taking corporations	44,205	57,786	67,362	66,266	50,766	76,405	65,788
Derivatives	1,692	142	128	125	1,238	1,375	2,581
Bond issue	0	0	18,294	37,262	175,207	406,055	494,280

Table 4 Summary of the accounts of deposit money banks (cont.)¹

<i>M.kr. at year-end</i>	2011	2012	2013	2014	2015	2016	2017
Direct borrowing	0	0	0	0	6,138	5,169	12,703
Other foreign liabilities	0	170	177	216	100	413	148
Total equity and minority interest	444,925	508,519	550,732	603,604	658,214	640,097	657,356
Total liabilities and equity	2,914,347	2,909,250	3,028,416	2,997,389	3,197,062	3,221,861	3,404,812

1. The latest data are preliminary. The data only represent DMBs that are operating at each time. 2. Loans that were acquired at a discount in autumn 2008 are published at claim value instead of book value as was done previously.

Table 5 Summary of the accounts of the banking system¹

<i>M.kr. at year-end</i>	2011	2012	2013	2014	2015	2016	2017
Foreign assets, total	1,396,981	906,155	925,622	924,958	1,001,522	1,067,803	1,011,728
Foreign credit and marketable securities	549,814	661,827	780,348	778,115	734,309	855,292	787,132
Other foreign assets	847,167	244,328	145,275	146,843	267,212	212,512	224,596
Foreign liabilities, total	553,059	315,129	316,217	239,804	313,771	547,041	618,902
Foreign bond issue	0	0	18,294	37,262	175,207	406,055	494,280
Other foreign liabilities	553,059	315,129	297,923	202,542	138,565	140,986	124,622
Domestic assets, total	2,981,214	2,902,883	2,862,512	2,832,981	2,792,887	2,669,461	2,778,716
Domestic credit and marketable securities	2,378,522	2,369,303	2,390,705	2,470,081	2,521,943	2,504,163	2,644,644
Treasury and Government institutions	413,844	402,619	393,879	371,800	309,627	206,613	125,204
Municipalities	18,801	15,430	12,844	18,931	19,626	18,365	21,387
Financial companies	63,144	58,819	46,745	82,318	51,252	46,698	58,444
Holding companies	431,930	303,495	234,287	179,256	177,708	147,368	136,909
Non-financial companies	1,525,343	1,304,039	1,171,214	1,102,579	1,160,414	1,201,628	1,325,851
Households	792,319	797,105	865,065	887,453	907,667	951,104	1,020,829
Non-profit institutions serving households	0	0	0	6,955	7,534	7,731	6,112
Provisions	-866,860	-512,203	-333,329	-179,212	-111,884	-75,344	-50,091
Other domestic assets	602,692	533,580	471,807	362,901	270,944	165,299	134,072
Domestic liabilities, total	3,825,136	3,493,909	3,471,917	3,518,135	3,480,637	3,190,224	3,171,542
Broad money and bonds (M4) ²	1,665,273	1,610,062	1,703,647	1,813,507	1,957,272	1,944,215	2,104,742
Domestic bond issue	134,623	150,962	179,333	181,652	234,480	301,280	379,085
Broad money (M3)	1,530,650	1,459,100	1,524,314	1,631,855	1,722,792	1,642,936	1,725,657
Time deposits	540,280	558,879	604,200	663,068	754,656	662,163	653,143
Money supply and sight deposits (M2)	990,370	900,222	920,114	968,788	968,135	980,772	1,072,515
Sight deposits	542,584	490,491	504,357	561,074	538,682	501,211	556,156
Money supply (M1)	447,786	409,730	415,757	407,713	429,453	479,561	516,359
Demand deposits	408,395	368,868	374,140	363,686	380,549	424,464	456,065
Notes and coin in circulation	39,391	40,862	41,617	44,028	48,904	55,097	60,294
Other domestic liabilities	2,159,863	1,883,847	1,768,270	1,704,628	1,523,365	1,246,008	1,066,800
Equity	528,702	606,618	640,539	678,631	736,973	684,165	679,558
Other domestic liabilities n.i.e.	1,631,161	1,277,228	1,127,731	1,025,997	786,392	561,844	387,242
Liabilities and equity, total	4,378,195	3,809,038	3,788,134	3,757,939	3,794,408	3,737,265	3,790,444

1. The latest data are preliminary. The data only represent 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 %¹

<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) ²
1 August 1988	12.0	21 May 1998	4.0 (1.5) ²
1 March 1989	11.0	21 March 2003	3.0 (1.0) ²
1 May 1990	10.0	21 December 2003	2.0 (0.0) ³
1 June 1990	7.0	21 October 2015	4.0 (0.0) ⁴
31 October 1991	6.0	21 December 2015	2.5 (0.0) ⁴
1 January 1992	7.0	21 June 2016	2.0 (0.0) ⁴

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 the Rules on Minimum Reserve Requirements, no. 870 of 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>2017</i>	<i>Non-indexed loans</i>	<i>Indexed loans</i>	<i>Penalty rates</i>	<i>General interest damage claims</i>
1 January	6.55	3.65	12.75	4.37
1 February	6.50	3.65	12.75	4.33
1 March	6.35	3.65	12.75	4.23
1 April	6.35	3.65	12.75	4.23
1 May	6.35	3.65	12.75	4.23
1 June	6.35	3.65	12.50	4.23
1 July	6.10	3.65	12.25	4.07
1 August	5.85	3.65	12.25	3.90
1 September	5.85	3.65	12.25	3.90
1 October	5.85	3.65	12.25	3.90
1 November	5.60	3.65	12.00	3.73
1 December	5.60	3.65	12.00	3.73
Average 2017	6.11	3.65	12.44	4.07
Average 2016	6.92	3.65	13.37	4.62

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

	<i>Non-indexed loans¹</i>		<i>Indexed loans¹</i>		<i>Penalty rates</i>		<i>Credit terms index, 12-month change³</i>
	<i>Nominal²</i>	<i>Real</i>	<i>Nominal²</i>	<i>Real</i>	<i>Nominal²</i>	<i>Real</i>	
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	14,5	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	7,2	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
2017	7,3	5,5	7,0	5,2	12,4	10,5	1,7

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 Iceland¹

M.kr.	Year-end					
	2011	2012	2013	2014	2015	2016
Assets:	1,585,775	1,074,954	1,003,777	957,277	948,340	900,649
<i>Foreign assets</i>	<i>1,047,469</i>	<i>539,947</i>	<i>487,624</i>	<i>530,236</i>	<i>653,009</i>	<i>816,596</i>
Gold	12,249	13,757	8,817	9,598	8,790	8,310
SDR	87,295	1,767	953	1,014	20,072	16,963
Currency balance with the IMF	3,525	3,710	3,326	3,447	3,369	10,596
Foreign deposits	672,144	113,242	42,578	35,375	129,809	111,841
Foreign securities	272,072	407,286	431,765	480,514	490,663	667,109
Other reserve assets	0	0	0	104	120	938
Other foreign assets	184	184	184	184	184	839
<i>Domestic assets</i>	<i>538,306</i>	<i>535,007</i>	<i>516,153</i>	<i>427,041</i>	<i>295,331</i>	<i>84,053</i>
<i>Deposit money banks</i>	<i>4,312</i>	<i>17,792</i>	<i>53,327</i>	<i>57,048</i>	<i>55,993</i>	<i>162</i>
Collateral loans	0	12,346	0	0	0	0
Overnight loans	0	0	0	0	0	0
Other claims in foreign currency	4,312	5,446	53,327	57,048	55,993	162
Other claims	0	0	0	0	0	0
<i>Other financial institutions</i>	<i>3,122</i>	<i>3,050</i>	<i>2,782</i>	<i>2,342</i>	<i>2,154</i>	<i>2,267</i>
Listed securities	3,122	3,050	2,782	2,342	2,154	2,267
Collateral loans	0	0	0	0	0	0
Overnight loans	0	0	0	0	0	0
<i>Central government</i>	<i>191,905</i>	<i>185,126</i>	<i>179,531</i>	<i>153,362</i>	<i>98,413</i>	<i>40,815</i>
Listed securities	18,582	13,965	7,192	7,374	7,357	12,060
Bonds receivable	173,323	171,161	172,339	145,989	91,056	28,755
Bonds in foreign currency	0	0	0	0	0	0
<i>Other sectors</i>	<i>334,320</i>	<i>324,423</i>	<i>275,912</i>	<i>209,728</i>	<i>134,187</i>	<i>36,183</i>
Sundry accounts	349	436	208	138	7,644	295
Equity holdings	4,688	10,475	25,207	30,053	11,682	35,889
Securities	329,283	313,512	250,498	179,537	114,862	0
<i>Properties</i>	<i>4,320</i>	<i>4,270</i>	<i>4,226</i>	<i>4,202</i>	<i>4,152</i>	<i>4,102</i>
<i>Other assets</i>	<i>327</i>	<i>344</i>	<i>374</i>	<i>358</i>	<i>433</i>	<i>524</i>
Liabilities and capital:	1,585,775	1,074,954	1,003,777	957,277	948,340	900,649
<i>Foreign liabilities</i>	<i>399,724</i>	<i>193,581</i>	<i>172,290</i>	<i>89,004</i>	<i>37,378</i>	<i>43,885</i>
Short-term	36,979	35,875	29,782	24,597	17,223	2,893
Long-term	341,604	135,492	122,610	43,786	0	23,961
IMF SDR allocation	21,141	22,214	19,898	20,621	20,156	17,030
<i>Domestic liabilities</i>	<i>1,102,274</i>	<i>783,273</i>	<i>741,680</i>	<i>793,247</i>	<i>832,202</i>	<i>812,697</i>
<i>Notes and coin</i>	<i>43,205</i>	<i>45,142</i>	<i>47,016</i>	<i>49,955</i>	<i>55,671</i>	<i>62,328</i>
<i>Deposit money banks</i>	<i>118,114</i>	<i>158,377</i>	<i>185,662</i>	<i>133,546</i>	<i>288,064</i>	<i>377,922</i>
Sight deposits	31,286	53,215	51,643	31,372	48,254	44,762
Time deposits	0	0	0	100,602	239,064	283,537
Certificates of deposit	70,015	100,658	126,689	0	0	48,451
Other claims	0	0	77	0	1	2
Sight deposits in foreign currency	16,813	4,504	7,253	1,572	744	1,170
<i>Other financial institutions</i>	<i>358,224</i>	<i>42,334</i>	<i>48,020</i>	<i>65,070</i>	<i>53,236</i>	<i>77,824</i>
Sight deposits	13,898	14,887	18,273	36,072	31,753	70,815
Time deposits	0	0	0	5,059	3,015	7,010
Certificates of deposit	8,511	4,716	6,420	0	0	0
Sight deposits in foreign currency	157,557	13,832	14,133	13,909	8,414	0
Time deposits in foreign currency	178,258	8,899	9,194	10,030	10,054	0
<i>Central government</i>	<i>528,816</i>	<i>489,189</i>	<i>404,706</i>	<i>514,372</i>	<i>392,458</i>	<i>255,995</i>
Treasury current accounts	143,851	141,052	88,022	143,215	89,054	66,379
Government institutions, current accounts	1,111	1,068	2,157	2,735	1,732	2,085
Treasury sight deposits in foreign currency	376,466	338,491	306,636	360,885	301,344	184,917
Governm. institutions foreign exch. deposits	0	0	0	0	0	454
Treasury time deposits in foreign currency	7,388	8,578	7,891	7,452	0	0
Other claims	0	0	0	84	328	2,160
<i>Other liabilities</i>	<i>53,915</i>	<i>48,230</i>	<i>56,276</i>	<i>30,304</i>	<i>42,774</i>	<i>38,628</i>
<i>Capital and reserves</i>	<i>83,777</i>	<i>98,100</i>	<i>89,807</i>	<i>75,027</i>	<i>78,760</i>	<i>44,067</i>

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

Month-end 2017

January	February	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
944,874	899,753	961,271	813,976	760,525	774,277	779,038	794,063	794,797	782,467	777,859	764,530
861,075	816,695	824,825	685,043	649,804	665,059	671,232	689,059	689,261	680,689	675,356	687,452
9,025	8,603	9,069	8,590	8,086	8,236	8,398	8,919	8,664	8,579	8,470	8,732
17,606	16,150	17,158	16,272	15,364	16,093	16,249	16,646	16,695	16,546	16,414	16,674
10,998	10,085	10,714	10,161	9,590	10,044	10,141	10,381	10,411	10,317	10,228	10,389
114,622	136,377	109,744	57,411	78,502	59,832	69,107	71,580	69,445	85,914	90,627	96,728
702,080	638,671	676,338	585,805	525,014	569,359	565,533	579,996	576,173	557,645	547,938	553,236
1,232	972	955	5,982	5,956	664	955	682	7,020	847	837	837
5,513	5,836	847	822	7,292	832	848	855	854	842	842	856
83,799	83,058	136,446	128,933	110,721	109,218	107,806	105,004	105,536	101,778	102,504	77,077
165	168	1,519	172	3,277	178	196	107	121	135	146	78
0	0	0	0	0	0	0	0	0	0	0	0
0	0	1,350	0	3,100	0	0	0	0	0	0	0
165	168	169	172	177	178	196	107	121	135	146	78
0	0	0	0	0	0	0	0	0	0	0	0
2,278	2,152	5,138	5,202	5,440	6,311	6,365	6,166	6,264	6,171	6,230	6,168
2,278	2,152	5,138	5,202	5,440	6,311	6,365	6,166	6,264	6,171	6,230	6,168
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
40,580	40,383	89,480	83,277	61,667	62,409	60,818	58,338	58,782	55,131	55,514	55,516
11,972	11,782	70,867	63,173	58,466	58,726	57,092	54,540	54,976	55,131	55,514	55,516
28,609	28,601	18,612	18,566	0	0	0	0	0	0	0	0
0	0	0	1,539	3,201	3,684	3,725	3,798	3,806	0	0	0
36,076	35,654	35,580	35,551	35,606	35,601	35,702	35,667	35,656	35,628	35,884	9,195
187	216	141	112	168	162	263	228	217	189	445	334
35,889	35,439	35,439	35,439	35,439	35,439	35,439	35,439	35,439	35,439	35,439	8,861
0	0	0	0	0	0	0	0	0	0	0	0
4,102	4,102	4,090	4,090	4,090	4,077	4,077	4,077	4,064	4,064	4,064	5,441
598	598	641	641	641	642	649	649	648	648	665	681
944,874	899,753	961,271	813,976	760,525	774,277	779,038	794,063	794,797	782,467	777,859	764,530
49,117	49,226	43,918	43,128	48,220	41,213	41,375	43,988	44,513	44,612	43,595	40,334
7,525	7,756	2,330	2,381	8,762	2,332	2,339	4,558	5,041	4,903	4,111	590
23,916	25,261	24,368	24,416	24,046	22,738	22,736	22,746	22,739	23,126	23,045	23,046
17,676	16,208	17,220	16,331	15,412	16,143	16,299	16,684	16,733	16,584	16,438	16,698
831,792	841,475	858,674	745,319	720,549	719,680	719,261	720,340	722,145	716,782	719,626	701,994
60,591	60,499	60,385	60,462	61,054	62,378	63,105	63,154	63,091	62,942	63,712	68,007
385,905	419,044	435,485	435,913	381,519	400,986	380,573	383,555	379,320	374,030	386,553	371,184
45,338	55,483	80,978	52,274	52,566	58,223	55,199	50,345	52,496	66,899	65,797	79,678
291,157	303,326	329,549	358,735	312,237	328,033	310,839	318,818	312,498	292,828	306,097	277,441
48,191	59,097	23,774	23,777	15,649	13,611	13,404	13,234	13,163	13,158	13,522	13,526
1	23	0	0	1	0	0	0	0	0	0	0
1,218	1,115	1,184	1,127	1,065	1,119	1,132	1,157	1,162	1,144	1,137	538
86,570	83,093	86,388	92,639	91,828	93,527	103,166	93,953	88,635	83,314	92,308	93,005
76,948	72,128	78,114	82,115	80,810	81,707	93,643	80,871	74,809	62,276	79,575	80,984
9,622	10,965	8,274	10,524	11,019	11,820	9,522	13,082	13,826	21,038	12,733	12,021
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
259,252	237,182	234,785	114,307	143,835	120,465	129,829	136,544	148,157	153,328	135,588	160,473
58,351	51,523	44,237	42,991	44,251	31,004	39,092	57,330	68,753	74,826	55,186	76,281
1,658	1,801	1,320	1,548	1,729	2,081	937	1,032	1,121	1,547	1,402	1,107
191,946	175,420	186,736	67,091	64,352	68,173	70,220	72,425	72,338	71,006	71,090	81,148
592	539	601	587	510	558	573	596	589	499	475	498
0	0	0	0	0	0	0	0	0	0	0	0
6,705	7,900	1,891	2,089	32,993	18,649	19,008	5,161	5,357	5,452	7,435	1,438
39,474	41,657	41,631	41,998	42,313	42,325	42,588	43,133	42,943	43,169	41,464	9,324
63,965	9,052	58,680	25,529	-8,245	13,383	18,402	29,735	28,138	21,072	14,639	22,202