



Annual Report 2015

ANNUAL REPORT 2015

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The Supervisory Board at the year-end 2015. Sitting, from left: Jón Helgi Egilsson, Thórunn Guðmundsdóttir, Chairman of the Board, and Ragnar Árnason. Standing, from left: Audur Hermannsdóttir, Björn Valur Gíslason, Ágúst Ólafur Ágústsson and Ingibjörg Ingvadóttir.

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

I Objectives and policy

The principal objective of the Central Bank of Iceland is to promote price stability. The Central Bank of Iceland shall also promote financial stability. With the approval of the Minister, the Bank has declared a numerical inflation target. The inflation target is defined in a joint declaration issued by the Icelandic Government and the Central Bank of Iceland on 27 March 2001 as a 2½% rise in the price of goods and services over the previous twelve months.¹ The Act of the Central Bank of Iceland, no. 36/2001, provides the Bank with full independence in the implementation of monetary policy so as to achieve the target. The Act also states that the Bank shall 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 states as well that the Bank is obliged to invest Iceland's foreign exchange reserves and to promote a safe and effective financial system, including domestic and cross-border payment systems. Further provisions require that the Bank report publicly on monetary policy and on the Bank's activities in general.²

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.³ The Governor is the chair of the Monetary Policy Committee, which, by law, also includes the Deputy Governor, a senior Central Bank executive in the field of monetary policy formation, and two other economic and monetary experts appointed by the Minister of Finance and Economic Affairs. In 2015, the Monetary Policy Committee took eight decisions on the Bank's interest rates. The Committee also held an extraordinary meeting to discuss possible changes to the Bank's monetary policy instruments and a joint meeting with the Systemic Risk Committee on 30 November, to discuss instruments that could be applied in order to restrict carry trade-related capital inflows.

Monetary policy implementation is based on the Central Bank's macroeconomic and inflation forecast, prepared over a horizon of three years. The forecast is published in the Bank's *Monetary Bulletin*, which was issued four times in 2014. *Monetary Bulletin* includes an in-depth analysis of economic and monetary developments and prospects, as well as the Bank's forecast.

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

2. The Bank's tasks and activities are further described in various sections of the present report.

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

Financial stability

The Central Bank of Iceland shall promote financial stability. This was emphasised with an amendment to the Central Bank Act in 2013 and with legislation passed in 2014 on the establishment of a Financial Stability Council and a Systemic Risk Committee, which works for the Financial Stability Council. The Systemic Risk Committee met four times during the year. The Bank attempts to maintain a constant, clear overview of the position of credit institutions and financial markets, and in its twice-yearly *Financial Stability* report, it publishes a detailed analysis of factors relating to financial stability. In addition, the Central Bank promotes an efficient and secure financial system by operating systemically important financial infrastructure and by ensuring that systemically important Icelandic payment and settlement systems operate in line with internationally recognised standards, and it publishes its *Financial Infrastructure* report to that end.

The Central Bank of Iceland sets rules for credit institutions, including rules on minimum liquidity and stable funding in foreign currency and rules on their foreign exchange balance. The Bank conducts transactions with credit institutions. In special circumstances, when the Bank deems it necessary in order to preserve confidence in the domestic financial system, it is authorised by the Central Bank Act to issue guarantees or loans to credit institutions experiencing liquidity difficulties.

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

One of the Central Bank of Iceland's legally mandated tasks is to invest the foreign exchange reserves. The foreign exchange reserves mitigate the effects of fluctuations in capital inflows and outflows, among other things. They enable the Bank to help the Treasury meet its need for foreign currency and fulfil its foreign debt obligations. The reserves create in the market the confidence that Iceland is able to service its foreign debt. They can also be used to support monetary policy. In order to ensure that the financial risk attached to maintenance of the reserves is managed effectively, the Governor sets rules on reserve maintenance, which are approved by the Supervisory Board. The Central Bank of Iceland administers domestic and foreign borrowings and debt management for the Treasury as the representative of the Ministry of Finance and Economic Affairs.

The tasks undertaken by the Central Bank have increased in number and scope in recent years, partly because of the financial crisis that peaked in 2008. Among its new tasks are surveillance and monitoring of the capital controls, projects related to payment intermediation, and administration of assets and claims following the banks' failure. Companies owned by the Bank are entrusted with the last two of these.

During the year, a major step was taken towards the liberalisation of the capital controls when the estates of the failed financial institutions were granted exemptions from the Foreign Exchange Act in order to distribute capital to creditors in connection with composition agreements and to conclude the companies' winding-up proceedings.

II Monetary policy

According to the Act on the Central Bank of Iceland, the principal objective of monetary policy is to promote price stability. This objective is 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 interest rates, the exchange rate, and inflation in 2015

The króna appreciated somewhat in the second half of 2015, most likely due to increased foreign currency inflows stemming from strong growth in tourism and improved terms of trade. The Central Bank has been active in the domestic foreign exchange market, buying significant amounts of foreign currency in regular and *ad hoc* transactions.¹ In this way, the Bank has leaned against the appreciation of the króna and mitigated exchange rate volatility. In spite of these transactions, however, the króna strengthened during the year, both in trade-weighted terms and against the euro. It appreciated in trade-weighted terms by almost 8% over the year, as opposed to 2% in 2014. The Bank's net foreign currency purchases in the interbank foreign exchange market amounted to about 272.4 b.kr., or roughly 12.5% of estimated year-2015 GDP, the largest amount of currency the Bank has bought in a single year.

In December 2014, inflation fell below the lower deviation threshold for the Bank's inflation target, triggering the submittal of an explanatory report to the Government. In the Bank's report, the Bank explained that it was highly unlikely that the situation would persist. In March 2015, inflation rose back above the deviation threshold, to 1.6%. Inflation averaged 1.6% in 2015, as opposed to 2% in 2014 and 3.9% in 2013. Twelve-month inflation measured 2% in December 2015. During the year, inflation was driven mainly by domestic factors, particularly the rise in the housing component of the CPI. Inflation in terms of the CPI excluding housing measured only 0.4% at the end of 2015. Underlying inflation rose in 2015. Twelve-month inflation in terms of core index 3 (which excludes the effects of indirect taxes, volatile food items, petrol, public services, and real mortgage interest expense) measured 2.2% in December 2015, as opposed to 1.4% a year earlier. Domestic inflationary pressures increased following the wage settlements concluded at mid-year, which provided for steep pay increases, but they were contained by the appreciation of the króna and the decline in global goods prices, oil in particular. The fall in imported goods prices had the strongest effect on the CPI in the second half of 2015.

1. 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-1
Exchange rate and volatility of the króna
Daily data 4 January 2010 - 31 December 2015

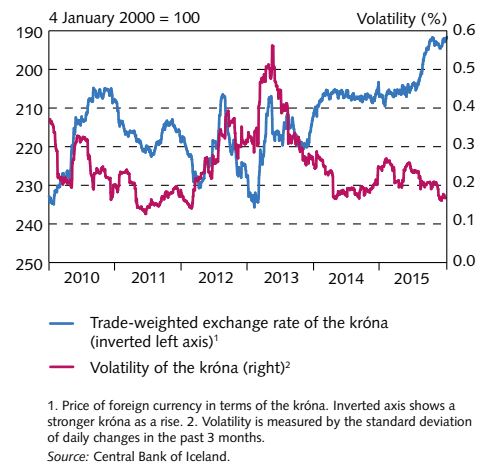


Chart II-2
Various inflation measurements¹
January 2001 - December 2015

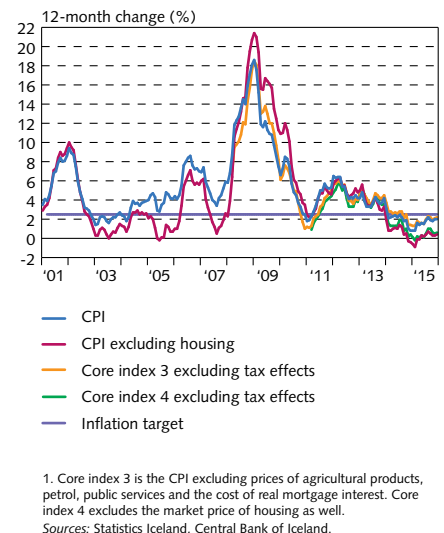
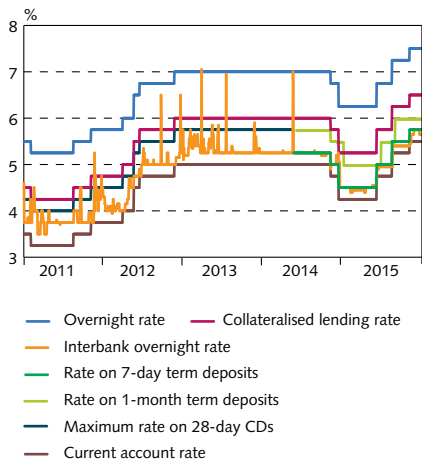
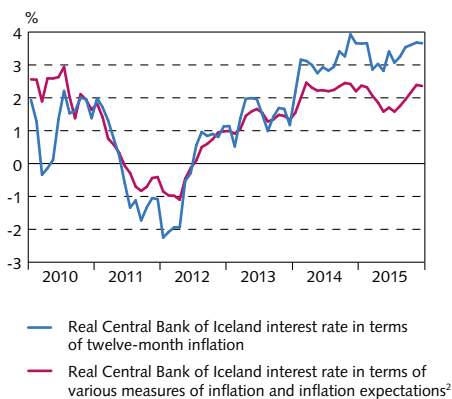


Chart II-3
Central Bank of Iceland interest rates and short-term market rates
Daily data 3 January 2011 - 31 December 2015



Source: Central Bank of Iceland.

Chart II-4
Real Central Bank of Iceland interest rates¹
January 2010 - December 2015



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.

The Central Bank's Monetary Policy Committee (MPC) kept the Bank's interest rates unchanged until June 2015, when it raised them by 0.5 percentage points. In August, rates were raised again, by 0.5 percentage points, and in November they were raised by another 0.25 percentage points. At the end of 2015, the Bank's key interest rate – i.e., the seven-day term deposit rate – was 5.75%. With the interest rate hikes, the monetary stance was held broadly unchanged from the same time a year earlier; however, in terms of intra-year developments, the monetary stance was tightened in the latter half of the year. At the end of December, the Bank's real rate was 2.4% in terms of various measures of inflation and inflation expectations, an increase of 0.2 percentage points year-on-year. In terms of twelve-month inflation, however, the real rate was unchanged between years at 3.7%. The arguments for the interest rate increases during the year were that the wage rises negotiated in wage settlements were not in line with the inflation target and that inflation expectations had risen. It was also pointed out that there was considerable strength in the domestic economy, spare capacity had been absorbed, and a positive output gap was developing, which would lead to increased inflation once the effects of the króna appreciation and the drop in commodity and fuel prices had tapered off.

In the latter half of the year, the transmission of monetary policy along the interest rate channel appeared to weaken, and changes in the Bank's interest rates were not transmitted fully to other market rates. This was particularly the case for yields on long nominal Treasury bonds, which fell by approximately 2 percentage points between mid-June and end-October. It is possible that lower inflation expectations and expectations of an improved Treasury debt position following the publication of the capital account liberalisation strategy were factors in this development. However, it was probably due in large part to increased demand from non-residents for long-term Treasury bonds, as non-residents' new investments in these bonds from June onwards totalled about 54 b.kr. It reversed in part following the interest rate increase in early November, and the impact was greatest on long nominal bond yields. Nominal Treasury bond yields eased downwards towards the end of the year, to 5.8-5.9% by the year-end, as compared with 4.8-6.4% at the end of 2014. Yields on indexed Treasury and Housing Financing Fund bonds were 2.6-2.8% at year-end 2015, as opposed to 3.1-3.4% at the end of 2014.

In September, the Monetary Policy Committee decided to raise minimum reserve requirements from 2% to 4% to strengthen the Bank's liquidity management in connection with its foreign currency purchases, the settlement of the failed banks' estates, and the upcoming foreign currency auction. In December, reserve requirements were lowered again, from 4% to 2.5%, so as to mitigate the liquidity effect of the stability contributions paid by the failed banks' estates. The Committee was of the view that raising reserve requirements had had the intended effect and had encouraged financial institutions to prepare for the settlement process.

Monetary policy decisions and the rationale behind them

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

The Act on the Central Bank of Iceland requires that the Bank's Monetary Policy Committee (MPC) make public the minutes of its meetings and that it explain its decisions and the rationale behind them. The MPC publishes the minutes of its meetings two weeks after each interest rate decision is announced. The minutes contain the Committee's assessment of the status and outlook in economic and monetary matters and the members' reasons for their votes. The Central Bank Act also stipulates that the Bank's MPC shall submit a report on its activities to Parliament twice a year.

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 accessible on the Central Bank website.

The Monetary Policy Committee and its decisions

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

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

Interest rate decisions 2015

The Central Bank Act requires that the MPC meet at least eight times each year. In addition to eight regular interest rate-setting meetings held during the year, the Committee held an extraordinary meeting on 29 January in order to discuss possible amendments to the Bank's monetary policy instruments. The Committee also held a joint meeting with the Systemic Risk Committee on 30 November, in order to discuss economic developments, the status of the financial system, the interactions between monetary policy and financial stability, and policy instruments that could be used to restrict carry trade-related capital inflows. The Committee's interest rate decisions were as follows:

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

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

13 May: The Governor proposed that the Bank's interest rates be held unchanged. Arnór Sighvatsson, Gylfi Zoëga, and Katrín Ólafsdóttir voted in favour of the Governor's proposal, while Thórarinn G. Pétursson voted against it, voting instead in favour of a rate increase of 0.5 percentage points.

10 June: The Governor proposed that the Bank's interest rates be raised by 0.5 percentage points. Arnór Sighvatsson, Gylfi Zoëga, and Katrín Ólafsdóttir voted in favour of the Governor's proposal. Katrín Ólafsdóttir would have preferred to raise rates by 0.75 percentage points but was of the opinion that the difference was small enough that she was willing to vote in favour of the proposal. Thórarinn G. Pétursson voted against it, voting instead in favour of a rate increase of 1 percentage point.

19 August: The Governor proposed that the Bank's interest rates be raised by 0.5 percentage points. Arnór Sighvatsson, Gylfi Zoëga, and Katrín Ólafsdóttir voted in favour of the Governor's proposal, while Thórarinn G. Pétursson voted against it, voting instead in favour of a rate increase of 0.75 percentage points.

30 September: The Governor proposed that the Bank's interest rates be held unchanged. Arnór Sighvatsson, Gylfi Zoëga, and Katrín Ólafsdóttir voted in favour of the Governor's proposal. Katrín Ólafsdóttir would have preferred to raise rates by 0.25 percentage points but was of the opinion that the difference was small enough that she was willing to vote in favour of the Governor's proposal. Thórarinn G. Pétursson voted against the Governor's proposal, voting instead for a rate increase of 0.25 percentage points.

The Governor also proposed that reserve requirements be raised from 2% to 4% as of the next reserve maintenance period, which began on 21 October. All Committee members voted in favour of the proposal.

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

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

The Governor also proposed that reserve requirements be lowered from 4% to 2.5% as of the next reserve maintenance period, which began on 21 December. All Committee members voted in favour of the Governor's proposal.

III The financial system

Financial stability

One of the Central Bank of Iceland's legally mandated 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.

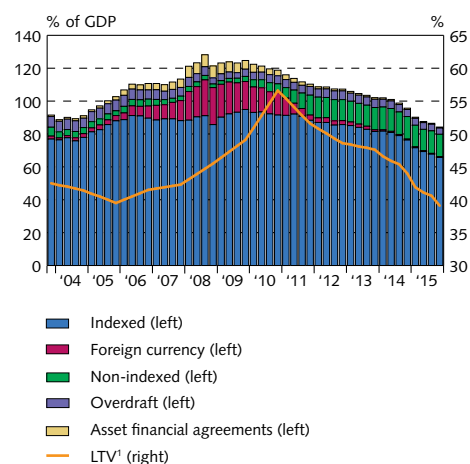
The Bank's main tasks in the area of financial stability are to analyse risks that could jeopardise the stability of the financial system, to draft rules on credit institutions' liquidity and foreign exchange balance, and supervision. This also entails participating in setting policy on the structure and development of the financial system and formulating further prudential rules for it, as well as interacting with other institutions, particularly the Financial Supervisory Authority and the Ministry of Finance and Economic Affairs, and participating actively in international cooperation. To this end, the Bank attempts to have a clear overview of the position of credit institutions, financial markets, households, and businesses.

In recent years, increased emphasis has been placed on analysing businesses' and households' financial position. Developments in assets and liabilities are monitored and placed into the context of other economic variables. It is also necessary to monitor the international investment position and the repayment profile for foreign debt, as well as capital flows and domestic borrowers' refinancing risk in foreign credit markets. Last year, a large amount of work was done in connection with assessing the settlement of the failed banks' estates and the impact on financial stability and operating commercial banks' liquidity (see Section VII, entitled Special projects). During the year, stress tests were conducted on the large commercial banks and the results published. The tests are useful for risk assessments and provide indications of the banks' sensitivity to adverse developments or shocks. The results of the tests showed that, on the whole, the banks were relatively well prepared to withstand shocks. At the beginning of 2015, the minimum liquidity coverage ratio according to the Central Bank liquidity rules rose from 0.7 to 0.8, and the term of the foreign-denominated deposits held by the financial institutions in winding-up proceedings was lengthened in stages. A temporary provision passed after the collapse of the Icelandic banking system in autumn 2008, providing for exemptions from the Central Bank Rules on Foreign Exchange Balance and permitting a separate positive or negative foreign exchange balance, expired at the beginning of the year. During the year, the Central Bank, in cooperation with the Financial Supervisory Authority, prepared meetings of the Systemic Risk Committee and compiled a wide range of analytical data for the meetings.

Developments in financial stability

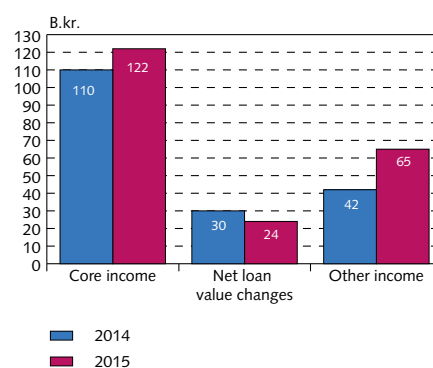
The Bank's *Financial Stability* report was published twice during the year. External financial system conditions were favourable. There was

Chart III-1
Household debt as % of GDP
Q4/2003 - Q4/2015



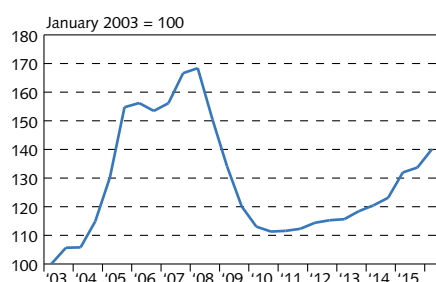
1. Household mortgage debt as % of households' total real estate assets.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart III-2
Three largest banks' income¹
2014 and 2015



1. Consolidated accounts.
Sources: Commercial banks' financial statements.

Chart III-3
Real house prices¹



1. Price per m² in January and July at constant 2003 prices.
Sources: Registers Iceland, Central Bank of Iceland.

a significant underlying current account surplus and strong tourism-related foreign currency inflows, and the Bank bought a substantial amount of currency. In spite of this, the króna appreciated markedly. The upgrade in Iceland's sovereign credit ratings kindled foreign investors' interest in investing in Iceland, and net new investment grew as a result. The majority of the new investment was concentrated in long-term Treasury bonds. Real estate market turnover rose, and real property prices collateral capacity increased. On the whole, households' financial position improved: debt levels declined, and real wages rose. Firms' position strengthened as well: their debt position had improved for seven years in a row, terms of trade improved, and the boom in tourism had a positive impact on domestic retail trade and services. The large commercial banks' operations were successful during the year, although irregular income items weighed somewhat heavily. Customer default continued to decline, the liquidity ratios according to the Central Bank rules were above the required minimum, and access to funding improved. At the end of the year, the ratio of the large commercial banks' capital base to risk-weighted assets was 28.2%. In the first half of the year, the banks paid out 45 b.kr. in dividends on year-2014 profits. Towards the end of the year, the Central Bank completed its assessment of the failed commercial banks' draft composition agreements. The Bank concluded that the drafts satisfied the requirements set forth in the Foreign Exchange Act, in that the fulfilment of the composition agreements together with the proposed countervailing measures would not jeopardise monetary, exchange rate, or financial stability. For further information, see Section VII, Special Projects.

Financial Stability Council and Systemic Risk Committee

2015 was the Financial Stability Council and Systemic Risk Committee's first full year of activity. 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.

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 presents proposals to the Council in accordance with the law and the Committee's rules of procedure. The Systemic Risk Committee comprises five members: the Governor of the Central Bank, who acts as chairman; the Director General of the Financial Supervisory Authority, who acts as deputy chairman; the Deputy Governor of the Central Bank; the Deputy Director General of the Financial Supervisory Authority; and one expert in financial markets or economics who is appointed by the Minister without nomination for a term of five years. The Permanent Secretary of the Ministry or an appointed Ministry official also participates in Committee meetings as a non-voting member with the right to address the meeting and present proposals. Administrative matters relating to the Committee are in the hands of

the Central Bank, which handles record-keeping and documentation. Last year the Systemic Risk Committee met four times and compiled a wide range of materials for the Financial Stability Council's meetings.

As is stated above, the Financial Stability Council is the authorities' official forum for collaboration on financial stability. If analysis carried out by the Financial Stability Council indicates that financial stability is under threat, the Council is to issue instructions for appropriate actions, other than the application of the Central Bank of Iceland's monetary policy instruments, to the competent authorities. The Council also approves the definitions of systemically important infrastructure, markets, and supervised entities whose activities could affect financial stability. The Financial Stability Council is chaired by the Minister of Finance and Economic Affairs. Other members are the Governor of the Central Bank and the Director General of the Financial Supervisory Authority. The Council met three times in 2015. Among other matters, the Council reviewed risks to the financial system at its meetings. During the year, the external environment was favourable, the external balance was sound, and the position of the commercial banks was good, although their earnings were dominated by one-off items. Foreign funding needs are projected to be moderate in coming years. Overall growth in credit system lending was within moderate limits. The banks are considered resilient enough to withstand shocks, as their capital ratios are high and their liquidity position above the required minimum. However, it was considered likely that credit growth and increased macroeconomic imbalances in the coming term could have a negative impact on the financial system. The Council was also of the opinion that the preparation of prudential rules to address the risk accompanying cross-border movement of capital should be completed when capital account liberalisation draws closer. At its 14 April meeting, the Financial Stability Council confirmed risk indicators for lending and asset prices, as well as classifying Arion Bank hf., Landsbankinn hf., Íslandsbanki hf., and the Housing Financing Fund as systemically important supervised entities. At its 2 October meeting, the Council confirmed three systems as systemically important financial market infrastructure: the Central Bank's real-time gross settlement (RTGS) system, the Greidsluveitan ehf., netting system, and the Nasdaq CSD Iceland hf. securities settlement system.

Financial Market Infrastructure

The Central Bank's oversight of financial market infrastructure is aimed at promoting security, efficiency, and efficacy of core infrastructure in the Icelandic financial system, thereby safeguarding financial stability.

In October 2015, the Financial Stability Council confirmed the classification of the Central Bank RTGS system, the Greidsluveitan netting system, and the Nasdaq CSD Iceland securities settlement system as systemically important financial market infrastructure. These three systems are also now recognised according to the Act on the Security of Transfer Orders in Payment Systems and Securities Settlement Systems, no. 90/1999, with the associated legal effect (the securities settlement system as of May).

In 2015, an assessment was made of the operational security and framework of the RTGS system, using internationally recognised best practice guidelines (the Core Principles for Systemically Important Payment Systems issued by the Bank for International Settlements' Committee on Payments and Market Infrastructures (BIS/CPMI) and the Principles for Financial Market Infrastructures (PFMI) issued by the International Organization of Securities Commissions (IOSCO)). The main comments and recommendations for improvements centred on administrative structure, division of tasks, transparency, and risk management. The system administrator is working towards improvements based on the assessment report. A comparable report on the Greidsluveitan ehf. netting system is in preparation. Also assessed during the year was the domestic statutory and institutional framework of systemically important financial market infrastructure, based on the requirements set forth in the Core Principles. This assessment has been used for further development of collaboration with the Financial Supervisory Authority and was sent to the Systemic Risk Committee at the year-end.

Work was done in 2015 towards a comprehensive renewal of the basic infrastructure that has served the Icelandic financial system for decades. It was also necessary to give increased consideration to EEA instruments during the year.

The Central Bank's 2015 *Financial Market Infrastructure* report focuses on the Bank's payment intermediation tasks and explores in greater detail the topics mentioned above, as well as explaining the Bank's multi-faceted role and activities relating to financial market infrastructure.

System operations – systemically important financial infrastructure

The operation of interbank systems – the RTGS and netting systems – went more or less smoothly in 2015. A detailed record is made of all incidents occurring in interbank system operations. There were 154 such incidents during the year. None of them caused a complete interruption of service, and the system's up-time ratio was 100%. None of the 154 incidents were classified as serious, but 10 of them were classified as medium, while the other 144 (93% of the total) fell into the lowest severity category. All of the incidents were responded to appropriately.

The number of RTGS system participants changed in 2015. The merger of MP Banki hf. and Straumur Investment Bank hf. under the name Kvika banki hf. reduced the number of participants by one. As of year-end 2015, participants in the RTGS system were the following: Arion Banki hf., Clearstream Banking société anonyme, Euroclear Bank société anonyme, the Housing Financing Fund, Íslandsbanki hf., Kvika banki hf., Landsbankinn hf., and the Central Bank of Iceland. According to an agreement between the Central Bank and Nasdaq CSD Iceland, monetary settlement of securities transactions takes place through the RTGS system.

Total turnover in the RTGS system rose by more than 10% year-on-year in 2015, to almost 16,000 b.kr. The number of payment orders increased 2.2%, to over 91,000.

The number of participants in the netting system also declined by one during the year, owing to the merger of MP Banki and Straumur to form Kvika banki hf. As of end-2015, direct participants in the netting system were Arion Banki hf., the Housing Financing Fund, Íslandsbanki hf., Landsbankinn hf., Kvika banki hf., and the Central Bank of Iceland.

Total system turnover increased by 4.9% year-on-year in 2015, to just over 3,000 b.kr. The number of transactions rose by 1.2% year-on-year, to slightly more than 77 million.

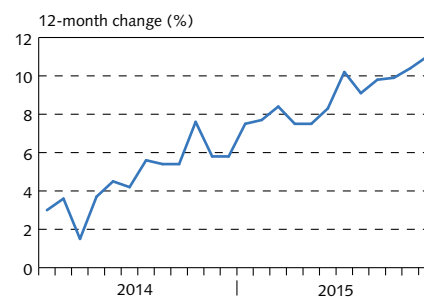
Towards the end of 2014, preparations began for the renewal of the RTGS and netting systems. Work continued on the project throughout 2015. In December 2015, pre-selection documents for new interbank systems were sent out, with a tender submittal deadline of 3 February 2016. It was assumed that agreements will be reached with the highest-scoring software developer in the second half of 2016. Further information can be found in the Bank's *Financial Market Infrastructure* report, published in November.

Cash in circulation

Cash in circulation outside deposit institutions and the Central Bank totalled 48.9 b.kr. as of year-end 2015. The increase during the year was 4.8 b.kr., or 11%, as opposed to 5.8% in 2014. The year-on-year increase was unusually large, owing most likely to private consumption growth and rising tourist numbers.

Iceland has long been among the countries that use cash the least. At the end of 2015, the ratio of cash in circulation to GDP was 2.2%. It has remained broadly unchanged since 2012. In October 2013, a new 10,000 kr. banknote was put into circulation. It has been well received. At the end of 2015, the 10,000 kr. banknotes in circulation had a total value of 20.1 b.kr., and they accounted for 38% of all notes in circulation, as opposed to 28% in 2014. During the year, the note processing department received 9.1 million banknotes from commercial banks and savings banks. A total of 3.8 million notes were destroyed.

Chart III-4
Cash in circulation
2014 - 2015



Source: Central Bank of Iceland.



Monetary policy committee at the end of 2015. From left: Thórarinn G. Pétursson, Katrín Ólafsdóttir, Már Gudmundsson, chairman, Arnór Sighvatsson and Gylfi Zoëga.

IV Foreign reserves

The Central Bank of Iceland is required by law to invest the foreign exchange reserves. The Central Bank's foreign exchange reserves enable it to achieve its goals and fulfil its duties. The reserves mitigate the effects of external risks related to changes in access to foreign credit, and they can also be useful in mitigating fluctuations in capital flows to and from Iceland. They enable the Bank to help the Treasury meet its need for foreign currency. The reserves also create in the market the confidence that Iceland is able to service its foreign debt. Furthermore, they can be used to support monetary policy.

Size of the foreign exchange reserves

The size of the reserves is determined by 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 necessary size of the reserves is determined by the balance of payments outlook. International obligations and cooperation, such as that with the International Monetary Fund (IMF), may also affect the minimum size of the reserves.

On 31 December 2015, the Central Bank's foreign exchange reserves amounted to 653 b.kr., or 5.0 billion US dollars, roughly 30% of Iceland's year-2015 GDP according to the most recent Central Bank estimates. Iceland's foreign reserves are equivalent to nine months of goods and services imports¹ and 35% of M3.

Important changes in the reserves

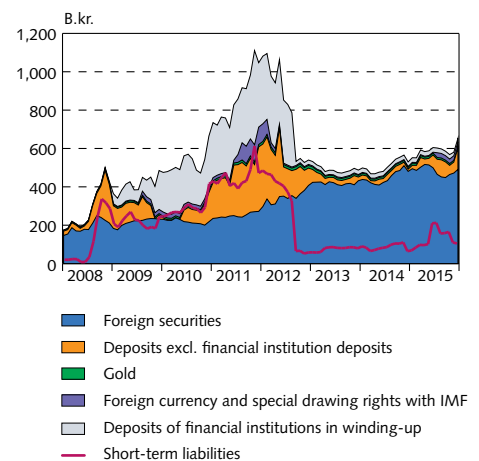
The foreign exchange reserves grew by about 123 b.kr. in 2015, from 530 b.kr. at the end of December 2014 to 653 b.kr. at the end of December 2015.

The main transactions adding to the reserves during the period were the Central Bank's foreign currency purchases in the interbank market, which expanded them by 272 b.kr., and the Central Bank of Iceland Asset Management Company's (ESÍ) foreign-denominated recoveries during the year, which expanded the reserves by 22 b.kr. Offsetting transactions during the year were the Treasury's buyback of US dollar bonds in the amount of 67 b.kr. and the retirement of several loans: the loan from the International Monetary Fund (IMF), in the amount of 42 b.kr.; the Avens bond, in the amount of 28 b.kr.; and the bilateral loan from Poland, in the amount of 8 b.kr.

Investment of foreign exchange reserves

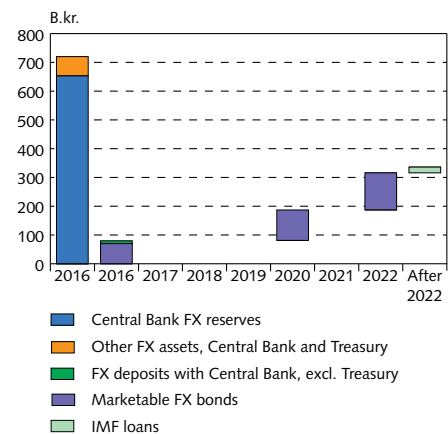
Rules of procedure on the management of the reserves are set by the Governor and approved by the Supervisory Board. The rules define outside limits for acceptable financial risk due to the foreign exchange reserves.² They also contain stipulations on responsibility and division

Chart IV-1
Foreign exchange reserves
January 2008 - December 2015



Source: Central Bank of Iceland.

Chart IV-2
Payment projection, Treasury and
Central Bank foreign debt
Balance at year-end 2015

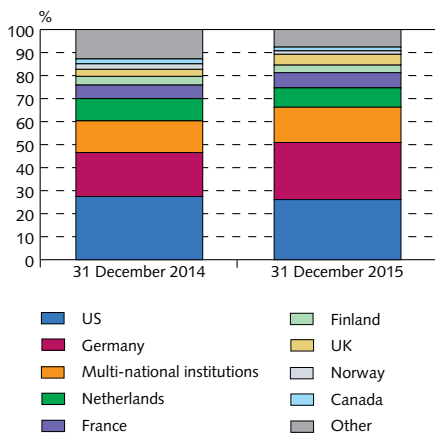


Source: Central Bank of Iceland.

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

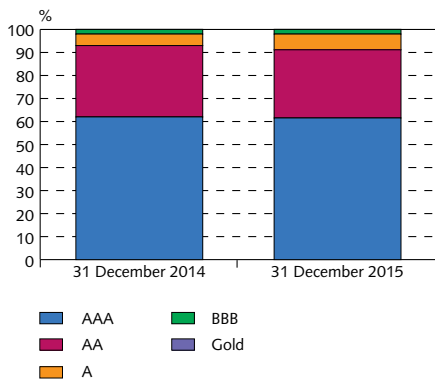
2. Further discussion of the management of the Bank's financial risk can be found in the notes to the financial statements.

Chart IV-3
Distribution of reserve assets
by issuer/counterparty country



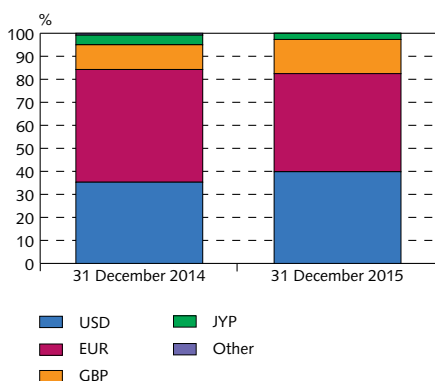
Source: Central Bank of Iceland.

Chart IV-4
Reserve assets, credit ratings



Source: Central Bank of Iceland.

Chart IV-5
Foreign exchange balance, currency distribution



Source: Central Bank of Iceland.

of tasks related to the investment of the reserves and set forth the principles governing financial risk and how it is measured, identified, and managed. The Central Bank's investment committee meets monthly and formulates overall policy on reserve management by setting an investment policy within the framework of the rules of procedure for the foreign exchange reserves. Members of the Investment Committee are the Governor, who also chairs the committee, the Deputy Governor, the Director of Market Operations and Finance Management, the Chief Economist, and the Head of Finance Management.

The size of the reserves and the requirements concerning the share of liquid reserves at any given time place limitations on investment and management. It is critical that reserve assets be sound and that they be liquid enough that the Bank can use them to achieve its objectives and carry out its tasks. This could limit the Bank's options in seeking the best returns available at any given time. Management of the foreign exchange reserves aims at minimising the Bank's risk-adjusted cost of reserve maintenance and managing the Bank's balance sheet in an efficient, economical manner.

To the extent possible, reserve assets must be in the same currency and the same amounts as the Bank's foreign liabilities. The foreign exchange balance³ in specified currencies is kept within the limits set forth in the investment policy. The Bank uses derivatives, among other instruments, to manage its foreign exchange balance.

The foreign exchange reserves are invested to a large extent in foreign securities. At the end of 2015, securities constituted 75% of the total reserves, a somewhat lower percentage than in recent years. Returns on the bond portfolio were 0.20%, which was 0.44% below the benchmark. After mid-year, there were strong inflows to the Central Bank because of foreign exchange market purchases and in connection with the settlement of the failed banks' estates. The inflows were held in the accounts of foreign central banks because of expected outflows early in 2016, in connection with the settlement of the failed banks' estates and the planned Central Bank auction in connection with capital account liberalisation. Total deposits accounted for 20% of the reserves, or 130 b.kr., at the end of December 2015. Of that total, 97% of the deposits were held by central banks or the IMF and 3% by foreign commercial banks.

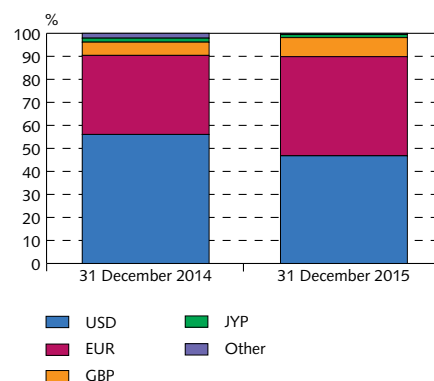
According to the rules of procedure on reserve maintenance, highly liquid assets include bonds denominated in US dollars, euros, or pounds sterling and issued by the state in the state's own currency, and deposits with the central banks in these countries/regions or the Bank for International Settlements. Issuers of eurobonds must have a minimum credit rating of AA in order for the bonds to be classified as highly liquid assets. Highly liquid assets accounted for 54% of the Central Bank's foreign exchange reserves at the end of 2015.

Charts IV-4, 5, and 6 show the end-2015 division of the reserves by credit ratings and currency.

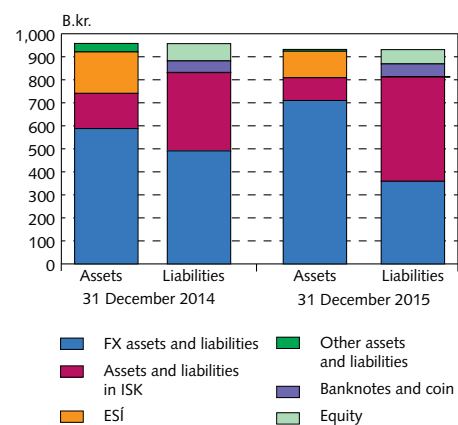
3. The foreign exchange balance is the Bank's net foreign currency assets; i.e., assets net of liabilities in foreign currencies.

Table IV-1 Returns on bonds in the foreign exchange reserves 2015

| | EUR | USD | |
|--|-----------------------|------------------|-------------------|
| Bond portfolio balance at year-end (USD millions) | 1,587 | 2,114 | |
| Bond portfolio distribution in % | 38 | 53 | |
| Bond yields, % | -0.26 | 0.51 | |
| - Yield curve, % | -0.48 | -0.87 | |
| - Interest premium, change in interest premium, remainder, % | 0.26 | 0.48 | |
| - Interest income, % | -0.04 | 0.90 | |
| <i>Returns relative to benchmark</i> | | | |
| Returns in excess of benchmark, % | -0.41 | -0.66 | |
| - Yield curve, % | -0.69 | -0.32 | |
| - Interest premium, change in interest premium, remainder, % | 0.22 | -0.08 | |
| - Interest income, % | 0.05 | -0.27 | |
| <i>Returns on bond portfolio</i> | | | |
| | <i>Bond portfolio</i> | <i>Benchmark</i> | <i>Difference</i> |
| Returns on Central Bank bond portfolio and benchmark, % | 0.20 | 0.64 | -0.44 |

Chart IV-6
Foreign exchange reserves, currency distribution

Source: Central Bank of Iceland.

Chart IV-7
Central Bank of Iceland balance sheet

Source: Central Bank of Iceland.





The Systemic Risk Committee. From left: Jón Thór Sturluson, Deputy Director General, Financial Supervisory Authority; Guðmundur Árnason, Permanent Secretary at the Ministry of Finance and Economic Affairs; Már Guðmundsson, Governor of the Central Bank of Iceland (chairman), Unnur Gunnarsdóttir, Director General of the Financial Supervisory Authority (deputy chairman); Björn Rúnar Guðmundsson, expert representative appointed by the Minister without nomination, and Arnór Sighvatsson, Deputy Governor of the Central Bank of Iceland.

V Treasury debt management

Agreement on Treasury debt management

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

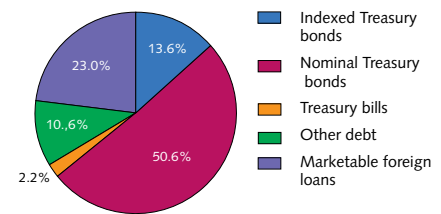
Domestic debt management

At the end of December 2014, the Central Bank, on behalf of the Treasury, published its annual Government Debt Management *Prospect* for 2015. According to the *Prospect*, Treasury bonds were to be issued for a total of 55 b.kr. in 2014 in order to fund the debt maturing during the year. The issuance target was met, with securities issued in the amount of 54.5 b.kr. in public auctions and 0.5 b.kr. in connection with Central Bank foreign currency auctions.

In 2015, Treasury bond series RIKB 15 0408 matured in the amount of 23 b.kr. The bond was originally issued as a two-year series, and a new two-year bond, RIKB 17 0206, was issued in its place.

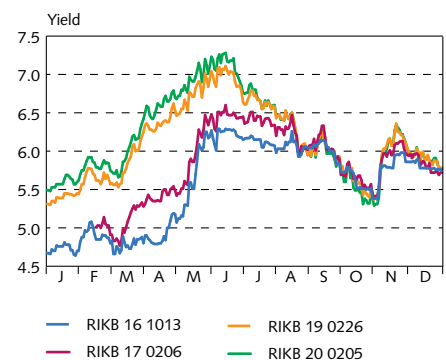
2015 was a volatile year in the domestic bond market. Early in the year, yields on nominal Treasury bonds rose in the wake of strong selling pressure arising from uncertainty about wage settlements. Treasury bond yields turned around again in the latter half of the year, following the Government's presentation of the capital account liberalisation strategy. In the wake of that announcement, rating agencies Moody's, Fitch, and Standard & Poor's upgraded the Republic of Iceland's sovereign credit ratings, owing to the prospective reduction in Treasury debt concurrent with the payment of stability contributions by the failed banks' estates. The upgrade generated strong interest among foreign investors in long-term nominal Treasury bonds, whereas foreign investors have hitherto been interested in short-term instruments. The improved outlook for the domestic economy and the wider interest rate spread in Iceland than in its main trading partner countries stimulated non-residents' demand for Treasury bonds.

Chart V-1
Brakedown of Government debt
Year-end 2015



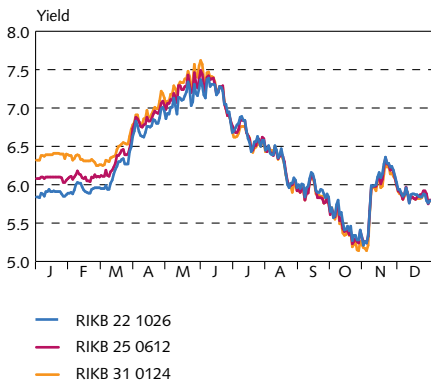
Source: Central Bank of Iceland.

Chart V-2
Nominal Treasury bonds maturing
in less than 5 years



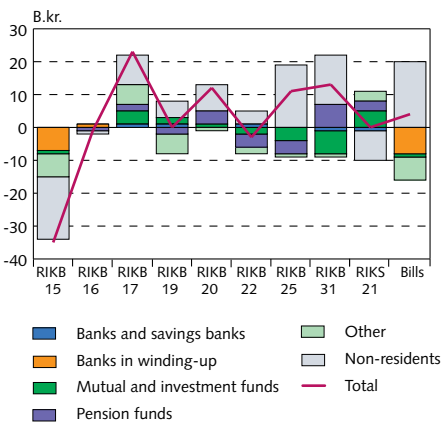
Source: Central Bank of Iceland.

Chart V-3
Nominal Treasury bonds, longer than 5 years



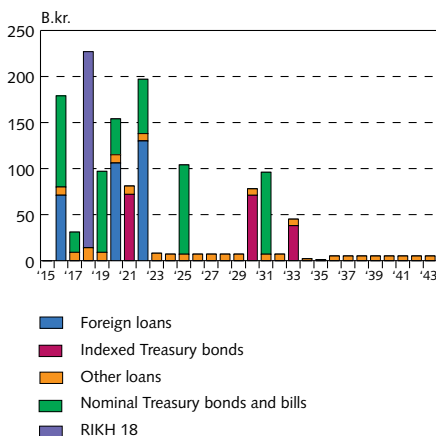
Source: Central Bank of Iceland.

Chart V-4
Net purchases, market agents 2015¹



1. Benchmark bonds and Treasury bills.
Source: Central Bank of Iceland.

Chart V-5
Redemption Profile of Government debt



Source: Central Bank of Iceland.

Treasury bill issuance was successful during the year. At the year-end, the outstanding balance of bills was 29 b.kr., as compared with the end-2015 target of 30 b.kr.

At the beginning of March, the Central Bank announced changes to the exemption lists in connection with foreign exchange transactions. This entailed reducing the types of financial instruments that were exempt from the restrictions provided for in the Foreign Exchange Act to Treasury bills and one Treasury bond, RIKB 15 0408. The announcement immediately stimulated non-residents' interest in Treasury bills, which they had not owned since November 2013. Non-residents' demand for Treasury bills grew steadily throughout the year, and at the year-end they were the largest owners of Treasury bills with 69% of the total outstanding stock.

The Medium-Term Debt Management Strategy for 2015-2018 was published by the Ministry of Finance and Economic Affairs at mid-year. Its principal objectives are to ensure that the Treasury's medium-to long-term financing needs and financial obligations are met at the lowest possible cost that is consistent with a prudent degree of risk. It is also intended to encourage further development of efficient primary and secondary markets for domestic Government securities.

Foreign debt management

At the end of 2015, Treasury foreign debt totalled 307 b.kr., a reduction of more than 109 b.kr. between years. The main reason for the decline is the Treasury's buyback of its US dollar bond maturing on 16 June 2016, in the amount of 500 million dollars, and the retirement of other debt. The outstanding balance of the Avens bond, 192 million euros, was paid off during the year, as was the remainder of the bilateral loan from Poland, in the amount of 204 million złotys. Both of the loans were taken in connection with the Government's IMF-supported Stand-By Arrangement following the collapse of the financial system. The Avens bond was due to the Treasury's purchase of asset-backed bonds issued by Avens B.V., a company owned by the old Landsbanki Íslands. It was to have matured in 2025. The loan from Poland matured over the period 2015-2022. The retirement of that debt represented a milestone, as it concluded the settlement of the bilateral loans Iceland received from neighbouring countries during the financial crisis.

Table V-1 Gross Treasury debt at year-end 2015

| M.kr. | Nominal value w/accrued indexation |
|--------------|------------------------------------|
| Nominal debt | 794,472 |
| Indexed debt | 232,307 |
| Foreign debt | 306,910 |
| Total | 1,333,689 |

Government guarantees and relending

The Treasury may not undertake a guarantee unless authorised by law, as is provided for in Act no. 121/1997. Because of the risk to the Treasury, collateral must be provided that is deemed satisfactory by the State Guarantee Fund, which is authorised by law to supervise

Government guarantees, keep track of the operations of entities that have received Government guarantees, and maintain a register of obligations backed by Government guarantees. The bulk of Government guarantees are due to the Treasury's holdings in the Housing Financing Fund and Landsvirkjun. Parties that enjoy Government guarantees due to Government ownership are required to obtain the Central Bank's approval of the terms and conditions for loans they intend to take abroad. Treasury guarantees totalled 1,129 b.kr. at the end of 2015, as opposed to 1,213 b.kr. at year-end 2014.

Sovereign credit rating of the Republic of Iceland

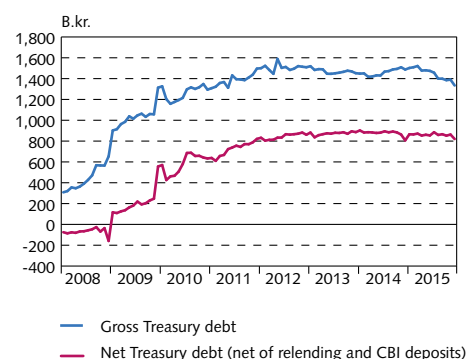
The main international agencies that assign the Treasury a credit rating are Moody's Investors Service, Fitch Ratings, and Standard & Poor's. The Central Bank of Iceland communicates regularly with these agencies on behalf of the Government. Credit ratings affect borrowing terms in global credit markets and provide an indication of the terms that will be offered to the borrower concerned. All of Iceland's sovereign credit ratings are investment-grade.

All of the rating agencies upgraded Iceland's sovereign ratings in 2015. Moody's began on 29 June by upgrading the ratings for long-term foreign currency obligations from Baa3 to Baa2, with a stable outlook. In the rationale for the rating action, Moody's cited the initiation of a careful process of capital account liberalisation, expectations of further improvement to the Treasury's debt position over the next three to four years, and improvements to macro- and microprudential regulation designed to enhance financial stability in the future. Moody's also raised the country ceilings for Iceland's long- and short-term foreign currency debt and deposits from Baa3/P-3 to Baa2/P-2 and the country ceilings for local currency debt and deposits from Baa2 to Baa1.

On 17 July, Standard & Poor's upgraded the sovereign ratings for long-term obligations from BBB- to BBB and raised the short-term ratings from A-3 to A-2. The outlook was deemed stable. Standard & Poor's also cited credible proposals for capital account liberalisation, which would improve the Treasury debt position, provided that the revenues reverting to the State are used to pay down Treasury debt.

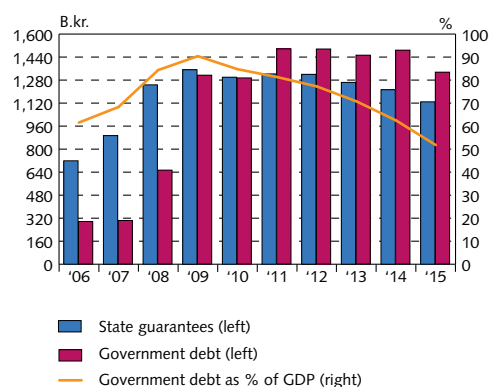
And finally, on 24 July, Fitch Ratings upgraded the Republic's sovereign rating for long-term foreign currency obligations from BBB to BBB+, with a stable outlook, and raised the rating for long-term local currency obligations from BBB+ to A-. In addition, Fitch upgraded the rating for short-term foreign currency obligations from F3 to F2 and raised the Country Ceiling from BBB to BBB+. The upgrade was considered to reflect the agency's expectations concerning the implementation of the capital account liberalisation strategy.

Chart V-6
Developments in Treasury debt 2008-2015



Source: Central Bank of Iceland.

Chart V-7
Government debt and state guarantees



Sources: Statistics Iceland, Central Bank of Iceland.



VI International cooperation

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

International Monetary Fund

The Central Bank represents Iceland at the International Monetary Fund (IMF). In March, the IMF Executive Board held its regular Article IV Consultation on the Icelandic economy. It also held the fifth post-program monitoring discussions to follow up on the Stand-By Arrangement with the Icelandic authorities, which concluded in August 2011. A mission from the Fund prepared staff reports after visiting Iceland in December 2014. An IMF mission visited Iceland again from 7 to 20 May, and the Executive Board conducted the sixth and last post-program monitoring discussions on 24 June. In October, it was decided to pay off the outstanding balance of the the IMF facility in connection with the Stand-By Arrangement. The full amount was 250 b.kr., and the balance due in 2015 and 2016 totalled 42 b.kr. All reports in connection with regular and post-programme monitoring by the IMF are published on the websites of the Central Bank and the Fund.

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. In 2015, the Constituency's permanent representative on the IMF Executive Board in Washington was Audun Grønn from Norway. Twice a year, the Nordic-Baltic office publishes a summary of the salient issues on the agenda of the Fund and the Executive Board, including the Constituency's views on them.

Representatives from the Bank attended the IMF's spring meetings in Washington, DC, from 16 to 19 April. They also attended the Fund's 2015 Annual Meetings and the thirty-second meeting of the International Monetary and Financial Committee (IMFC), held in the autumn in Lima, Peru. Már Gudmundsson, who represents Iceland on the IMF Board of Governors, gave a speech on behalf of the Nordic-Baltic Constituency.

The Icelandic authorities received technical assistance from the IMF in 2015 in connection with reforms to the personal income tax structure.

The Bank for International Settlements (BIS)

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

Organisation for Economic Co-operation and Development (OECD)

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

Co-operation with other central banks and financial supervisors

The Central Bank of Iceland cooperates extensively and regularly with other central banks in the Nordic region and elsewhere in Europe. The Governor also attends regular meetings with central bank governors and financial supervision officials in the Nordic and Baltic countries. Furthermore, the Bank participates in cooperation on financial stability through the Financial Stability Board (FSB), the principal harmonisation forum for financial stability worldwide. A Bank representative also attends meetings of the European Banking Authority (EBA).

Other financial institutions

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



VII Special projects

Capital Controls Surveillance Unit

The Central Bank of Iceland carries out monitoring in accordance with the Foreign Exchange Act, no. 87/1992. This entails providing guidance and information to individuals and legal entities, processing applications for exemptions from the Foreign Exchange Act, conducting general monitoring in accordance with the Act, and conducting preliminary analysis and investigations of possible violations of the Foreign Exchange Act and the Rules on Foreign Exchange. The Bank also undertakes tasks related to the liberalisation of the capital controls. The Bank has also worked on various projects related to foreign new investment, supervision of the Bank's Investment Programme and follow-up on conditional exemptions.

In spring 2015, significant work was done on statutory amendments and on processing large exemption requests in connection with the composition agreements of the failed commercial and savings banks. In 2015, the Central Bank received 1,080 requests for exemptions from the Foreign Exchange Act, no. 87/1992. During the year, 1,040 requests were processed: 741 were approved, 23 approved in part, 93 rejected, and 183 withdrawn or concluded through issuance of guidelines or in another manner. The Central Bank received 399 notifications of new investment during the year (cf. Article 13(m) of the Foreign Exchange Act), in the total amount of 77.2 b.kr. The Bank also received 211 requests for confirmation of foreign exchange transactions and cross-border capital movements on the basis of the Foreign Exchange Act and the Rules on Foreign Exchange. During the year, 51 new cases involving possible violations of the Act and the Rules were registered. In 2015, 50 investigations were concluded at the administrative level, by settlement levy of fines, or dismissal of the case.

Foreign currency auctions

Treasury bond option and Investment Programme

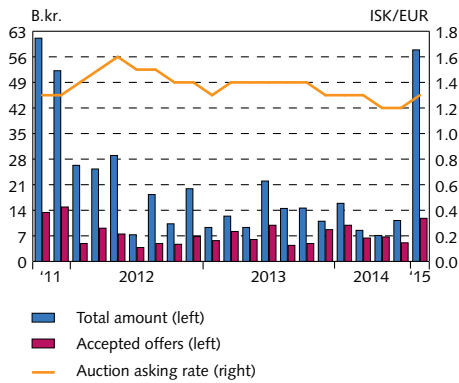
In February 2015, the Bank held its last foreign currency auctions according to its Investment Programme and Treasury bond option, in which it purchased foreign currency in exchange for Icelandic krónur for long-term investment in Iceland. These auctions were part of the capital account liberalisation strategy introduced in 2011. The table below summarises the auction results:

Table VII-1 Purchases of foreign currency

| <i>Highlights</i> | <i>Total 2015</i> | <i>Treasury bond option</i> | <i>Investment programme</i> |
|-------------------------------------|-------------------|---------------------------------|---------------------------------|
| Number of auctions | 2 | 1 | 1 |
| Number of bids | 130 | 38 | 92 |
| Total amount of bids (EUR millions) | 62.4 | 3.9 | 58.5 |
| Accepted bids (EUR millions) | 60.7 | 2.5 | 58.2 |

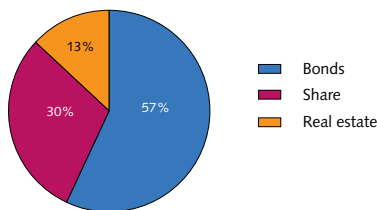
Bids in the amount of EUR 60.7 million were accepted in the auctions. Treasury securities were sold in the amount of EUR 2.5 million,

Chart VII-1
Central Bank of Iceland foreign currency auctions
Purchases of krónur for euros



Source: Central Bank of Iceland.

Chart VII-2
Distribution of Investment through auction
according to Investment Programme 2015



Source: Central Bank of Iceland.

and accepted bids in the Investment Programme auction totalled EUR 58.2 million. Investment under the Investment Programme was as follows: equity securities, EUR 17.4 million; bonds EUR 33.3 million; and real estate, EUR 7.5 million. According to the terms and conditions for the Investment Programme, investors sold foreign currency to Icelandic financial institutions in an amount equal to that accepted in the auction. Total investment-related foreign currency inflows were therefore twice the amount attributed above to the Investment Programme.

Purchases of krónur in exchange for euros

Concurrent with the above-described auctions, the Bank also advertised for bids on the sale of Icelandic krónur for cash payment in foreign currency. The table shows the highlights of the króna purchase auction:

Table VII-2 Purchases of krónur

| Highlights | 2015 |
|-------------------------------|------|
| Number of auctions | 1 |
| Number of bids | 81 |
| Total amount of bids in b.kr. | 57.9 |
| Accepted bids in b.kr. | 11.8 |

The last of the above-described auctions were held in 2015. The Bank began holding auctions under the Treasury Bond Programme in the summer of 2011, and the first auction according to the Investment Programme was held in February 2012. A total of 23 Treasury Bond Programme auctions and 21 Investment Programme auctions have been held to date. Investors have brought a total of 262 b.kr., or 12% of year-2015 GDP, into the country. In addition, 22 auctions have been held in which bids were solicited from parties wishing to sell their króna assets in exchange for foreign currency exempt from repatriation requirements, and the Central Bank bought nearly 158 b.kr. The foreign currency auctions have facilitated the transfer of short-term króna-denominated assets from non-residents to long-term investors. The stock of short-term ISK assets held by non-residents has shrunk from 25% of GDP at year-end 2011 to just under 14% of GDP as of year-end 2015.

Important steps towards liberalisation taken during the year

In November 2008, Parliament passed amendments to the Foreign Exchange Act, authorising temporary restrictions on foreign exchange transactions, and new Central Bank Rules on Foreign Exchange were adopted, placing restrictions on cross-border capital movements. Since then, the Icelandic authorities have aimed to lift the capital controls as soon as the balance of payments permits. In 2015, an important milestone was passed when the authorities introduced their updated capital account liberalisation strategy and granted the failed commercial and savings banks' estates exemptions from the capital controls in view of their having fulfilled the authorities' stability conditions.

Steps towards capital account liberalisation

The first capital account liberalisation strategy was presented in August 2009 and the second in March 2011. The first steps towards liberalisation were taken in October 2009, in connection with new investment scheme in Iceland. The 2011 strategy marked the launch of the Central Bank's programme of foreign currency auctions with the aim of reducing the stock of offshore krónur. *Offshore krónur* is the term given to domestic currency assets owned or held by non-residents, or certificates for such assets, which were subject to special restrictions under the Rules on Foreign Exchange. With the auctions and other measures, the stock of offshore krónur was reduced by half. The Central Bank's last auction was held in February 2015.

On 12 March 2012, the Foreign Exchange Act was amended with the aim of restricting distributions from the failed commercial and savings banks' estates. The authorities were authorised to grant exemptions from the restrictions provided for in the amended Act upon having ensured that transfers from the estates would not jeopardise monetary and exchange rate stability or financial stability. In March 2015, offshore ISK owners' investment authorisations were tightened on the basis of the Rules on Foreign Exchange.

Key aspects of the balance of payments problem

Ever since the commercial banks failed, Iceland has faced a balance of payments problem. The problem manifests itself in the economy's potential inability to cover future capital outflows in circumstances where krónur must be exchanged for foreign currency over a short period, without severely weakening the króna or depleting the foreign exchange reserves.

The balance of payments problem has been analysed in depth, and its three key aspects are these: first, capital outflows due to ISK assets upon the settlement of the estates. About 95% of claims are held by non-residents. This problem has now been solved with the estates' composition agreements. The second cause of the balance of payments problem is capital outflows from the sale of potentially volatile ISK assets held by non-residents, commonly termed offshore krónur. The third is resident entities' pent-up need to invest in foreign assets. In all, outflows stemming from the estates, on the one hand, and offshore krónur, on the other, could total as much as 40% of GDP.

Capital account liberalisation strategy updated in June 2015

In 2014, domestic and foreign experts were engaged to work with the authorities towards capital account liberalisation. On 8 June 2015, on the basis of the work done by these experts and a special task force, the authorities announced an action plan designed to address the problems stemming from the settlement of the estates. The action plan specified that in order to ensure that the settlement of the estates would not cause instability, it would be necessary to adopt counter-vailing measures in order to mitigate the adverse effects deriving from distributions of domestic assets to foreign creditors.

According to the plan, the estates would be presented with non-negotiable stability conditions comprising two options: either a stabil-

ity tax or a stability contribution, which would mitigate the negative impact that distributions from the estates would have on the balance of payments.

Stability conditions

In accordance with the above, the following stability conditions were approved by the steering committee for capital account liberalisation on 7 June 2015 and published on the Central Bank website the following day:

1. Measures would be adopted that would sufficiently reduce the negative impact of distributing the proceeds of the sale of the assets in Icelandic krónur (stability contribution);
2. Other foreign-denominated domestic assets owned by the failed banks would be converted into long-term financing to the degree required (extension of maturities); and
3. Where applicable, the repayment of the foreign-denominated facilities granted by the authorities to the new banks following the financial market collapse would be guaranteed (reimbursements).

Stability tax

On 3 July 2015, Parliament passed the Minister of Finance and Economic Affairs' bill of legislation on a stability tax. The one-time tax was passed into law so as to create the conditions for liberalisation of the capital controls. The aim of the new law was to promote the removal of the controls in the interest of economic stability and the public good. Taxation was intended to address the negative impact of settlement and fulfilment by taxable entities following their winding-up. The bill received support across the board and was passed unanimously in Parliament.

Estates request exemptions

Seven of the failed commercial and savings banks' estates then requested that the Central Bank grant them exemptions from the Foreign Exchange Act, no. 87/1992, for the planned composition agreements with their creditors and the conclusion of their winding-up proceedings, cf. Article 103(a) of the Act on Financial Undertakings, no. 161/2002. It was clear from the outset that exemptions for Glitnir hf., Kaupthing hf., and LBI hf. would only be granted in consultation with the Minister of Finance and Economic Affairs and following a presentation before the Parliamentary Economic Affairs and Trade Committee, as is provided for in Article 13(o), Paragraph 2 of the Foreign Exchange Act, no. 87/1992.

Stability conditions fulfilled

The estates' requests for exemptions entailed proposals for specific measures that the companies planned to undertake in order to fulfil the aforementioned stability conditions. The Central Bank analysed the effect that winding up the companies would have on monetary and exchange rate stability, on the one hand, and financial stability,

on the other, on the basis of the estates' proposals for the conclusion of winding-up proceedings, with reference to stability conditions. The Bank concluded that the drafts submitted satisfied the requirements set forth in the Foreign Exchange Act, in that the fulfilment of the composition agreements together with the proposed countervailing measures would not jeopardise monetary, exchange rate, or financial stability. It was therefore concluded that the premises existed for granting the companies and their creditors the necessary exemptions to the Foreign Exchange Act.

The estates' proposals included a number of mitigating measures that all but eliminated the likelihood of capital movements that could cause instability. These measures entailed the delivery of a stability contribution, which ensured, among other things, that assets carrying little value in the failed institutions' balance sheets would not cause a balance of payments problem if they proved more valuable than previously estimated. The assets that were to be transferred to the authorities, either immediately or later, on the basis of a special cash sweep provision in connection with the stability contribution included loans, equity securities, claims, debt securities, tax claims, claims on the basis of compensatory damages or rescission cases, and appropriated assets such as real estate. The measures also entailed converting foreign-denominated deposits with operating financial institutions into longer term obligations and paying off the facilities granted by the State and the Central Bank to Arion Bank and Íslandsbanki upon their establishment. Furthermore, they entailed allocating a portion of the estates' ISK assets to taxes, expenses, and a reserve fund, which would neutralise any negative balance of payments effects. Moreover, the authorities decided that the Central Bank of Iceland Asset Management Company's (ESÍ) foreign-denominated recoveries in connection with the settlement of the estates would be used to counteract the negative impact of settlement on the balance of payments. In addition, it was clear that the transfer of Glitnir hf.'s holding in Íslandsbanki hf. to the State would dramatically reduce the balance of payments risk connected with the sale of Íslandsbanki.

Exemptions granted

Following consultation with the Minister of Finance and Economic Affairs in connection with Glitnir, Kaupthing, and LBI, the Central Bank promised the companies that certain exemptions from the Foreign Exchange Act would be granted in connection with their composition agreements upon fulfilment of the stability conditions. Similar promises were made to other estates as well. The Central Bank also issued a certified statement to the estates, confirming its opinion that their composition proposals would not jeopardise monetary or exchange rate stability or pose a threat to financial stability; cf. Article 103(a), Paragraph 4 of the Act on Financial Undertakings, no. 161/2002.

Thereafter, the estates held creditors' meetings, where the composition proposals were approved and the companies' winding-up boards filed a written petition for confirmation of the composition agreements with the District Court Judge; cf. Article 54, Paragraph 1

of the Act on Bankruptcy, Etc., no. 21/1991. The composition agreements were confirmed by rulings issued by the District Court. In view of the fact that no appeals were filed within the stipulated deadline, all of the companies' composition agreements were deemed to have taken effect; cf. Articles 59 and 60 of the Act on Bankruptcy, Etc.

Following the legally required consultation with the Minister of Finance and Economic Affairs on the basis of Article 13(o), Paragraph 2 of the Foreign Exchange Act, no. 87/1992, and presentation before the Parliamentary Economic Affairs and Trade Committee on the economic impact of granting exemptions to Glitnir, Kaupthing, and LBI, the exemptions needed for the composition agreements and the conclusion of winding-up proceedings were granted, subject to the fulfilment of the conditions set by the Central Bank. Other estates were also granted the exemptions they needed following the confirmation of their composition agreements.

Central Bank of Iceland Holding Company ehf. (ESÍ)

After Iceland's banks failed in the autumn of 2008, the Central Bank acquired sizeable claims against domestic financial institutions. The claims were backed by collateral of various types. Some of them were transferred to the Treasury at year-end 2008, and the Central Bank administered them.

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). Another company owned by the Bank, Central Bank of Iceland Asset Management ehf. (Sölvhóll) merged with ESÍ at the beginning of 2013, whereupon ESÍ took over its role. Sölvhóll was an asset management company whose role was to maximise the value of ESÍ assets and divest them when market conditions permitted. This arrangement has provided the Bank with an effective means of separating the operations and assets related to the crash from its conventional activities. ESÍ has one subsidiary, Hilda ehf., which it took over in mid-2011. At the beginning of 2014, Hilda took over certain aspects of Drómi hf.'s operations. Hilda's principal assets are corporate loans and real estate. It maintains a staff of 10 employees.

At year-end 2015, ESÍ's balance sheet totalled 133.6 b.kr., and its assets had declined by 75.5 b.kr. since year-end 2014, primarily due to asset sales and reduction of debt to the Central Bank. The consolidated after-tax profit amounted to 10.6 b.kr.

The ESÍ board is chaired by Jón Th. Sigurgeirsson. Other board members are Ingibjörg Gudbjartsdóttir and Sturla Pálsson. Members of the Hilda board are Haukur C. Benediktsson, Chairman, and Steinar Thór Gudgeirsson.

Greidsluveitan ehf.

Greidsluveitan ehf. is a company owned by the Central Bank of Iceland. Its principal role is to operate core payment intermediation systems and provide related services, in accordance with the regulatory framework as current at any given time.

The company currently operates four software systems and ancillary systems related to payment intermediation.

- Birtingur is a system that enables participants (banks and other financial institutions) to publish various electronic documents in online banks. The documents may be produced by the banks themselves or by customers of their branches. A new version of the system, providing for the possibility of storing documents bearing electronic signatures, is under development. All documents in the system are accessible for at least seven years from the filing date.
- The netting system is an interbank system that receives participants' payment orders in amounts ranging up to 10 m.kr. It is a real-time system and is open 24 hours a day year-round. Final settlement between participants (banks) takes place twice a day on banking days, through the Central Bank's real-time gross settlement (RTGS) system.
- The RÁS system transmits authorisation and settlement transactions for electronic payments using debit or credit cards. The transactions are transmitted between merchant and acquirer, or between these parties' technological service providers.
- The Society for Worldwide Interbank Financial Telecommunication (SWIFT) service transmits payment orders, notifications, and other communications complying with SWIFT rules between senders and recipients of payments. In Iceland, the system is used mostly for payments between domestic and foreign banks.

In addition to the above-mentioned systems, the company handles specific aspects of RTGS system operations. All domestic interbank payments in excess of 10 m.kr. are routed through the Central Bank's RTGS system.

The company recorded an operating profit in 2015, and as in recent years, the profit will be used primarily to finance the renewal of the RTGS and netting systems.

Four Bank employees were members of the Greidsluveitan Board of Directors in 2015: Gudmundur 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.

Jóhannes Nordal cultural heritage grants

The fourth allocation of the cultural heritage grant in the name of former Central Bank Governor Jóhannes Nordal took place on 13 May 2015. A total of 36 applications were received. Two applications were awarded grants of one million krónur each. The winning applicants were Rannveig Anna Jónsdóttir and Niels Hafstein.

Rannveig Anna Jónsdóttir received a grant in order to compile information on Icelandic women authors and their published works. The information will be made available in digitised form on the website of Konubókastofa and will be published in physical form as well. There are also plans to produce abridged translations into English and German in order to increase the visibility of Icelandic women authors on the international literary scene.

Niels Hafstein applied for a grant for Safnasafnid, in order to publish a sampler containing works by 100 artists. The book will be both a promotional work and a useful helping tool for the preparation of research and exhibitions centring on developments in Icelandic folk art over a period of 170 years.

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



VIII Accounts and organisation

Operating results and balance sheet

According to its profit and loss account, the Central Bank of Iceland recorded a net profit of 5,651 m.kr. in 2015, compared with a profit of 11,220 m.kr. in the previous year. Excluding exchange rate differences and income tax, the Bank's operations generated a profit of 16,058 m.kr. in 2015, as opposed to a profit of 7,742 m.kr. in 2014. 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 in 2015, totalling 8,353 m.kr., was due partly to the decline in the exchange rate of the euro during the year. In 2014, exchange rate gains totalled 6,185 m.kr.

The Bank's operating results deteriorated by 5,568 m.kr. in comparison with the previous year. Net interest income declined by 3,151 m.kr. year-on-year. Interest income on domestic assets declined by 1,431 m.kr., due to a reduction in bond principal and the sale of domestic assets. Interest expense on domestic deposits increased by 4,385 m.kr., owing to the Bank's large-scale foreign currency purchases in both regular and *ad hoc* transactions. Interest expense on foreign debt declined by 2,330 m.kr., due mainly to the retirement of loans from Poland and the International Monetary Fund (IMF). The total amount of the IMF loan, taken in tranches, was about 250 b.kr. (SDR 1,400 million) at the time the IMF programme concluded in August 2011. The loan was repaid over the period from 2012 through 2015. Iceland also borrowed funds from the Faeroe Islands, Poland, and the Nordic countries in connection with the IMF programme but repaid those loans in advance in 2012-2015.

Other operating income rose by 5,424 m.kr. year-on-year, mainly because the revaluation of domestic bonds from the ESI portfolio was capitalised. Furthermore, impairment of claims in the amount of 6.135 m.kr. was reversed in 2015, owing to larger-than-expected recoveries of ESI claims against failed financial institutions. The revaluation of foreign securities resulted in a charge of 7,392 m.kr. in 2015, and the market value of the Bank's holdings in gold declined by 1,067 m.kr. Service income net of service expenses rose by 146 m.kr. between years. Foreign exchange transactions generated a loss of 119 m.kr. in 2015, owing to an increase in the Bank's foreign exchange market intervention to an all-time high during the year. The Bank's operating expense declined by 301 m.kr. year-on-year, largely due to a reduction in service charges related to the activities of companies owned by the Bank. Salaries and related expenses rose by 12.6% between years, primarily because of contractual pay increases. The Bank's assets totalled 916,977 m.kr. at year-end 2015, as opposed to 953,598 m.kr. at the end of 2014. Foreign assets increased by 123,587 m.kr. during the year. The Bank's equity totalled 78,760 m.kr. at year-end 2015, and its equity ratio was 8.6%, as compared with 7.9% at year-end 2014.

Table VIII-1 Profit and loss account highlights

| (Figures in ISK millions) | 2015 | 2014 | Change |
|------------------------------------|--------|--------|---------|
| Performance for the year | 5,651 | 11,220 | -5,568 |
| <i>Changes specify as follows:</i> | | | |
| Net interest income | 3,069 | 6,220 | -3,151 |
| Other revenues | 10,958 | 5,564 | 5,394 |
| Operating expenses | -4,085 | -3,784 | -301 |
| Loan impairment | 6,116 | -258 | 6,374 |
| Exchange rate difference | -8,353 | 6,185 | -14,538 |
| Income tax | -2,054 | -2,708 | 654 |

Table VIII-2 Balance sheet highlights

| (Figures in ISK millions) | 2015 | 2014 | Change |
|------------------------------------|---------|---------|----------|
| Equity: | 78,760 | 75,027 | 3,733 |
| <i>Changes specify as follows:</i> | | | |
| <i>Assets:</i> | | | |
| Gold | 8,790 | 9,598 | -808 |
| Foreign assets | 641,607 | 518,020 | 123,587 |
| FX balance with the IMF | 3,369 | 3,447 | -78 |
| Domestic financial assets | 250,761 | 401,763 | -151,003 |
| Fixed and liquid assets | 4,811 | 4,745 | 66 |
| Other assets | 7,639 | 16,016 | -8,377 |
| <i>Liabilities:</i> | | | |
| Banknotes and coin | 55,671 | 49,955 | 5,716 |
| Foreign debt | 2,060 | 45,678 | -43,618 |
| Counterpart to IMF | 20,156 | 20,621 | -466 |
| Deposits of financial institutions | 67,644 | 52,022 | 15,622 |
| Other deposits | 448,529 | 595,323 | -146,794 |
| Domestic financial liabilities | 242,199 | 113,198 | 129,001 |
| Other liabilities | 1,959 | 1,765 | 194 |
| Equity | 78,760 | 75,027 | 3,733 |

At the end of 2015, the Bank's foreign assets accounted for 71% of total assets, up from 55% at the end of 2014. The Central Bank's accounts are presented later in this report, together with detailed explanatory notes on individual items.

Changes in equity

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. If the Bank's assessment of its financial position reveals that the conditions for a call-in exist, it is permitted to call in the equity at any time during the calendar year. The call-in must be presented in writing, and the Treasury must respond within 14 business days. The amount of the callable equity changes in line with developments in the consumer price index.

Disposition of profit for 2015

The disposition of the Bank's profit is determined annually using a method incorporated into the law with the passage of Act no. 122/2014. The method entails a revaluation analysis and an assessment of the Bank's need for equity and interest-bearing assets. On the basis of this method, a positive revaluation is allocated to a reserve fund, a separate account among equity items that includes unrealised income and expense. Negative revaluations are taken from the reserve fund to the extent possible and then entered to offset realised gains. If the reserve fund or the realised gains do not offset the negative revaluation in full, the remainder is taken from the equity account specified as other equity. This methodology smoothes out fluctuations in the profit reverting to the Treasury.

According to the Central Bank Act, the Bank shall have the financial strength needed to enable it to carry out its legally mandated role. In order to ensure that this goal is met, the remainder of the Bank's profit, after allocations have been made to the reserve fund, is distributed to the Treasury, to the extent that it is not used to strengthen the Bank's capital. To this end, the Bank defines for itself capital adequacy criteria that reflect its need for equity 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.

In 2016, the Bank decided to use its profit to bolster its capital position. When the decision was taken, a three-year analysis was conducted of the Bank's operations and balance sheet, as well as an assessment of the risks facing the Bank and a scenario analysis. The difference between interest income on the Central Bank's foreign assets and interest expense on its domestic liabilities amounts to about 5

percentage points, making for a negative differential of just under 18 b.kr. per year. In spite of this, the Bank does not consider it necessary to call in bonds to strengthen its capital. The reason for this is that the current situation is unlikely to prove long-lasting. The Bank's balance sheet could undergo radical changes in 2016, which would rectify the matter. Particularly important in this context are the proposed measures to address the problem associated with offshore krónur.

Accordingly, it was decided, cf. Article 34, Paragraph 2 of the Central Bank Act, to use the Bank's profit and the reserve fund balance, to strengthen the Bank's capital by 14.9 b.kr.

Supervisory Board

The Central Bank Act, no. 36/2001, stipulates that there shall be seven members of the Supervisory Board, which shall be appointed by Parliament following each Parliamentary election. The Supervisory Board was elected by Parliament on 5 July 2013. At the beginning of the year, the member Jón Helgi Egilsson became chairman, after having replaced Ólöf Nordal, who resigned from the Board at the end of 2014. Other members were Ingibjörg Ingvadóttir, Ragnar Árnason, Ágúst Ólafur Ágústsson, Björn Valur Gíslason, Audur Hermannsdóttir, and alternate Ingvi Hrafn Óskarsson, who replaced Ólöf Nordal. In March, Thórunn Guðmundsdóttir was elected principal member to the Supervisory Board to replace Ólöf Nordal. Thórunn became chairman in April. Linda Björk Bentsdóttir resigned as an alternate Board member in August. At the year-end, other alternates were Ingvi Hrafn Óskarsson, Heiðrún Lind Marteinsdóttir, Leó Löve, Sigrún Elsa Smáradóttir, Hildur Traustadóttir, and Sunna Jóhannsdóttir. The Supervisory Board held 15 meetings during the year.

Governor and Deputy Governor

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

Central Bank organisation

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

The Economics and Monetary Policy Department carries out economic and monetary research, prepares macroeconomic and inflation forecasts, participates in formulating policy in currency and monetary matters, and analyses developments in domestic and foreign economic

and monetary affairs, including the macroeconomic elements of financial stability. The Department oversees the issuance of various Bank publications, including *Hagvísar/Economic Indicators*, *Peningamál/Monetary Bulletin*, *Working Papers*, *Economic Affairs*, and *Economy of Iceland*. The Department comprises two units: the Analysis and Publications Unit and the Research and Forecasting Unit.

Treasury and Market Operations oversees domestic money markets and currency markets, as well as transactions with domestic financial institutions. It also manages the Bank's balance sheet, handles the custody and investment of the foreign reserves, and oversees Government debt affairs, Treasury guarantees, and Treasury relending. The Department also oversees communications with the foreign financial institutions with which the Central Bank and the Treasury interact.

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

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

The Financial Stability Department analyses financial system risks, drafts and adopts rules on credit institutions' liquidity and foreign exchange balance, carries out monitoring, and participates in formulating prudential rules for the financial system. It monitors the position of credit institutions, households, and businesses, as well as the external position of the economy as a whole. The department also publishes the Bank's *Financial Stability* reports.

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. It also administers the Central Bank-owned company Greidsluveitan ehf., which operates the financial market infrastructure elements owned by the Bank.

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

The Operations and Human Resources Department is divided into six service units: Asset Administration and Services, Internal Information Services, Cafeteria and Food Services, Operational and Office Services, Human Resources, and Information Technology. The department's defined objectives are to provide an environment and equipment that enable the Central Bank to carry out its tasks as well as possible at all times; to use the funds intended for the Bank's operations as economically as possible, as regards staffing, operations, and reputation; and to enforce the Bank's human resources and education policies as well as possible at all times.

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

The Legal Department provides the Governors and the various departments of the Bank with legal advice on matters related to the Bank's role and operations. Legal Department staff members participate in the preparation of legislation and other regulatory instruments, prepare legal opinions, 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 of the Bank and the companies it owns. The Internal Auditor assesses the efficiency of risk management and governance practices through systematic procedures, thereby supporting the Bank in achieving its objectives.

Human resources

The Bank's staff numbered 171 at the beginning of 2015, in addition to six part-time custodial employees, bringing the total to 177. At the end of the year, there were 172 employees and six part-time custodial employees, or a total of 178. During the year, 18 employees were hired and 17 left the Bank. Eight summer staff members were employed by the Bank in 2015.

The gender ratio changed somewhat during the year. At the beginning of the year, the Bank employed 87 men and 90 women, and at the end of the year there were 95 men and 83 women. The gender ratio among directors remained unchanged at five men and five women. The ratio of university-educated employees was 83.5% at the year-end.

As of year-end 2015, 29 employees worked for companies owned by the Bank, including 17 employed by Greidsluveitan ehf. and

12 employed by the Central Bank of Iceland Holding Company ehf. and Hilda ehf.

During the year, the Bank held Central Bank Day, giving staff members a chance to come together to participate in group activities and attend lectures. Experts were engaged to lead the group activities, which fell into three categories: environment, communications, and job satisfaction. The groups continued to work together after Central Bank Day, and the results of their efforts will be forthcoming in the first half of 2016.



Central Bank of Iceland 31 December 2015

Supervisory Board

Principal members

Thórunn Guðmundsdóttir, Chairman

Jón Helgi Egilsson

Ágúst Ólafur Ágústsson

Ingibjörg Ingvadóttir

Ragnar Árnason

Björn Valur Gíslason

Audur Hermannsdóttir

Alternates

Ingvi Hrafn Óskarsson

Sigrún Elsa Smáradóttir

Heidrún Lind Marteinsdóttir

Hildur Traustadóttir

Leó Löve

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:

Treasury and Market Operations:

Operations and Human Resources:

Internal Auditor:

Jón Th. Sigurgeirsson, Director

Erla Guðmundsdóttir, Director

Guðmundur Kr. Tómasson, Director

Sigríður Benediktsdóttir, Director

Tómas Örn Kristinsson, Director

Ingibjörg Guðbjartsdóttir, Director

Thórarinn G. Pétursson, Chief Economist

Sigríður Logadóttir, General Counsel

Sturla Pálsson, Director

Ásta H. Bragadóttir, Director

Nanna Huld Aradóttir

Companies owned by the Central Bank of Iceland

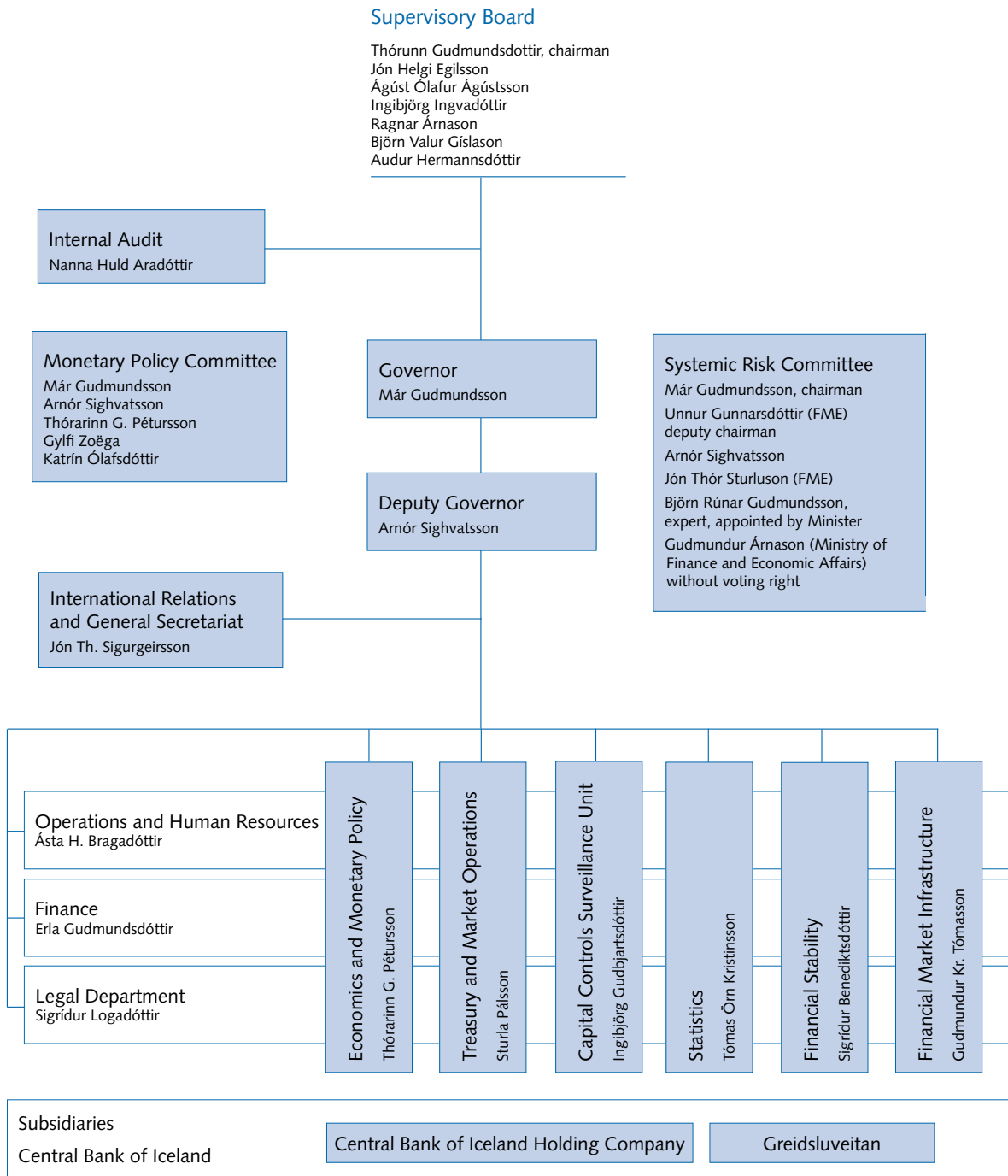
Central Bank of Iceland Holding Company ehf. (ESÍ):

Greidsluveitan ehf.:

Haukur C. Benediktsson, Director

Logi Ragnarsson, Director

The organisational chart of the Central Bank of Iceland





CONSOLIDATED ANNUAL ACCOUNTS 2015

Independent Auditors' Report

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

We have audited the accompanying consolidated annual accounts of the Central Bank of Iceland for the year 2015. The consolidated annual accounts include confirmation by the senior management of the Central Bank of Iceland, a profit and loss account, a balance sheet, a statement of cash flows, a statement of changes in equity, information on accounting principles, and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements, in accordance with the Annual Accounts Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

It is our opinion that the consolidated annual accounts give a true and fair view of the results of operations of the Central Bank of Iceland for the year 2015, the financial position as at 31 December 2015, and cash flows for the year then ended, in accordance with the Annual Accounts Act, the Act on Financial Undertakings, and the Rules on the Central Bank of Iceland's Accounting and Annual Accounts.

Kópavogur, 17 March 2016

Deloitte ehf.

Benóní Torfi Eggertsson
Auditor

Jón Rafn Ragnarsson
Auditor

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 2015 with their signatures.

Reykjavík, 10 March 2016

Confirmation by the Supervisory Board

Thórunn Guðmundsdóttir
Chairman

Jón Helgi Egilsson
Ragnar Árnason
Ágúst Ólafur Ágústsson

Ingibjörg Ingvadóttir
Audur Hermannsdóttir
Björn Valur Gíslason

Confirmation by the Governor

Már Guðmundsson

Confirmation by the Minister of Finance and Economic Affairs

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, 17 March 2016

Bjarni Benediktsson

Profit and Loss Account for the year 2015

| | Notes | 2015 | 2014 |
|---|-------|---------------------|---------------------|
| Interest income | | | |
| From domestic assets | | 17,957,775 | 19,388,923 |
| From foreign assets | | 7,449,528 | 6,838,704 |
| | 1 | <u>25,407,303</u> | <u>26,227,628</u> |
| Interest expense | | | |
| From domestic liabilities | | (21,686,437) | (17,301,028) |
| From foreign liabilities | | (652,231) | (2,706,684) |
| | 2 | <u>(22,338,668)</u> | <u>(20,007,712)</u> |
| | | 3,068,635 | 6,219,916 |
| Operating revenues | | | |
| Service revenues | 3 | 1,377,264 | 1,474,846 |
| Service expenses | 4 | (878,183) | (1,121,958) |
| Withdrawn banknotes | | 750 | (196) |
| Revenues from shareholdings | 5 | 85,923 | 40,195 |
| Value adjustments in domestic bond prices | 6 | 17,161,809 | 1,599,049 |
| Value adjustments of appropriated assets | 28 | 1,814,274 | 613,075 |
| Value adjustments of foreign securities | 6 | (7,392,174) | 2,746,937 |
| Value adjustments of gold | 7 | (1,067,425) | (120,397) |
| Exchange rate gains (losses) on foreign exchange transactions | 8 | (119,155) | 332,693 |
| | | <u>10,983,082</u> | <u>5,564,244</u> |
| | | 14,051,717 | 11,784,160 |
| Operating expenses | | | |
| Salaries and related expenses | 9 | (2,630,752) | (2,335,860) |
| Other operating expenses | 10 | (1,127,078) | (1,210,785) |
| Expense due to banknotes and coin | 11 | (166,012) | (68,389) |
| Depreciation of property and equipment | 27 | (161,494) | (169,188) |
| Reversed impairment of claims (impairment of claims) | 12 | 6,116,379 | (257,512) |
| | | <u>2,031,043</u> | <u>(4,041,734)</u> |
| Share in earnings of associates | 30 | (24,675) | 0 |
| | | 16,058,085 | 7,742,426 |
| Income tax | 14 | (2,054,012) | (2,707,876) |
| | | 14,004,073 | 5,034,550 |
| Exchange rate difference | 13 | (8,352,759) | 6,185,091 |
| | | <u>5,651,314</u> | <u>11,219,641</u> |

Amounts are in ISK thousands.

Balance Sheet 31 December 2015

| Assets | Notes | 2015 | 2014 |
|---|-------|--------------------|--------------------|
| Gold | 16 | 8,790,287 | 9,597,822 |
| Foreign assets | 17-20 | 641,606,734 | 518,019,660 |
| FX balance with the IMF | 21 | 3,369,392 | 3,447,240 |
| Domestic financial assets | 22-26 | 250,760,528 | 401,763,108 |
| Fixed operational assets | 27 | 4,811,346 | 4,745,108 |
| Appropriated assets and real estate held for sale | 28 | 4,905,532 | 9,725,128 |
| Deferred tax assets | 29 | 13,402 | 1,264,992 |
| Other assets | 30 | 2,720,175 | 5,026,096 |
| Assets | | 916,977,397 | 953,589,154 |
| Equity and liabilities | | | |
| Capital | | 83,501,000 | 83,501,000 |
| Uncalled capital | 39 | (52,000,000) | (52,000,000) |
| Value adjustment reserve | 15 | 0 | 9,313,826 |
| Real estate revaluation | | 4,299,112 | 4,348,056 |
| Translation reserve | 30 | (12,572) | 0 |
| Other equity | | 42,972,042 | 29,863,773 |
| Equity | 40 | 78,759,581 | 75,026,655 |
| Banknotes and coin | 32 | 55,671,137 | 49,955,315 |
| Foreign liabilities | 33 | 2,060,342 | 45,678,267 |
| Counterpart to IMF | 21 | 20,155,612 | 20,621,220 |
| Deposits of financial institutions | 34 | 67,643,670 | 52,021,653 |
| Other deposits | 35 | 448,528,896 | 595,323,264 |
| Domestic financial liabilities | 36 | 242,199,120 | 113,197,784 |
| Deferred tax liabilities | 29 | 2,962 | 20,010 |
| Pension obligations | 37 | 257,906 | 255,427 |
| Other liabilities | 38 | 1,698,171 | 1,489,560 |
| Liabilities | | 838,217,815 | 878,562,499 |
| Equity and liabilities | | 916,977,397 | 953,589,154 |

Statement of Cash Flows 2015

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Operating activities | | |
| Collected interest income | 21,554,142 | 25,648,397 |
| Paid interest expense | (19,746,431) | (21,561,282) |
| Net collected interest income | 1,807,711 | 4,087,115 |
| Collected service revenues | 1,138,780 | 1,476,944 |
| Paid-out service expense | (715,580) | (1,125,656) |
| Paid-in dividends on shareholdings | 85,923 | 40,195 |
| Collected net operating revenues | 2,316,834 | 4,478,598 |
| Paid operating expenses | (3,913,949) | (3,568,714) |
| Cash and equiv. fr. operat. (to operat.) w/o taxes and transfer to Treasury | (1,597,116) | 909,884 |
| Paid income tax | (229,320) | (2,154,539) |
| Paid transfer to Treasury | 0 | (6,516,660) |
| Net cash (to operating activities) from operating activities | (1,826,436) | (7,761,315) |
| Investment activities | | |
| Purchased property and equipment | (177,557) | (61,877) |
| Appropriated assets, sales net of supplements | 7,907,259 | 3,562,583 |
| Equity securities sold | 0 | 173,430 |
| Ownership shares purchased | (145,511) | 0 |
| Securities purchased | 0 | (10,935,339) |
| Securities sold | 80,224,546 | 34,587,577 |
| Instalments on securities, etc. | 93,118,977 | 23,415,088 |
| Gold purchased | (11,910) | (6,569) |
| Securities purchased in foreign reserves | (243,097,654) | (191,778,158) |
| Securities sold in foreign reserves | 215,680,897 | 167,922,480 |
| Subsidiaries' capital income tax, decrease | 1,034,468 | 54,842 |
| Special drawing rights (SDR) with the International Monetary Fund .. | (20,561,921) | (7,681) |
| Net cash (to operating activities) from investment activities | 133,971,594 | 26,926,376 |
| Financing activities | | |
| Banknotes and coin in circulation, increase | 5,715,822 | 2,939,807 |
| Loan from International Monetary Fund (instalments) | (41,796,594) | (50,402,017) |
| Loans taken from Nordic central banks (instalments) | 0 | (30,845,000) |
| Other loans | (25,600) | 0 |
| Certificates of deposit, (decrease) | 0 | (132,750,000) |
| Term deposits, increase | 136,140,000 | 106,913,214 |
| Treasury term deposits (decrease) | (7,438,665) | 0 |
| Foreign-denominated deposits, (decrease) increase | (79,917,496) | 28,043,636 |
| Deposit institutions' deposits, increase (decrease) | 16,882,139 | (20,270,413) |
| Increase (decrease) in deposits, other parties | (8,532,420) | 12,548,722 |
| Increase (decrease) in deposits, central government | (55,183,839) | 55,744,996 |
| Swap agreements (decrease) | (575,310) | (242,321) |
| Net cash (to operating activities) from financing activities | (34,731,962) | (28,319,376) |
| Changes in cash position | | |
| Foreign bank deposits, increase (decrease) | 97,413,196 | (9,154,315) |
| Exchange rate difference on bank deposits | (2,979,518) | 1,951,299 |
| Foreign cash balance at beginning of year | 35,375,300 | 42,578,316 |
| Foreign cash balance at year-end | 129,808,977 | 35,375,300 |

Amounts are in ISK thousands.

Statement of changes in equity 2015

| | <i>Capital</i> | <i>Uncalled capital</i> | <i>Value adjustm. reserve</i> | <i>Real estate revaluation</i> | <i>Transl. reserve</i> | <i>Other equity</i> | <i>Total equity</i> |
|--------------------------------------|-------------------|-------------------------|-------------------------------|--------------------------------|------------------------|---------------------|---------------------|
| Equity 1 January 2014 | 57,501,000 | | | 4,397,000 | | 27,909,014 | 89,807,014 |
| Reduction of capital | (26,000,000) | | | | | | (26,000,000) |
| Callable equity | 52,000,000 | (52,000,000) | | | | | 0 |
| Profit for the year 2014 | | | 9,313,826 | | | 1,905,815 | 11,219,641 |
| Depreciation of revalued assets 2014 | | | | (48,944) | | 48,944 | 0 |
| Equity 31 Dec. 2014 | <u>83,501,000</u> | <u>(52,000,000)</u> | <u>9,313,826</u> | <u>4,348,056</u> | | <u>29,863,773</u> | <u>75,026,655</u> |
| Equity 1 January 2015 | 83,501,000 | (52,000,000) | 9,313,826 | 4,348,056 | | 29,863,773 | 75,026,655 |
| Transfer to the Treasury | | | | | | (1,905,815) | (1,905,815) |
| Profit for the year 2015 | | | (9,313,826) | | | 14,965,140 | 5,651,314 |
| Translation reserve | | | | | (12,572) | | (12,572) |
| Depreciation of revalued assets 2015 | | | | (48,944) | | 48,944 | 0 |
| Equity 31 Dec. 2015 | <u>83,501,000</u> | <u>(52,000,000)</u> | <u>(0)</u> | <u>4,299,112</u> | <u>(12,572)</u> | <u>42,972,042</u> | <u>78,759,581</u> |

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 associates 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 associates 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 associates.
- Revenues are entered when earned, irrespective of whether collection has been 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.
- The cost of issuing banknotes and coin is expensed when the costs are incurred.
- Banknotes and coin in circulation are recognised at nominal value.

Basis for accounting methods

Estimates and decisions

Group

Shares in subsidiaries and associated companies

Translation reserve

Entry of revenues and expenses

Banknotes and coin

Foreign currencies

- Assets and liabilities in foreign currency are presented in Icelandic currency using the mid-exchange rate as of year-end 2015. Revenues and expenses in foreign currency are converted using the exchange rate on the transaction date.

| | <i>Average exchange rate for the year</i> | | <i>Year-end exchange rate</i> | |
|----------------------------|---|-------------|-------------------------------|-------------|
| | <i>2015</i> | <i>2014</i> | <i>2015</i> | <i>2014</i> |
| Euro (EUR)..... | 146.30 | 154.86 | 141.32 | 154.27 |
| US dollar (USD)..... | 131.85 | 116.75 | 129.59 | 126.90 |
| Pound sterling (GBP)..... | 201.58 | 192.17 | 192.06 | 197.66 |
| Canadian dollar (CAD)..... | 103.25 | 105.71 | 93.27 | 109.59 |
| Danish krone (DKK)..... | 19.62 | 20.77 | 18.94 | 20.72 |
| Norwegian krone (NOK)..... | 16.37 | 18.54 | 14.75 | 17.14 |
| Swedish krona (SEK)..... | 15.64 | 17.03 | 15.40 | 16.44 |
| Swiss franc (CHF)..... | 137.08 | 128.00 | 130.50 | 128.29 |
| Japanese yen (JPY)..... | 1.09 | 1.10 | 1.08 | 1.06 |
| Polish zloty (PLN)..... | 34.96 | 37.01 | 33.13 | 36.08 |

Indexed assets and liabilities

- Indexed assets and liabilities are entered with accrued indexation as of year-end 2015, using the index value of January 2016, which reflects year-end 2015 price levels. Indexation is recognised in the profit and loss account, with interest.

Securities

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

Taxation

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

Fixed operational assets

- Assets are listed among fixed operational assets when it is likely that the economic benefits of the asset concerned will be useful to the group and when it is possible to estimate the cost due to the asset in a reliable manner. Fixed operational assets are recognised using either the cost-price method or the revaluation method. According to the cost-price method, fixed operational assets are entered at original cost price less accumulated depreciation and

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

- Depreciation is calculated as a fixed annual percentage of the cost price/revaluation price based on the holding period during the year with consideration given to expected scrap value.
- Profit or loss due to the sale of assets is the difference between the sale price and the book value of the asset on the date of sale.
- Gold in the Bank's foreign exchange reserves is entered at market price in US dollars, and valuation changes are entered in the profit and loss account.
- Obligations are written up in the balance sheet if it is considered likely that the company will be faced with financial expense in the future due to a specified event or transaction and it is possible to assess the monetary amount in a reliable manner.

Gold

Obligations

Explanatory notes to consolidated financial statements 2015

Interest income

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

| | 2015 | 2014 |
|--|-------------------|-------------------|
| <i>Interest income on domestic assets:</i> | | |
| Interest income on overnight loans | 951 | 7,397 |
| Interest income on collateralised loans..... | 0 | 1,384 |
| Interest income on marketable securities | 680,191 | 1,077,134 |
| Interest income on indexed securities..... | 1,377,223 | 1,773,193 |
| Interest income on other domestic assets | 15,899,409 | 16,529,816 |
| | <u>17,957,775</u> | <u>19,388,923</u> |
| <i>Interest income on foreign assets:</i> | | |
| Interest income on gold | 27,622 | 7,292 |
| Interest income on bank accounts..... | 91,025 | 42,964 |
| Interest income on securities..... | 7,003,511 | 6,701,974 |
| Interest income on other foreign assets..... | 327,369 | 86,474 |
| | <u>7,449,528</u> | <u>6,838,704</u> |

- Interest income on domestic assets declined by 1.4 b.kr. from the year 2014, or by 7.4%, owing mainly to reductions of bond principal and prepayment of loans.
- In 2015, nine overnight loans were granted, in the amount of 5.2 b.kr. No collateralised loans were granted during the year, and only one was granted in 2014.
- Interest income on marketable securities decreased by 397 m.kr., or 37%, between years. The decline is due to the sale of marketable securities in the first half of the year.
- Interest income on indexed securities declined by 22.3% year-on-year, owing mainly to a reduction in bond principal.
- Interest income on gold totalled 27.6 m.kr. during the year, as opposed to 7.3 m.kr. in 2014. The Bank resumed lending gold for investment purposes in June 2014.
- Interest income on foreign bank accounts doubled between years, due mainly to an increase in deposit balances in 2015.
- Interest income on foreign securities rose by 301.5 m.kr. between years. Foreign securities holdings increased by 10.1 b.kr. in 2015.

Interest expense

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

| | 2015 | 2014 |
|--|-------------------|-------------------|
| <i>Interest expense on domestic liabilities:</i> | | |
| Interest expense on certificates of deposit | 0 | 3,948,812 |
| Interest expense on term deposits | 9,402,472 | 5,118,509 |
| Interest expense on current accounts | 6,525,974 | 4,026,722 |
| Interest expense on Treasury current accounts | 4,896,752 | 3,843,769 |
| Interest expense on foreign currency accounts | 195,237 | 93,516 |
| Interest expense on other domestic liabilities | 666,002 | 269,700 |
| | <u>21,686,437</u> | <u>17,301,028</u> |
| <i>Interest expense on foreign liabilities:</i> | | |
| Interest expense on balance with IMF | 376,679 | 1,737,800 |
| Interest expense due to Treasury foreign borrowing | 171,035 | 213,324 |
| Interest expense on foreign borrowings | 104,517 | 755,561 |
| | <u>652,231</u> | <u>2,706,684</u> |

- Interest expense on domestic liabilities rose by 4.4 b.kr., or 25.4%, due to an increase in interest rates during the year and to an increase in domestic deposit money banks current account balances, owing in turn to foreign exchange transactions during the year.
- Following modifications made to the Bank's monetary policy instruments in May 2014, auctions of 28-day certificates of deposit were discontinued.
- Interest expense on term deposits totalled 9.4 b.kr. in 2015, as opposed to 5.1 b.kr. in 2014. Term deposits took the place of certificates of deposit. 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 2.5 b.kr., or 62.1%. The Bank's current account rate was 4.25% at the beginning of 2015 and 5.5% at the year-end.
- Interest expense on Treasury current accounts rose by 1 b.kr., or 27.4%. Treasury deposit balances declined by 55 b.kr. during the year, owing to the reduction in the principal amount of the Central Bank bond.
- Interest expense on foreign debt declined by 76% year-on-year, owing to the retirement of the IMF loan. By October, the Bank had paid off all foreign debt undertaken in connection with the Stand-By Arrangement with the Fund following the collapse of the banking system in October 2008.

Service revenues

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

| | 2015 | 2014 |
|--|------------------|------------------|
| Revenues from payment intermediation | 1,033,671 | 1,036,794 |
| Revenues from market transactions..... | 136,587 | 134,915 |
| Rent from appropriated assets | 181,742 | 279,362 |
| Other service revenues..... | 25,264 | 23,775 |
| | <u>1,377,264</u> | <u>1,474,846</u> |

- Changes in service revenues are due to a 35% reduction in rental income from the activities of Hilda ehf. The reduction is due to asset sales during the year.

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Service expenses

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

| | 2015 | 2014 |
|---|----------------|------------------|
| Expenses from payment intermediation | 543,154 | 616,505 |
| Expenses due to foreign currency auctions | 17,274 | 49,937 |
| Borrowing expense | 22,388 | 21,658 |
| Expenses due to securities transactions..... | 96,076 | 66,061 |
| Asset management expense..... | 20,317 | 48,547 |
| Operating expense for appropriated assets | 170,362 | 249,577 |
| Other service expenses..... | 8,612 | 69,673 |
| | <u>878,183</u> | <u>1,121,958</u> |

- Service expense declined by 22% year-on-year. The decline is due primarily to a reduction in service expense on appropriated assets and real estate held for sale. Expenses from foreign currency auctions declined by 65% between years, as only one auction, the last, was held in connection with the Bank's Investment Programme during the year.

Revenues from shareholdings

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

| | 2015 | 2014 |
|--------------------------------|---------------|---------------|
| Dividend income from BIS | 44,490 | 40,122 |
| Other dividends..... | 41,433 | 73 |
| | <u>85,923</u> | <u>40,195</u> |

- The year-on-year increase in dividend income is due to shareholdings owned by the Central Bank of Iceland Holding Company (ESÍ).

Value adjustment of securities and funds

6. The value adjustment of securities and funds specifies as follows (in ISK thousands):

| | 2015 | 2014 |
|--|------------------|------------------|
| Domestic securities, change in fair value | 17,161,809 | 1,599,049 |
| Foreign securities, change in fair value | (7,409,847) | 2,697,894 |
| Foreign securities funds, change in fair value | 17,673 | 49,043 |
| | <u>9,769,635</u> | <u>4,345,986</u> |

| <i>Nominal value of foreign securities and funds, by currency:</i> | 2015 | 2014 |
|--|---------------|---------------|
| EUR | 1,497,000,000 | 1,115,000,000 |
| GBP | 269,300,012 | 81,000,012 |
| PLN | 0 | 204,129,000 |
| USD | 2,290,000,000 | 2,136,500,000 |
| CNY | 61,555 | 61,555 |

Value adjustment of gold

7. The decrease in the Bank's gold reserves, at constant exchange rates, totalled just over 1 b.kr. in 2015, as opposed to a decrease of 120 b.kr. in 2014. The market price of gold was 1,061.1 US dollars per ounce at year-end 2015, as compared with 1,187.37 US dollars per ounce at the beginning of the year, a decline of 10.4% year-on-year.

Exchange rate gains (losses) on foreign exchange transactions

8. Exchange rate losses on foreign exchange transactions totalled 119.2 m.kr. in 2015, as opposed to a gain of 332.7 m.kr. in 2014. Exchange rate gains (losses) on foreign exchange transactions in which the Bank has sold or bought foreign currency are recognised as profit or loss.

| | 2015 | 2014 |
|--|------------------|----------------|
| Exchange rate gains (losses) on FX transactions (ISK thousands) | (119,155) | 332,693 |
| | <u>(119,155)</u> | <u>332,693</u> |

Salaries and related expenses

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

| | 2015 | 2014 |
|--|------------------|------------------|
| Wages and salaries | 2,089,162 | 1,884,390 |
| Pension fund | 290,465 | 271,892 |
| Salary-related expenses | 211,449 | 190,757 |
| Contribution to pension obligations | 39,676 | (11,179) |
| | <u>2,630,752</u> | <u>2,335,860</u> |
| Number of full-time position equivalents at year-end | 207 | 208 |

- In 2015, total remuneration to the Governor and the Supervisory Board amounted to 54.7 m.kr. The Governor is not remunerated for participation in boards and committees jointly operated by institutions in the financial market or to which the Central Bank of Iceland appoints a representative by law. Total remuneration to the Governor and the Supervisory Board in 2015 specify as follows (in ISK millions):

| | 2015 | 2014 |
|--|-------------|-------------|
| <i>Governor</i> | | |
| Már Gudmundsson..... | 21.9 | 20.3 |
| <i>Deputy Governor</i> | | |
| Arnór Sighvatsson..... | 19.8 | 21.4 |
| <i>Supervisory Board</i> | | |
| Thórunn Gudmundsdóttir, Chairman..... | 2.0 | 0.0 |
| Ólöf Nordal, former Chairman..... | 0.0 | 2.6 |
| Jón Helgi Egilsson, Deputy Chairman and Acting Chairman for part of the year..... | 2.6 | 2.1 |
| Other Supervisory Board members and alternates..... | 8.4 | 8.2 |
| | <u>54.7</u> | <u>54.6</u> |

Other operating expense

10. Other operating expense specifies as follows (in ISK thousands):

| | 2015 | 2014 |
|--|------------------|------------------|
| Outsourced services..... | 748,638 | 815,202 |
| Operation of property and liquid assets..... | 200,285 | 219,526 |
| Sundry operational items..... | 178,154 | 176,057 |
| | <u>1,127,078</u> | <u>1,210,785</u> |

Expense due to banknotes and coin

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

| | 2015 | 2014 |
|------------------------|----------------|---------------|
| Banknote printing..... | 100,124 | 39,812 |
| Minting of coins..... | 62,555 | 22,342 |
| Equipment..... | 3,332 | 6,234 |
| | <u>166,012</u> | <u>68,389</u> |

- During the year, 500 kr. banknotes were printed, and 100 kr. and 10 kr. coins were minted.

Reversed impairment of claims (impairment of claims)

12. The Bank maintains a claim impairment account for the claims it considers likely to be lost, but this is not a final write-off. Reversed impairment of claims totalled 6.1 b.kr., owing to larger-than-expected recoveries of ESI claims against failed financial institutions.

Exchange rate difference

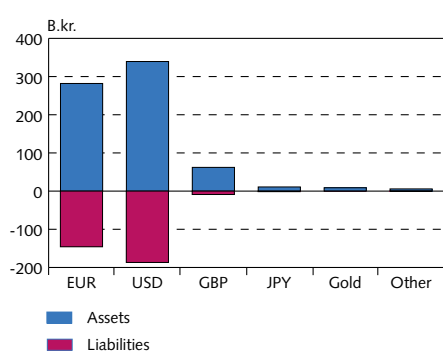
13. Exchange rate difference specifies as follows (in ISK thousands):

| | 2015 | 2014 |
|------------------------------------|--------------------|------------------|
| Gold | 250,112 | 890,848 |
| International Monetary Fund | 1,233,990 | (550,433) |
| Foreign bank deposits | (2,979,518) | 1,874,831 |
| Foreign securities and funds | (10,154,637) | 21,153,864 |
| Foreign current liabilities | 200,958 | (3,184,487) |
| Foreign loans, FX accounts | 3,986,600 | (18,561,010) |
| Derivatives | (769,477) | 3,851,303 |
| Other | (120,786) | 710,173 |
| | <u>(8,352,759)</u> | <u>6,185,091</u> |

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

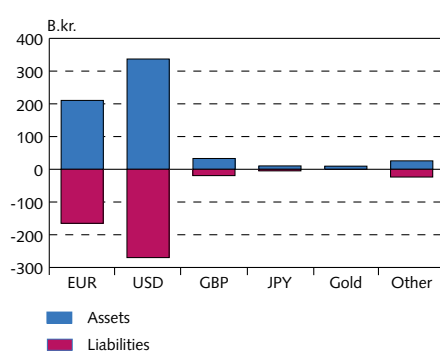
| | 2015 | 2014 |
|-----------|--------|-------|
| USD | 2.12 | 10.32 |
| EUR | -8.39 | -2.67 |
| GBP | -2.83 | 3.92 |
| NOK | -13.97 | -9.39 |
| DKK | -8.60 | -2.48 |
| SEK | -6.37 | -8.39 |
| JPY | 1.35 | -3.05 |
| CHF | 1.72 | -0.70 |
| CAD | -14.89 | 1.41 |
| XDR | -2.26 | 3.64 |

Total assets and liabilities in foreign currency 2015



Source: Central Bank of Iceland.

Total assets and liabilities in foreign currency 2014



Source: Central Bank of Iceland.

Income tax

14. 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):

| | 2015 | 2014 |
|--|--------------------|--------------------|
| Central Bank of Iceland Holding Company ehf. (ESI) | (2,151,791) | (2,686,546) |
| Greidsluveitan ehf..... | (25,903) | (21,330) |
| Hilda ehf. | 123,681 | 0 |
| | <u>(2,054,012)</u> | <u>(2,707,876)</u> |

- Income tax payable in 2016 amounts to 816 m.kr.

| <i>Effective income taxes specify as follows</i> (ISK thousands): | 2015 | | 2014 | |
|---|--------------------|-------|--------------------|-------|
| | Amount | % | Amount | % |
| Profit of companies owned by the Bank | 12,353,018 | | 7,525,739 | |
| Tax rate..... | (2,470,604) | -20.0 | (1,505,148) | -20.0 |
| Non-deductible expenses..... | (14) | 0 | (27,993) | 0 |
| Share in earnings of Bank-owned companies not entering a tax credit..... | 170,631 | 1.38 | 153,786 | 2.0 |
| Deductible dividends received..... | 8,192 | 0.07 | | |
| Deduction for capital gains on sale of shares..... | 42,385 | 0.34 | | |
| Change in write-down of income tax | 195,397 | 1.58 | (1,307,187) | -17.4 |
| Change in tax base for the year..... | | | (21,334) | -0.3 |
| Income tax according to profit and loss..... | <u>(2,054,012)</u> | -16.6 | <u>(2,707,876)</u> | -36.0 |

Transfer to the Treasury

15. 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 equity. The Bank can thereby enter unrealised gains to the 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.

Operating results specify as follows (in ISK thousands):

| | 2015 | 2014 |
|---|------------------|-------------------|
| Net interest income | 3,068,635 | 6,219,916 |
| Value adjustment, realised and unrealised | 16,632,862 | 4,581,152 |
| Exchange rate difference, realised and unrealised | (8,471,914) | 6,517,785 |
| Income from shareholdings | 85,923 | 40,195 |
| Other income | 1,352,590 | 1,474,846 |
| Operating expenses | (4,962,769) | (4,906,377) |
| Income tax | (2,054,012) | (2,707,876) |
| Profit for the year | <u>5,651,314</u> | <u>11,219,641</u> |

The Value Adjustment Reserve specifies as follows (in ISK thousands):

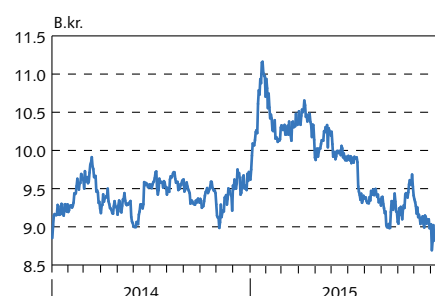
| | 2015 | 2014 |
|--|-------------|------------------|
| Balance at beginning of year | 9,313,826 | 0 |
| Revaluation of foreign securities | (4,787,407) | 3,249,131 |
| Revaluation of domestic securities | 81,324 | 0 |
| Exchange rate difference | (4,501,911) | 6,185,091 |
| Revaluation of gold | (1,067,425) | (120,397) |
| Transferred to retained earnings | 961,593 | 0 |
| Balance at year-end | <u>0</u> | <u>9,313,826</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 profit for the year according to the annual accounts is 5.7 b.kr. The Value Adjustment Reserve declined by 9.3 b.kr. The Bank's profit and the reserve fund balance, totalling 14.9 b.kr., will be used to strengthen the Bank's capital; cf. Article 34, Paragraph 2 of the Central Bank Act.

Gold

16. The Bank's holdings in gold amounted to 63,910.75 ounces at year-end 2015. Holdings in gold, entered at fair value as of year-end 2015, were valued at 1,061.1 US dollars, or 137,508 kr., per ounce. Thus the Bank's holdings in gold were valued at 8.8 b.kr. as of year-end 2015.

Development of gold holdings



Source: Central Bank of Iceland.

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

| | 2015 | 2014 |
|------------------------------------|------------------|------------------|
| Balance at beginning of year | 9,597,822 | 8,816,672 |
| Purchases during the year | 11,910 | 6,525 |
| Value adjustment | (1,067,425) | (120,397) |
| Exchange rate difference | 250,112 | 890,848 |
| Change in accrued interest | (2,132) | 4,174 |
| Balance at year-end | <u>8,790,287</u> | <u>9,597,822</u> |

Foreign assets

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

| | 2015 | 2014 |
|---|--------------------|--------------------|
| Foreign bank deposits | 129,808,977 | 35,375,300 |
| Foreign securities | 489,306,142 | 479,195,656 |
| Foreign securities funds | 1,357,268 | 1,318,043 |
| Special drawing rights (SDR) with the IMF | 20,072,341 | 1,013,801 |
| Foreign derivatives | 119,959 | 103,534 |
| Foreign assets not held in reserves | 942,046 | 1,013,326 |
| | <u>641,606,734</u> | <u>518,019,660</u> |

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

| | 2015 | 2014 |
|--|--------------------|-------------------|
| Balance in foreign central banks | 98,282,149 | 17,800,255 |
| Deposits with BIS | 27,525,442 | 10,004,213 |
| Balance in other foreign banks | 4,001,387 | 7,570,832 |
| | <u>129,808,977</u> | <u>35,375,300</u> |
| Deposits available for withdrawal | 102,285,110 | 25,384,094 |
| Term deposits, available within 3 months | 27,523,867 | 9,991,206 |
| | <u>129,808,977</u> | <u>35,375,300</u> |

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

| | 2015 | 2014 |
|--|--------------------|--------------------|
| Balance at beginning of year | 480,513,699 | 431,765,493 |
| Purchases during the year | 243,097,654 | 191,779,189 |
| Sold and collected during the year | (215,401,132) | (166,931,784) |
| Value adjustment | (7,392,174) | 2,746,937 |
| Exchange rate difference | (10,154,637) | 21,153,864 |
| Balance at year-end | <u>490,663,410</u> | <u>480,513,699</u> |

20. Foreign assets not held in reserves:

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

| | 2015 | 2014 |
|--|----------------|------------------|
| Shareholdings in the Bank for International Settlements .. | 184,486 | 184,486 |
| Other assets not held in reserves | 757,560 | 828,840 |
| | <u>942,046</u> | <u>1,013,326</u> |

International Monetary Fund (IMF)

21. Iceland's quota with the International Monetary Fund (IMF) totalled SDR 117.6 million at year-end 2015. One-fourth ($\frac{1}{4}$) of the quota was originally paid for with gold and the rest with Icelandic krónur. The Bank's foreign exchange balance with the Fund totalled SDR 18.8 million, which is the difference between the quota and the Fund's ISK deposits with the Bank; cf. the table below. The Bank's borrowings in the form of Fund allocations in SDR totalled SDR 112.2 million.

| Assets: | SDR (thous.) | ISK (ISK thous.) |
|--|----------------|-------------------|
| Central Bank of Iceland quota | 117,600 | 21,126,840 |
| IMF deposit with Central Bank of Iceland | (98,846) | (17,757,620) |
| Central Bank's FX balance with IMF | 18,754 | 3,369,392 |
| Central Bank's deposit balance with IMF | 111,721 | 20,072,341 |
| | <u>130,475</u> | <u>23,441,734</u> |
| <i>Liabilities:</i> | | |
| Counterpart to IMF allocations | 112,184 | 20,155,612 |
| IMF current account with Central Bank of Iceland | 7 | 1,251 |
| | <u>112,191</u> | <u>20,156,863</u> |

Domestic financial assets

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

| | 2015 | 2014 |
|------------------------------|--------------------|--------------------|
| Financial institutions | 89,108,899 | 168,416,116 |
| Treasury | 98,412,650 | 155,357,252 |
| Other parties | 63,238,979 | 77,989,740 |
| | <u>250,760,528</u> | <u>401,763,108</u> |

23. Domestic financial assets with financial institutions specify as follows (in ISK thousands):

| | 2015 | 2014 |
|-------------------|-------------------|--------------------|
| Derivatives | 113,462 | 2,108,931 |
| Deposits | 200,427 | 338,301 |
| Loans | 88,795,010 | 165,968,884 |
| | <u>89,108,899</u> | <u>168,416,116</u> |

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

| | 2015 | 2014 |
|--|-------------------|--------------------|
| Bonds | 90,632,442 | 145,622,896 |
| Treasury bonds | 7,357,108 | 9,368,361 |
| Foreign-denominated Government bonds | 423,100 | 365,995 |
| | <u>98,412,650</u> | <u>155,357,252</u> |

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

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|-------------------------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| Balance at beginning of year | 145,622,896 | 172,034,789 | 170,865,296 | 173,073,569 | 164,388,389 |
| Reduction of principal | | (26,000,000) | | | |
| Dividends allocated to principal .. | (1,905,815) | | | | |
| Indexation | | | 4,954,164 | 6,116,916 | 8,631,830 |
| Accrued interest | (40,454) | (411,893) | 978,760 | (956,741) | 53,350 |
| Payment | (53,044,185) | | (4,763,431) | (7,368,448) | |
| Balance at year-end | <u>90,632,442</u> | <u>145,622,896</u> | <u>172,034,789</u> | <u>170,865,296</u> | <u>173,073,569</u> |

- 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.

25. Domestic financial assets with other entities specify as follows (in ISK thousands):

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Housing Financing Fund bonds | 2,153,784 | 7,289,012 |
| Municipal bonds | 0 | 94,362 |
| Financial institutions in winding-up proceedings | 54,557,267 | 58,321,812 |
| Other parties | 6,527,928 | 12,284,555 |
| | <u>63,238,979</u> | <u>77,989,740</u> |

26. Due and payable claims owned by ESI amounted to 54.6 b.kr. at year-end 2015, as compared with 58.3 b.kr. at year-end 2014.

| <i>Claims due and payable specify as follows (in ISK thousands):</i> | 2015 | 2014 | 2013 | 2012 |
|--|-------------------|-------------------|-------------------|-------------------|
| Balance at beginning of year | 58,321,811 | 57,128,898 | 56,472,249 | 53,682,450 |
| Takeover of past-due collateralised loans during the year | | 1,192,913 | 86,829 | 2,935,149 |
| Transactions with claims | 9,923,503 | | | |
| Price adjustments | 4,256,365 | | 569,820 | (145,349) |
| Instalments and exchange rate differential | (17,944,412) | | | |
| Balance at year-end | <u>54,557,267</u> | <u>58,321,811</u> | <u>57,128,898</u> | <u>56,472,249</u> |

Fixed operational assets

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

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

- Fixed operational assets as of year-end 2015 specify as follows (in ISK thousands):

| | Country | Real estate | Liquid assets | Libraries and collections | Total |
|--|---------|-------------|---------------|---------------------------|-----------|
| <i>Cost price and valuation</i> | | | | | |
| Cost price at beginning of year 2014 | | 96,853 | 793,107 | 8,126 | 898,086 |
| Valuation at beginning of year 2014 | 24,000 | 4,575,331 | 30,226 | 237,000 | 4,866,557 |
| Total at beginning of year 2014 | 24,000 | 4,672,184 | 823,333 | 245,126 | 5,764,642 |
| Capitalised during the year | | 2,048 | 59,829 | | 61,877 |
| Sales and disposals during the year (cost price) | | | (195,244) | | (195,244) |
| Cost price at beginning of year 2015 | | 98,901 | 657,692 | 8,126 | 764,719 |
| Valuation at beginning of year 2015 | 24,000 | 4,575,331 | 30,226 | 237,000 | 4,866,557 |
| Total at beginning of year 2015 | 24,000 | 4,674,232 | 687,918 | 245,126 | 5,631,275 |
| Capitalised during the year | | | 227,731 | | 227,731 |
| Cost price at year-end 2015 | | 98,901 | 885,423 | 8,126 | 992,450 |
| Valuation at year-end 2015 | 24,000 | 4,575,331 | 30,226 | 237,000 | 4,866,557 |
| Total at year-end 2015 | 24,000 | 4,674,232 | 915,649 | 245,126 | 5,859,007 |
| <i>Depreciation</i> | | | | | |
| Cost price at beginning of year 2014 | | 6,466 | 436,200 | | 442,667 |
| Valuation at beginning of year 2014 | | 439,331 | 30,226 | | 469,556 |
| Total at beginning of year 2014 | | 445,797 | 446,426 | | 912,223 |
| Depreciation for the year at cost price | | 1.167 | 119.077 | | 120.244 |
| Depreciation for the year at valuation price | | 48.944 | | | 48.944 |
| Disposals during the year (cost price) | | | (195.244) | | (195.244) |
| Cost price at beginning of year 2015 | | 7.634 | 360.033 | | 367.666 |
| Valuation at beginning of year 2015 | | 488.275 | 30.226 | | 518.501 |
| Total at beginning of year 2015 | | 495.909 | 390.258 | | 886.167 |
| Depreciation for the year at cost price | | 1.191 | 111.358 | | 112.550 |
| Depreciation for the year at valuation price | | 48.944 | | | 48.944 |
| Cost price at year-end 2015 | | 8.825 | 471.391 | | 480.216 |
| Valuation at year-end 2015 | | 537.219 | 30.226 | | 567.445 |
| Total at year-end 2015 | | 546.044 | 501.617 | | 1.047.661 |
| <i>Book value</i> | | | | | |
| Book value at beginning of year 2014 | 24.000 | 4.226.387 | 356.907 | 245.126 | 4.852.419 |
| Book value at beginning of year 2015 | 24.000 | 4.178.323 | 297.659 | 245.126 | 4.745.108 |
| Book value at end of year 2015 | 24.000 | 4.128.188 | 414.032 | 245.126 | 4.811.346 |
| Annual depreciation rate | 0% | 1-3% | 10-33% | 0% | |

The official year-end property valuation of fixed operational assets was 4.5 b.kr.

Appropriated assets and real estate held for sale

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

| | 2015 | 2014 |
|---|------------------|------------------|
| Balance at beginning of year | 9,725,128 | 11,488,826 |
| Correction from prior year ¹ | | 1,302,694 |
| Appropriated during the year | 1,187,249 | 570,169 |
| Capitalised renovations | 395,729 | 668,338 |
| Sold during the year | (8,216,848) | (4,917,973) |
| Valuation changes and gain on sales | 1,814,274 | 613,075 |
| Balance at year-end | <u>4,905,532</u> | <u>9,725,128</u> |

1. Correction from 2014 in connection with the agreement between ESI, Drómi hf., and Arion Bank hf.

Deferred tax

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

| | Assets | Liability | Total |
|---|------------------|-----------------|------------------|
| Balance as of 1 January 2014 | 3,742,341 | (36,523) | 3,705,818 |
| Calculated income tax for year 2014 | (2,685,080) | (22,796) | (2,707,876) |
| Corrected tax base for prior year | 21,334 | | 21,334 |
| Income tax for payment in 2015 | 186,396 | 39,309 | 225,706 |
| Balance as of 31 December 2014 | <u>1,264,992</u> | <u>(20,010)</u> | <u>1,244,982</u> |
| Calculated income tax for year 2015 | (2,029,576) | (24,436) | (2,054,012) |
| Corrected tax base for prior year | 3,614 | | 3,614 |
| Income tax for payment in 2016 | 774,371 | 41,484 | 815,855 |
| Balance as of 31 December 2015 | <u>13,402</u> | <u>(2,962)</u> | <u>10,440</u> |

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

| | 2015 | 2014 |
|---|---------------|------------------|
| Fixed operational assets | 7,086 | (17,341) |
| Precautionary write-down of claims | 1,067,349 | 2,394,130 |
| Deferred exchange rate difference | (31,094) | 175,379 |
| Write-down of tax credit due to uncertainty | (1,032,902) | (1,307,187) |
| | <u>10,440</u> | <u>1,244,982</u> |

Other assets

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

| | 2015 | 2014 |
|---|------------------|------------------|
| Equities | 260,492 | 292,256 |
| Shares in subsidiaries and associates | 139,176 | 0 |
| Capital income tax withheld | 1,492,790 | 2,526,499 |
| Other assets | 827,717 | 2,207,341 |
| | <u>2,720,175</u> | <u>5,026,096</u> |

Associates are valued using the equity method:

| | <i>Location</i> | <i>Ownership share</i> | <i>Primary activities</i> |
|---------------------------|-----------------|------------------------|---------------------------|
| LL09 ehf. | Iceland | 20% | Holding company |
| Thróunarfélagid ehf. | Iceland | 20% | Holding company |
| GKH holding AS | Norway | 22% | Holding company |

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

| | |
|--|----------------|
| | <i>2015</i> |
| Purchased and taken over during the year | 176,423 |
| Share in earnings | (24,675) |
| Translation reserve | (12,572) |
| Balance at year-end | <u>139,176</u> |

The group and companies owned by the bank

31. Investments in subsidiaries

| | <i>Location</i> | <i>Ownership share</i> | <i>Primary activities</i> |
|--|-----------------|------------------------|---------------------------|
| <i>Consolidated companies:</i> | | | |
| Greidsluveitan ehf. | Iceland | 100% | Payment systems |
| Eignasafn Sedlabanka Íslands ehf. | Iceland | 100% | Holding company |
| <i>Company owned by ESÍ:</i> | | | |
| Hilda ehf. | Iceland | 100% | Holding company |
| Befast 1 ehf. | Iceland | 100% | Holding company |
| <i>Company owned by Befast 1 ehf.</i> | | | |
| M8 ehf. | Iceland | 100% | Holding company |
| <i>Companies owned by Hilda ehf. and its subsidiaries:</i> | | | |
| D fasteignafélag ehf. | Iceland | 100% | Holding company |
| F fasteignafélag ehf. | Iceland | 100% | Holding company |
| F25 ehf. | Iceland | 100% | Holding company |
| Fasteignafélagid Hlíð ehf. | Iceland | 100% | Holding company |
| Ork ehf. | Iceland | 100% | Holding company |
| Skipholt 11-13 ehf. | Iceland | 100% | Holding company |
| Leiguhlíð ehf. | Iceland | 100% | Holding company |
| Kistuhlíð ehf. | Iceland | 100% | Holding company |
| <i>Unconsolidated companies:</i> | | | |
| <i>Company owned by ESÍ:</i> | | | |
| Salve | Ukraine | 100% | Retail operations |
| Salve Lviv | Ukraine | 100% | Retail operations |
| <i>Companies owned by M8 ehf.</i> | | | |
| Ukrapteka | United Kingdom | 90% | Holding company |
| <i>Companies owned by Hilda ehf. and its subsidiaries:</i> | | | |
| Mýrarhlíð ehf. | Iceland | 100% | Holding company |
| Spron Factoring hf. | Iceland | 100% | Holding company |
| Steinsnes ehf. | Iceland | 100% | Holding company |
| Befast 3 ehf. | Iceland | 100% | Holding company |
| Befast 4 ehf. | Iceland | 100% | Holding company |
| Befast 2 ehf. | Iceland | 100% | Holding company |

| | <i>Location</i> | <i>Ownership share</i> | <i>Primary activities</i> |
|-------------------------------------|-----------------|------------------------|---------------------------|
| Bereal 2 ehf. | Iceland | 100% | Holding company |
| Bereal 3 ehf. | Iceland | 100% | Holding company |
| Bereal 4 ehf. | Iceland | 100% | Holding company |
| Meingardur ehf. | Iceland | 95% | Holding company |
| Blafell Immobilien GmbH | Germany | 100% | Holding company |
| Meingil ehf. | Iceland | 100% | Holding company |
| Svarta Immobilien GmbH | Germany | 100% | Holding company |
| Mitt ehf. | Iceland | 100% | Holding company |
| Esja Immobilien GmbH | Germany | 100% | Holding company |
| Fasteignafélagid Kurfurst ehf. | Iceland | 77% | Holding company |
| Kurfo-Investment GmbH | Germany | 100% | Holding company |

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

Banknotes and coin

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

| | | |
|---------------------------------------|-------------------|-------------------|
| <i>Banknotes:</i> | <i>2015</i> | <i>2014</i> |
| 10,000 krónur | 20,057,500 | 13,197,500 |
| 5,000 krónur | 26,056,000 | 28,156,000 |
| 2,000 krónur | 238,000 | 260,000 |
| 1,000 krónur | 4,876,000 | 4,216,500 |
| 500 krónur | 1,280,000 | 1,210,750 |
| | <u>52,507,500</u> | <u>47,040,750</u> |
| <i>Coin:</i> | | |
| 100 krónur | 1,905,300 | 1,730,600 |
| 50 krónur | 532,540 | 494,940 |
| 10 krónur | 500,730 | 471,850 |
| 5 krónur | 114,609 | 110,149 |
| 1 króna | 110,458 | 107,026 |
| | <u>3,163,637</u> | <u>2,914,565</u> |
| Total issued banknotes and coin | <u>55,671,137</u> | <u>49,955,315</u> |

Foreign liabilities

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

| | | |
|---|------------------|-------------------|
| | <i>2015</i> | <i>2014</i> |
| Loan from International Monetary Fund | 0 | 43,785,622 |
| Term deposits of non-residents | 1,909,040 | 1,680,771 |
| Other liabilities | 151,302 | 211,873 |
| | <u>2,060,342</u> | <u>45,678,267</u> |

- The loan from the IMF was taken in connection with the Stand-By Arrangement (SBA) reached between the Icelandic authorities and the IMF in the wake of the banks' collapse in October 2008. The total amount of the loan, which was drawn in four tranches in accordance with the SBA, was about 250 b.kr., or SDR 1,400 million. At year-end 2011, the loan facility had been drawn for the full amount. In 2012, payments were made on the loan in the amount of SDR 888 million. At the end of 2014, SDR 275 million was paid on the loan, and on 8 October 2015, the remaining balance, SDR 237 million, was paid in full. The Fund's post-programme monitoring ends with the prepayment of the IMF loans.
- An agreement was reached in 2014 between the Bank and foreign insurance companies, according to which the companies would import foreign currency to Iceland in order to offset over half of future insurance premium payments to be expatriated. The purpose of this is to mitigate the negative effects on Iceland's balance of payments.

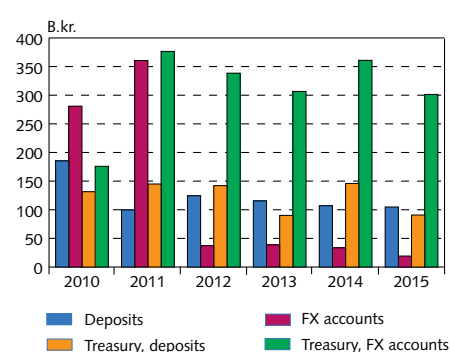
Deposits

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

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Current accounts of deposit institutions | 48,254,228 | 31,372,443 |
| Current accounts of other financial institutions | 18,644,984 | 19,077,638 |
| Foreign exchange accounts | 744,458 | 1,571,571 |
| | <u>67,643,670</u> | <u>52,021,653</u> |

- Participants in the Central Bank's real-time gross settlement (RTGS) system can have an intraday overdraft authorisation on their RTGS account. If a participant has an overdraft authorisation, it must submit as collateral securities that the Central Bank deems eligible at that time. The amount of the collateral corresponds to the authorised intraday overdraft limit of the participant concerned.
- At year-end 2015, RTGS system collateral had a total market value of 16.6 b.kr.

Development in deposits and FX accounts



Source: Central Bank of Iceland.

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

| | 2015 | 2014 |
|--|--------------------|--------------------|
| Treasury and Government institutions | 90,785,727 | 145,950,182 |
| Treasury, FX accounts | 301,343,954 | 360,885,101 |
| Non-residents with domestic deposits | 15,162,386 | 22,766,119 |
| Term FX deposits of financial institutions in winding-up proceedings | 10,053,506 | 10,029,718 |
| FX accounts of financial institutions in winding-up proceedings | 8,414,376 | 13,908,653 |
| Domestic deposits of other parties | 22,768,947 | 41,783,491 |
| | <u>448,528,896</u> | <u>595,323,264</u> |

- Deposits held at the Bank by other parties decreased by 24.7%, to 448.5 b.kr. at year-end 2015, as opposed to 595.3 b.kr. at year-end 2014. The decline stems largely from a reduction in the Treasury current account, owing to the payment on the bond with the Bank. The change in the Treasury's FX balance is due to the reduction in foreign liabilities. The change in other parties' deposits is due to the agreement concluding the Icesave dispute.

Domestic financial liabilities

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

| | 2015 | 2014 |
|---|--------------------|--------------------|
| Term deposits | 242,079,161 | 105,661,364 |
| Foreign-denominated Treasury bonds | 0 | 7,451,999 |
| Derivative contract with the Treasury | 119,959 | 84,421 |
| | <u>242,199,120</u> | <u>113,197,784</u> |

- At the end of May 2015, the Treasury prepaid the bilateral loan taken from Poland in 2009, in connection with the Stand-By Arrangement. The payment totalled PLN 204 million, or the equivalent of 7.3 b.kr.

Pension obligations

37. 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 257.9 m.kr. as of year-end 2015. Payments related to these obligations totalled 37.2 m.kr. in 2015 and reduce the previously entered obligation. Increases in the Bank's obligations, after adjusting for payments, totalled 39.7 m.kr. in 2015 and are expensed.

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

| | 2015 | 2014 |
|---|----------------|----------------|
| Pension obligations at beginning of year..... | 255,427 | 316,448 |
| Paid due to retirement..... | (37,197) | (49,842) |
| Change during the year..... | 39,676 | (11,179) |
| Pension obligations at year-end..... | <u>257,906</u> | <u>255,427</u> |

Other liabilities

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

| | 2015 | 2014 |
|--|------------------|------------------|
| Treasury share in foreign exchange transactions..... | 208,019 | 162,444 |
| Unpaid taxes..... | 815,855 | 225,706 |
| Other liabilities..... | 674,296 | 1,101,410 |
| | <u>1,698,171</u> | <u>1,489,560</u> |

Callable equity

39. 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.

Developments in the Bank's equity ratio

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

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|---------------|---------------|---------------|---------------|---------------|
| Equity at beginning of year (excl. revaluation)..... | 74,460 | 70,679 | 85,409 | 93,650 | 79,275 |
| Revaluation of assets at year-end..... | 4,299 | 4,398 | 4,450 | 4,502 | 4,555 |
| Equity at year-end..... | <u>78,760</u> | <u>75,027</u> | <u>89,807</u> | <u>98,100</u> | <u>83,778</u> |
| <i>Stock figures/ratios at year-end</i> | | | | | |
| Total assets..... | 916,977 | 953,589 | 1,002,200 | 1,068,100 | 1,580,700 |
| Equity (excl. asset revaluation)..... | 74,460 | 70,679 | 85,409 | 93,650 | 79,275 |
| Equity ratio..... | 8.6% | 7.9% | 9.0% | 9.2% | 5.3% |

Treasury

41. Net interest income from interest-bearing assets and debts to the Treasury specifies as follows (in ISK thousands):

| | 2015 | 2014 |
|---|------------------|------------------|
| Interest income on bond | 6,805,762 | 8,591,538 |
| Interest income on Treasury bonds | 453,063 | 650,781 |
| Interest income on currency bond | 132,926 | 107,296 |
| | <u>7,391,751</u> | <u>9,349,615</u> |
| Interest expense on current accounts | 4,896,752 | 3,843,769 |
| Interest expense on foreign currency accounts | 185,419 | 84,541 |
| Interest expense on term bond in foreign currency | 171,035 | 427,040 |
| Interest expense on derivative contracts | 255,937 | 84,421 |
| | <u>5,509,143</u> | <u>4,439,771</u> |
| Net interest income | <u>1,882,608</u> | <u>4,909,844</u> |

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

| | 2015 | 2014 |
|--|--------------------|--------------------|
| Bonds | 90,632,442 | 145,622,896 |
| Treasury bonds | 7,357,108 | 9,368,361 |
| Foreign-denominated Government bonds | 423,100 | 365,995 |
| | <u>98,412,650</u> | <u>155,357,252</u> |
| Treasury and Government institutions | 90,785,727 | 145,950,182 |
| Treasury, FX accounts | 301,343,954 | 360,885,101 |
| Foreign-denominated Treasury bonds | 0 | 7,451,999 |
| Derivative | 119,959 | 84,421 |
| | <u>392,249,641</u> | <u>514,371,703</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 upon request. 25% of the subscription has already been paid. The 75% share could come due for payment and totals 785 m.kr.

- At year-end 2015, the Bank had access to loan facilities from the Bank for International Settlements (BIS) in the form of repurchase agreements amounting to 400 million US dollars, or 51.8 b.kr. The Bank did not use these facilities in 2015.
- The winding-up board of Saga Capital hf. has filed suit because of the refinancing of Saga Capital's debt to the Central Bank and the financial restructuring of Saga Capital in 2010. The amount of the suit is 14,294 m.kr.

Derivatives

43. Derivatives are classified according to whether the derivative is listed in the foreign exchange reserves – that is, whether the contract is made with a foreign counterparty and in a foreign currency – or not. The value of derivatives is entered as a net amount; that is, assets less liabilities.
- Forward foreign exchange agreements (FX forwards) are entered based on the forward principal, which is multiplied by the difference between the settlement exchange rate and the spot exchange rate (contract exchange rate) on the date of the transaction. The difference between the exchange rate on the date of the transaction and the contract exchange rate is recognised through profit and loss.
 - Forward foreign exchange swap agreements (FX swaps) are recognised as a spot transaction, on the one hand, and as a forward transaction, on the other. The spot transaction is entered as an FX spot transaction, and the forward transaction is entered as an FX forward transaction.
 - Gains on FX forwards and swaps are entered as exchange rate gains on foreign exchange transactions.

Risk management

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 nation's foreign exchange reserves. Risk in its operations is therefore of a different type than in the operation of other financial institutions, although the same terminology is used. The Central Bank of Iceland's financial risk entails claims risk, liquidity risk, and market risk. Claims risk is the risk of loss due to counterparties' or issuers' inability to fulfil their financial obligations at the designated time. Claims risk comprises issuer risk, counterparty risk, and settlement risk. Liquidity risk is the risk that the Central Bank will be unable to fulfil its tasks and commitments due to insufficient assets, inability to sell assets in time, or inability to sell assets except at significant discounts. Market risk is defined as the risk of loss or reduction of financial assets due to changes in market value. Market risk comprises exchange rate risk, interest rate risk, claims risk, and gold price risk. In addition, the Bank operates under operational risk, which is the risk of human error or the failure of internal processes and systems. Operational risk is managed by the Bank's employees on a day-to-day basis, and every effort is made to implement monitoring and procedures that minimise this risk.
- The assets side of the Central Bank's consolidated accounts consists primarily of the foreign part, which is stored in the Bank's foreign exchange reserves, and domestic financial assets, where the counterparties are primarily financial institutions and the Treasury. The following is a statement on the main financial risk of the Central Bank, which is primarily due to the foreign exchange reserves, market transactions with financial institutions, and claims against

financial institutions through the Central Bank of Iceland Holding Company ehf. (ESI).

Foreign exchange reserves

- The foreign exchange reserves are managed in accordance with rules of procedure on the maintenance of the reserves, which were approved in August 2012. The rules define outside limits for acceptable financial risk due to the foreign exchange reserves.

Claims risk

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

| <i>Type of issuer and counterparty in reserves:</i> | 2015 | 2014 |
|---|-------|-------|
| Treasuries | 44.2% | 47.6% |
| Government institutions..... | 17.7% | 26.2% |
| International institutions | 8.0% | 12.0% |
| Federal states | 1.3% | 1.6% |
| Covered bonds | 0.7% | 0.7% |
| Financial institutions | 2.5% | 4.3% |
| Deposits with central banks and BIS | 19.5% | 5.1% |
| Deposits with International Monetary Fund..... | 3.6% | 0.9% |
| Deposits with financial institutions | 2.6% | 1.5% |

- Credit rating of issuers and counterparties in reserves

Distribution of securities in the foreign exchange reserves, by credit rating (issuer risk, 75% of reserves):

| <i>Credit rating</i> | 2015 | 2014 |
|----------------------|-------|-------|
| AAA | 70.5% | 63.1% |
| AA+ | 17.9% | 23.5% |
| AA | 3.4% | 3.6% |
| AA- | 3.5% | 4.0% |
| A+ | 0.5% | 0.3% |
| A | 1.2% | 1.8% |
| A- | 0.8% | 1.3% |
| BBB+ | 1.9% | 1.4% |
| BBB | 0.2% | 0.9% |

- Deposits with central banks and the Bank for International Settlements in the foreign exchange reserves comprise 19.5% of the reserves. In general, central banks are not assigned credit ratings, but deposits with these parties should be equivalent to the highest possible counterparty credit rating (counterparty risk).
- Deposits with commercial banks in the foreign exchange reserves comprise about 2.6% of the reserves and are in various currencies at various banks. The Bank attempts to keep these deposits at a minimum (counterparty risk).

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

| Country | Credit rating | 2015 | 2014 |
|---|---------------|--------|--------|
| United States | AAA | 26.12% | 27.45% |
| Germany | AAA | 24.81% | 19.10% |
| International institutions ¹ | AAA | 11.09% | 11.94% |
| Netherlands | AAA | 8.42% | 9.68% |
| France | AA+ | 6.60% | 5.87% |
| Finland | AAA | 3.29% | 3.77% |
| United Kingdom | AA+ | 4.69% | 3.05% |
| Norway | AAA | 1.50% | 2.39% |
| Canada | AAA | 1.63% | 2.13% |
| Bank for International Settlements (BIS) ² | AAA | 4.22% | 1.84% |
| Luxembourg | AAA | 1.70% | 1.65% |
| Austria | AAA | 1.04% | 1.55% |
| Poland | A- | - | 1.58% |
| Italy | BBB+ | 1.10% | 1.28% |
| Sweden | AAA | 1.19% | 1.26% |
| Denmark | AAA | 0.51% | 1.02% |
| Spain | BBB | 1.45% | 0.88% |
| Ireland | BBB+ | 0.22% | 0.30% |
| China | A+ | 0.21% | 0.24% |
| Japan | A+ | 0.01% | 0.15% |
| Australia | AAA | 0.10% | 0.12% |
| Switzerland | AAA | 0.10% | 0.02% |
| Belgium | AA | 0.00% | 0.02% |

1. All of the international institutions in which investments are made have AAA ratings. The FX balance with the IMF was 3.6% in 2015 and 0.9% in 2014. 2. The Bank for International Settlements is owned by a large number of central banks and is therefore not classified under a given country.

Settlement risk

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

Liquidity risk

- Liquidity risk is the risk that the Central Bank will be unable to fulfil its tasks and commitments due to insufficient assets, inability to sell assets in time, or inability to sell assets except at significant discounts. The vast majority of the Bank's foreign exchange reserves is invested in highly liquid securities, deposits in central banks, and deposits with the Bank for International Settlements.

- The following table specifies the Central Bank's total assets and liabilities, by maturity. The table shows the difference based on foreign and domestic maturities.

Outstanding balances of assets and liabilities in domestic and foreign currency 2014 (in ISK millions):

| | <i>Matured</i> | <i>Payable on demand</i> | <i>Less than 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 | | 29 | 9,569 | | | | 9,598 |
| Foreign assets | | 507,096 | 9,991 | 104 | 829 | | 518,020 |
| FX balance with the IMF | | 3,447 | | | | | 3,447 |
| Domestic financial assets | | 338 | | | 69,561 | | 69,899 |
| Other assets | | 2 | | | | | 2 |
| <i>ISK-denominated assets</i> | | | | | | | |
| Domestic financial assets | 58,322 | | | 155,357 | 105,900 | 12,285 | 331,864 |
| Fixed assets and liquid assets | | 4,745 | | | | | 4,745 |
| Other assets | | 12,223 | | 2,526 | 1,265 | | 16,014 |
| | <u>58,322</u> | <u>527,880</u> | <u>19,560</u> | <u>157,987</u> | <u>177,555</u> | <u>12,285</u> | <u>953,589</u> |
| <i>Foreign-denominated liabilities</i> | | | | | | | |
| Foreign liabilities | | | | 1,892 | 43,786 | | 45,678 |
| Counterpart to IMF | | 20,621 | | | | | 20,621 |
| Deposits of financial institutions | | 1,572 | | | | | 1,572 |
| Other deposits | | 407,590 | | | | | 407,590 |
| Domestic financial liabilities | | | | | | 7,452 | 7,452 |
| Other liabilities | | 127 | | | | | 127 |
| <i>ISK-denominated liabilities</i> | | | | | | | |
| Banknotes and coin | | 49,955 | | | | | 49,955 |
| Deposits of financial institutions | | 50,450 | | | | | 50,450 |
| Other deposits | | 187,733 | | | | | 187,733 |
| Domestic financial liabilities | | | 105,661 | | | 84 | 105,745 |
| Income tax liabilities | | | | | 20 | | 20 |
| Pension obligations | | | | 37 | 148 | 70 | 255 |
| Other liabilities | | | 1,137 | 226 | | | 1,363 |
| | <u>0</u> | <u>718,047</u> | <u>106,798</u> | <u>2,155</u> | <u>43,954</u> | <u>7,606</u> | <u>878,562</u> |
| Foreign maturity gap | <u>0</u> | <u>81,003</u> | <u>19,560</u> | <u>(1,789)</u> | <u>26,604</u> | <u>(7,452)</u> | <u>117,926</u> |
| Domestic maturity gap | <u>58,322</u> | <u>(271,171)</u> | <u>(106,798)</u> | <u>157,621</u> | <u>106,998</u> | <u>12,130</u> | <u>(42,899)</u> |
| Total balance | <u>58,322</u> | <u>(190,168)</u> | <u>(87,238)</u> | <u>155,832</u> | <u>133,601</u> | <u>4,678</u> | <u>75,027</u> |

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

| | <i>Matured</i> | <i>Payable on demand</i> | <i>Less than 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 | | 23 | 8,767 | | | | 8,790 |
| Foreign assets | | 613,205 | 27,524 | 120 | 758 | | 641,607 |
| FX balance with the IMF | | 3,369 | | | | | 3,369 |
| Domestic financial assets | | | 423 | | 56,314 | | 56,737 |
| Other assets | | 7 | | | | | 7 |
| <i>ISK-denominated assets</i> | | | | | | | |
| Domestic financial assets | 54,557 | 200 | | 98,413 | 24,814 | 16,039 | 194,023 |
| Fixed assets and liquid assets | | 4,811 | | | | | 4,811 |
| Other assets | | 6,125 | | 1,493 | 13 | | 7,632 |
| | <u>54,557</u> | <u>627,743</u> | <u>36,714</u> | <u>100,025</u> | <u>81,899</u> | <u>16,039</u> | <u>916,977</u> |
| <i>Foreign-denominated liabilities</i> | | | | | | | |
| Foreign liabilities | | | | 2,060 | | | 2,060 |
| Counterpart to IMF | | 20,156 | | | | | 20,156 |
| Deposits of financial institutions | | 744 | | | | | 744 |
| Other deposits | | 320,170 | | | | | 320,170 |
| Other liabilities | 2 | | | | | | 2 |
| <i>ISK-denominated liabilities</i> | | | | | | | |
| Banknotes and coin | | 55,671 | | | | | 55,671 |
| Deposits of financial institutions | | 66,899 | | | | | 66,899 |
| Other deposits | | 128,359 | | | | | 128,359 |
| Domestic financial liabilities | | | 242,079 | | | 120 | 242,199 |
| Income tax liabilities | | | | | 3 | | 3 |
| Pension obligations | | | | 35 | 80 | 143 | 258 |
| Other liabilities | | | 880 | 816 | | | 1,696 |
| | <u>2</u> | <u>591,999</u> | <u>242,959</u> | <u>2,911</u> | <u>83</u> | <u>263</u> | <u>838,218</u> |
| Foreign maturity gap | (2) | 275,535 | 36,714 | (1,940) | 57,072 | 0 | 367,379 |
| Domestic maturity gap | <u>54,557</u> | <u>(239,792)</u> | <u>(242,959)</u> | <u>99,055</u> | <u>24,745</u> | <u>15,776</u> | <u>(288,619)</u> |
| Total balance | <u>54,555</u> | <u>35,743</u> | <u>(206,245)</u> | <u>97,114</u> | <u>81,816</u> | <u>15,776</u> | <u>78,760</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. These are the consolidated accounts of the Central Bank and ESI. 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 2014 and 2015.

Currencies in financial assets and liabilities 2014 (in ISK millions):

| <i>Assets:</i> | <i>Euro</i> | <i>US dollar</i> | <i>Pound sterling</i> | <i>Yen</i> | <i>Other currencies</i> | <i>Gold</i> | <i>Total</i> |
|--|----------------|------------------|-----------------------|---------------|-------------------------|--------------|----------------|
| Gold | | | | | | 9,598 | 9,598 |
| Foreign assets | 208,895 | 288,133 | 23,435 | 898 | 10,957 | | 532,318 |
| FX balance with the IMF | 1,224 | 1,571 | 412 | 241 | | | 3,447 |
| Domestic financial assets | 365 | 47,277 | 9,177 | 9,234 | 14,862 | | 80,915 |
| Other assets | 2 | | | | | | 2 |
| | <u>210,483</u> | <u>336,981</u> | <u>33,024</u> | <u>10,373</u> | <u>25,819</u> | <u>9,598</u> | <u>626,279</u> |
| <i>Liabilities:</i> | | | | | | | |
| Foreign liabilities | 17,696 | 19,953 | 5,228 | 3,061 | 14,544 | | 60,482 |
| Counterpart to IMF | 7,321 | 9,398 | 2,462 | 1,442 | | | 20,622 |
| Deposits of financial institutions | 1 | 897 | 175 | 80 | 419 | | 1,572 |
| Other deposits | 140,010 | 239,624 | 11,450 | 298 | 1,304 | | 392,687 |
| Domestic financial liabilities | | | | | 7,452 | | 7,452 |
| Other liabilities | 21 | 1 | 41 | | | | 63 |
| | <u>165,049</u> | <u>269,874</u> | <u>19,356</u> | <u>4,880</u> | <u>23,719</u> | <u>0</u> | <u>482,878</u> |
| Net ISK assets | <u>45,434</u> | <u>67,108</u> | <u>13,667</u> | <u>5,492</u> | <u>2,100</u> | <u>9,598</u> | <u>143,401</u> |

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

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

Interest rate risk

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

Gold price risk

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

Market transactions

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

Central Bank of Iceland Holding Company ehf.

- Claims risk: ESI has claims against operating financial institutions, financial institutions in winding-up proceedings, the Treasury, companies with a Treasury guarantee, and other companies, including the subsidiary Hilda ehf. The said claims were acquired by ESI following the financial crisis of 2008, and they originate in transactions between the Central Bank of Iceland and financial institutions in the prelude to the collapse. Hilda ehf.'s assets consist primarily of real estate and real estate-backed corporate loans. ESI's claims risk derives mainly from the risk of loss due to a debt instrument issuer's inability to fulfil the relevant financial obligation, in whole or in part, at the designated time. ESI's claims against operating financial institutions are largely backed by collateral, through collateralised loan agreements, mortgage bonds, or covered bonds. As of the year-end, about ¼ of ESI's total assets were collateralised, directly or indirectly. About half of ESI's assets

are unsecured claims, the majority of them against financial institutions in winding-up proceedings. Other assets are cash and cash equivalents, claims against the Treasury, or claims against issuers with a Treasury guarantee.

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

Appendices to the Consolidated Annual Accounts

Central Bank of Iceland

Profit and Loss Account for the year 2015

| | 2015 | 2014 |
|---|---------------------|---------------------|
| Interest income | | |
| From domestic assets | 29,902,711 | 15,332,671 |
| From foreign assets | 7,449,528 | 6,692,370 |
| | <u>37,352,239</u> | <u>22,025,041</u> |
| Interest expense | | |
| From domestic liabilities | (22,129,198) | (18,690,381) |
| From foreign liabilities | (652,231) | (2,702,430) |
| | <u>(22,781,429)</u> | <u>(21,392,811)</u> |
| Net interest income | 14,570,810 | 632,230 |
| Operating revenues | | |
| Service revenues | 323,702 | 330,562 |
| Service expenses | (168,220) | (209,517) |
| Withdrawn banknotes | 750 | (196) |
| Revenues from shareholdings | 44,490 | 40,122 |
| Revaluation of foreign securities | (7,392,174) | 2,780,059 |
| Revaluation of gold | (1,067,425) | (120,397) |
| Exchange rate gains (losses) on foreign exchange transactions | (119,155) | 368,511 |
| | <u>(8,378,034)</u> | <u>3,189,144</u> |
| Net operating revenues | 6,192,776 | 3,821,374 |
| Operating expenses | | |
| Salaries and related expenses | (2,144,108) | (1,942,005) |
| Other operating expenses | (770,283) | (788,834) |
| Expense due to banknotes and coin | (166,012) | (68,389) |
| Depreciation of property and equipment | (87,013) | (83,585) |
| | <u>(3,167,415)</u> | <u>(2,882,813)</u> |
| Share in earnings of subsidiaries | 10,857,925 | 4,846,451 |
| Profit w/o exchange rate difference | 13,883,287 | 5,785,013 |
| Exchange rate difference | (8,231,973) | 5,434,629 |
| Profit for the year | <u>5,651,314</u> | <u>11,219,641</u> |

Balance Sheet 31 December 2015

| | 2015 | 2014 |
|---|--------------------|--------------------|
| Assets | | |
| Gold | 8,790,287 | 9,597,822 |
| Foreign assets | 640,849,174 | 517,190,820 |
| FX balance with the International Monetary Fund | 3,369,392 | 3,447,240 |
| Domestic financial assets | 271,425,163 | 392,315,525 |
| Fixed operational assets | 4,584,710 | 4,560,503 |
| Other assets | 19,321,609 | 30,165,053 |
| | <u>948,340,335</u> | <u>957,276,963</u> |
| Equity and liabilities | | |
| Capital | 83,501,000 | 83,501,000 |
| Uncalled capital | (52,000,000) | (52,000,000) |
| Real estate revaluation | 4,299,112 | 4,348,056 |
| Value adjustment reserve | 0 | 9,313,826 |
| Translation reserve | (12,572) | 0 |
| Other equity | 42,972,042 | 29,863,773 |
| | <u>78,759,581</u> | <u>75,026,655</u> |
| Banknotes and coin | 55,671,137 | 49,955,315 |
| Foreign liabilities | 2,060,342 | 45,678,266 |
| Counterpart to International Monetary Fund | 20,155,612 | 20,621,220 |
| Deposits of financial institutions | 67,643,670 | 52,009,715 |
| Other deposits | 480,943,537 | 599,534,800 |
| Domestic financial liabilities | 242,199,120 | 113,197,784 |
| Pension obligations | 257,906 | 255,427 |
| Other liabilities | 649,430 | 997,780 |
| | <u>869,580,754</u> | <u>882,250,308</u> |
| Equity and liabilities | <u>948,340,335</u> | <u>957,276,963</u> |

Amounts are in ISK thousands.

Central Bank of Iceland Holding Company ehf. (ESÍ)

Profit and Loss Account for the year 2015

| | 2015 | 2014 |
|--|--------------------------|-------------------------|
| Interest income | 8,191,493 | 8,865,391 |
| Interest expense | (19,826,876) | (3,338,112) |
| Net interest income (interest expense) | (11,635,383) | 5,527,279 |
| Service revenues | 181,757 | 279,362 |
| Salaries and related expenses | (251,090) | (215,041) |
| Revenues from shareholdings | 41,433 | 73 |
| Value adjustment in securities | 19,033,096 | 2,212,116 |
| Other operating expenses | (316,449) | (371,190) |
| Reversed impairment of claims (impairment of claims) | 6,116,655 | (253,466) |
| Service expenses | (291,567) | (469,020) |
| | <u>24,513,836</u> | <u>1,182,834</u> |
| Net operating revenues | 12,878,452 | 6,710,113 |
| Share in earnings of subsidiaries and associates | (24,675) | 0 |
| Profit w/o exchange rate difference | 12,853,778 | 6,710,113 |
| Exchange rate difference | (121,041) | 710,193 |
| Profit before tax | 12,732,736 | 7,420,306 |
| Income tax | (2,151,791) | (2,686,546) |
| Profit for the year | <u>10,580,946</u> | <u>4,733,760</u> |

Balance Sheet 31 December 2015

| | 2015 | 2014 |
|---|--------------------|--------------------|
| Assets | | |
| Fixed assets | | |
| Equity shareholdings | 260,492 | 292,256 |
| Holdings in subsidiaries | 139,176 | 0 |
| Bond holdings and other long-term claims | 38,462,220 | 123,729,569 |
| Collateralised claims against financial institutions in winding-up proceedings | 0 | 24,199,333 |
| General claims against financial institutions in winding-up proceedings | 54,557,267 | 34,122,479 |
| Appropriated assets | 4,905,532 | 9,725,128 |
| Deferred tax assets | 13,402 | 1,264,992 |
| | <u>98,338,089</u> | <u>193,333,756</u> |
| Current assets | | |
| Marketable securities | 26,715 | 7,310,100 |
| Other current receivables | 3,495,410 | 4,649,372 |
| Bank deposits | 31,694,877 | 3,725,409 |
| | <u>35,217,002</u> | <u>15,684,881</u> |
| Assets | <u>133,555,091</u> | <u>209,018,637</u> |
| Equity and liabilities | | |
| Share capital | 1,001 | 1,001 |
| Statutory reserves | 250 | 250 |
| Translation reserve | (12,572) | 0 |
| Retained earnings* | 10,580,945 | 29,064,126 |
| Equity | <u>10,569,624</u> | <u>29,065,377</u> |
| Long-term liabilities | | |
| Debt to related parties | 114,861,615 | 179,537,390 |
| Deferred tax liabilities | 0 | 1,466 |
| | <u>114,861,615</u> | <u>179,538,856</u> |
| Current liabilities | | |
| Unpaid tax | 774,372 | 186,396 |
| Other liabilities | 7,349,480 | 228,007 |
| | <u>8,123,851</u> | <u>414,403</u> |
| Liabilities | <u>122,985,466</u> | <u>179,953,260</u> |
| Equity and liabilities | <u>133,555,091</u> | <u>209,018,637</u> |

* ESI paid dividends to the Central Bank in the amount of 29 b.kr. during the year.

Amounts are in ISK thousands.

Greidsluveitan ehf.

Profit and Loss Account for the year 2015

| | 2015 | 2014 |
|-------------------------------------|----------------|---------------|
| Operating revenues | 922,403 | 915,063 |
| System operation | (452,068) | (486,773) |
| Salaries and related expenses | (224,622) | (170,957) |
| Other operating expenses | (59,425) | (68,847) |
| Depreciation | (95,570) | (114,192) |
| Profit before financial expenses | 90,718 | 74,294 |
| Financial income | 40,665 | 35,940 |
| Financial expenses | (1,886) | (4,801) |
| Profit before tax | 129,496 | 105,432 |
| Income tax | (25,903) | (21,330) |
| Profit for the year | <u>103,593</u> | <u>84,102</u> |

Balance Sheet 31 December 2015

| | 2015 | 2014 |
|---|-------------------------|-------------------------|
| Assets | | |
| Fixed assets | | |
| Fixed operational assets | 234,136 | 213,194 |
| | <u>234,136</u> | <u>213,194</u> |
| Current assets | | |
| Accounts receivable | 104,223 | 120,253 |
| Other current receivables | 25,703 | 32,711 |
| Cash and cash equivalents | 920,190 | 812,503 |
| | <u>1,050,117</u> | <u>965,467</u> |
| Assets | <u><u>1,284,253</u></u> | <u><u>1,178,661</u></u> |
| Equity and liabilities | | |
| Share capital | | |
| Additional paid-in capital | 20,000 | 20,000 |
| Statutory reserves | 108,240 | 108,240 |
| Development account | 5,000 | 5,000 |
| Retained earnings | 593,196 | 602,749 |
| | <u>393,594</u> | <u>280,448</u> |
| Equity | <u>1,120,030</u> | <u>1,016,436</u> |
| Long-term liabilities and obligations | | |
| Deferred tax liabilities | 2,962 | 18,543 |
| | <u>2,962</u> | <u>18,543</u> |
| Current liabilities | | |
| Accounts payable | 17,123 | 18,474 |
| Next year's instalments on long-term debt | 0 | 47,000 |
| Unpaid tax | 41,484 | 39,309 |
| Other current liabilities | 102,654 | 38,898 |
| | <u>161,261</u> | <u>143,682</u> |
| Liabilities | <u>164,223</u> | <u>162,225</u> |
| Equity and liabilities | <u><u>1,284,253</u></u> | <u><u>1,178,661</u></u> |

Amounts are in ISK thousands.

APPENDICES

Press releases from the Central Bank of Iceland 2015

- | | | | | |
|-----|---|-----------------|---|---|
| No. | 1 | 21 January 2015 | Amended Terms of Auction for the purchase of Icelandic krónur by the Central Bank of Iceland in exchange for foreign currency | |
| | – | 2 | 3 February 2015 | Domestic foreign exchange market and foreign exchange reserves 2014 |
| | – | 3 | 4 February 2015 | Statement of the Monetary Policy Committee 4 February 2015 |
| | – | 4 | 10 February 2015 | Results of foreign currency auctions |
| | – | 5 | 3 March 2015 | Balance of payments in the fourth quarter and the international investment position |
| | – | 6 | 3 March 2015 | The underlying international investment position at year-end 2014 |
| | – | 7 | 6 March 2015 | Amendments to Central Bank of Iceland Rules on Foreign Exchange and exemption lists |
| | – | 8 | 18 March 2015 | Statement of the Monetary Policy Committee 18 March 2015 |
| | – | 9 | 13 May 2015 | Statement of the Monetary Policy Committee 13 May 2015 |
| | – | 10 | 2 June 2015 | Balance of payments in the first quarter of 2015 and the international investment position |
| | – | 11 | 2 June 2015 | The underlying external position of the economy at the end of the first quarter of 2015 |
| | – | 12 | 8 June 2015 | Amendments to the Foreign Exchange Act |
| | – | 13 | 8 June 2015 | Announcement concerning capital account liberalisation measures |
| | – | 14 | 10 June 2015 | Statement of the Monetary Policy Committee 10 June 2015 |
| | – | 15 | 15 July 2015 | Authorisation for pension funds to invest abroad this year |
| | – | 16 | 19 August 2015 | Statement of the Monetary Policy Committee 19 August 2015 |
| | – | 17 | 2 September 2015 | Balance of payments in the second quarter of 2015 and the international investment position |
| | – | 18 | 2 September 2015 | The underlying external position of the economy at the end of the second quarter of 2015 |
| | – | 19 | 18 September 2015 | Exemptions and foreign exchange transactions related to Icesave |
| | – | 20 | 30 September 2015 | Statement of the Monetary Policy Committee 30 September 2015 |
| | – | 21 | 8 October 2015 | Loan from IMF paid in full |
| | – | 22 | 28 October 2015 | Central Bank concludes assessment of preliminary composition proposals |
| | – | 23 | 4 November 2015 | Statement of the Monetary Policy Committee 4 November 2015 |
| | – | 24 | 2 December 2015 | Balance of payments in the third quarter of 2015 and the external position |
| | – | 25 | 2 December 2015 | The underlying external position of the economy at the end of the third quarter of 2015 |
| | – | 26 | 9 December 2015 | Statement of the Monetary Policy Committee 9 December 2015 |

Publications by the Central Bank of Iceland 2015

In Icelandic:

Ársskýrsla 2014

Fjármálastöðugleiki 2015, two issues

Peningamál 2015, four issues

Fjármálainnviðir 2015

Hagvísar 2015, four issues

Upplýsingarit 1.3: Væntingakönnun markaðsaðila, January 2015

Efnahagsmál, 7. rit: Fjármagnsskipan og fjárhagsleg staða 500 veltumestu fyrirtækja landsins, April 2015

In English:

Annual Report 2014

Financial Stability 2015, two issues

Monetary Bulletin 2015, four issues

Economic Indicators 2015, four issues

Informational report 1.3: Market expectations survey, January 2015

Central Bank of Iceland Working Paper No. 68, The long history of financial boom-bust cycles in Iceland – Part 1: Financial crises, by Bjarni G. Einarsson, Kristófer Gunnlaugsson, Thorvardur Tjörvi Ólafsson and Thórarinn G. Pétursson (August 2015)

Central Bank of Iceland Working Paper No. 69, The Ins and Outs of Icelandic Unemployment, by Bjarni G. Einarsson (August 2015)

Central Bank of Iceland Working Paper No. 70, Do interest rates affect the exchange rate under capital controls? An event study of Iceland's experience with capital controls, by Ágúst Arnórsson and Gylfi Zoëga (November 2015)

Central Bank of Iceland Working Paper No. 71, QMM: A Quarterly Macroeconomic Model of the Icelandic Economy, by Ásgeir Daniélfsson, Bjarni G. Einarsson, Magnús F. Gudmundsson, Svava J. Haraldsdóttir, Thórarinn G. Pétursson, Signý Sigmundardóttir, Jósef Sigurdarson and Rósa Sveinsdóttir (December 2015).

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

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Table 1 Central Bank interest rates¹

| | <i>Bank's current accounts, nominal rates</i> | <i>Reserves requirements, nominal rates</i> | <i>Overnight lending, discount rate</i> | <i>7 day collateral lending, nominal rates</i> | <i>28 day certificate of deposit, max. rate</i> | <i>7 day term deposit</i> |
|-------------------|---|---|---|--|---|-----------------------------------|
| 27 January 2010 | 8.00 | 8.00 | 11.00 | 9.50 | 9.25 | |
| 17 March 2010 | 7.50 | 7.50 | 10.50 | 9.00 | 8.75 | |
| 5 May 2010 | 7.00 | 7.00 | 10.00 | 8.50 | 8.25 | |
| 23 June 2010 | 6.50 | 6.50 | 9.50 | 8.00 | 7.75 | |
| 18 August 2010 | 5.50 | 5.50 | 8.50 | 7.00 | 6.75 | |
| 22 September 2010 | 4.75 | 4.75 | 7.75 | 6.25 | 6.00 | |
| 3 November 2010 | 4.00 | 4.00 | 7.00 | 5.50 | 5.25 | |
| 8 December 2010 | 3.50 | 3.50 | 5.50 | 4.50 | 4.25 | |
| 2 February 2011 | 3.25 | 3.25 | 5.25 | 4.25 | 4.00 | |
| 16 March 2011 | 3.25 | 3.25 | 5.25 | 4.25 | 4.00 | |
| 20 April 2011 | 3.25 | 3.25 | 5.25 | 4.25 | 4.00 | |
| 15 June 2011 | 3.25 | 3.25 | 5.25 | 4.25 | 4.00 | |
| 17 August 2011 | 3.50 | 3.50 | 5.50 | 4.50 | 4.25 | |
| 21 September 2011 | 3.50 | 3.50 | 5.50 | 4.50 | 4.25 | |
| 2 November 2011 | 3.75 | 3.75 | 5.75 | 4.75 | 4.50 | |
| 7 December 2011 | 3.75 | 3.75 | 5.75 | 4.75 | 4.50 | |
| 8 February 2012 | 3.75 | 3.75 | 5.75 | 4.75 | 4.50 | |
| 21 March 2012 | 4.00 | 4.00 | 6.00 | 5.00 | 4.75 | |
| 16 May 2012 | 4.50 | 4.50 | 6.50 | 5.50 | 5.25 | |
| 13 June 2012 | 4.75 | 4.75 | 6.75 | 5.75 | 5.50 | |
| 22 August 2012 | 4.75 | 4.75 | 6.75 | 5.75 | 5.50 | |
| 3 October 2012 | 4.75 | 4.75 | 6.75 | 5.75 | 5.50 | |
| 14 November 2012 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 12 December 2012 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 6 February 2013 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 20 March 2013 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 15 May 2013 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 12 June 2013 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 21 August 2013 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 2 October 2013 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 6 November 2013 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 11 December 2013 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 12 February 2014 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 19 March 2014 | 5.00 | 5.00 | 7.00 | 6.00 | 5.75 | |
| 21 May 2014 | 5.00 | 5.00 | 7.00 | 6.00 | | 5.25 |
| 11 June 2014 | 5.00 | 5.00 | 7.00 | 6.00 | | 5.25 |
| 20 August 2014 | 5.00 | 5.00 | 7.00 | 6.00 | | 5.25 |
| 1 October 2014 | 5.00 | 5.00 | 7.00 | 6.00 | | 5.25 |
| 5 November 2014 | 4.75 | 4.75 | 6.75 | 5.75 | | 5.00 |
| 10 December 2014 | 4.25 | 4.25 | 6.25 | 5.25 | | 4.50 |
| 4 February 2015 | 4.25 | 4.25 | 6.25 | 5.25 | | 4.50 |
| 18 March 2015 | 4.25 | 4.25 | 6.25 | 5.25 | | 4.50 |
| 13 May 2015 | 4.25 | 4.25 | 6.25 | 5.25 | | 4.50 |
| 10 June 2015 | 4.75 | 4.75 | 6.75 | 5.75 | | 5.00 |
| 19 August 2015 | 5.25 | 5.25 | 7.25 | 6.25 | | 5.50 |
| 30 September 2015 | 5.25 | 5.25 | 7.25 | 6.25 | | 5.50 |
| 4 November 2015 | 5.50 | 5.50 | 7.50 | 6.50 | | 5.75 |
| 9 December 2015 | 5.50 | 5.50 | 7.50 | 6.50 | | 5.75 |

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

Table 2 Exchange rate indices

| | Narrow trade index ¹ | Average exchange rate index ² | | | Real exchange rate ³ 2005=100 | | | |
|------|---------------------------------------|--|-------------------|-------------------|--|----------|---------------------------|----------|
| | | Based on | | Based on | Based on relative prices | | Based on unit labour cost | |
| | | Average | import weights | Export weights | Index | % change | Index | % change |
| 2000 | 101.5 | 96.1 | 96.3 | 95.7 | 86.8 | 2.8 | 83.7 | 3.5 |
| 2001 | 121.4 | 115.4 | 115.1 | 115.3 | 75.4 | -13.1 | 72.3 | -13.6 |
| 2002 | 118.5 | 112.0 | 111.7 | 112.0 | 80.0 | 6.1 | 78.5 | 8.6 |
| 2003 | 113.4 | 105.3 | 104.8 | 105.4 | 85.3 | 6.7 | 84.6 | 7.7 |
| 2004 | 112.1 | 103.1 | 102.4 | 103.5 | 88.2 | 3.4 | 86.2 | 2.0 |
| 2005 | 100.8 | 92.6 | 91.9 | 93.0 | 100.0 | 13.4 | 100.0 | 16.0 |
| 2006 | 112.7 | 103.4 | 102.6 | 104.0 | 93.4 | -6.6 | 98.4 | -1.6 |
| 2007 | 110.9 | 100.9 | 99.9 | 101.5 | 98.5 | 5.5 | 102.5 | 4.2 |
| 2008 | 157.3 | 141.9 | 140.9 | 142.4 | 76.3 | -22.6 | 71.2 | -30.6 |
| 2009 | 210.6 | 191.0 | 190.0 | 191.4 | 63.4 | -16.9 | 49.3 | -30.7 |
| 2010 | 204.0 | 185.0 | 184.4 | 185.0 | 67.5 | 6.6 | 55.5 | 12.5 |
| 2011 | 204.5 | 183.5 | 183.0 | 183.3 | 68.3 | 1.1 | 58.6 | 5.6 |
| 2012 | 209.1 | 189.0 | 188.6 | 188.8 | 68.6 | 0.5 | 59.4 | 1.2 |
| 2013 | 206.5 | 186.3 | 185.9 | 186.1 | 71.2 | 3.7 | 61.4 | 3.4 |
| 2014 | 195.1 | 177.2 | 176.2 | 177.5 | 76.0 | 6.8 | 67.3 | 9.6 |
| 2015 | 189.5 | 176.3 | 175.0 | 177.1 | 79.0 | 3.9 | 75.4 | 12.0 |

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

| | 2011 | | 2012 | | 2013 | | 2014 | | 2015 | |
|----------------------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|---------------|-------|
| | ISK thousands | % | ISK thousands | % | ISK thousands | % | ISK thousands | % | ISK thousands | % |
| <i>Notes:</i> | | | | | | | | | | |
| 10,000 kr. | . | . | . | . | 5,535,000 | 12.5 | 13,197,500 | 28.1 | 20,057,500 | 38.2 |
| 5,000 kr. | 35,558,500 | 87.3 | 37,138,500 | 87.3 | 33,311,000 | 75.3 | 28,156,000 | 59.9 | 26,056,000 | 49.6 |
| 2,000 kr. | 699,000 | 1.7 | 389,000 | 0.9 | 294,000 | 0.7 | 260,000 | 0.6 | 238,000 | 0.5 |
| 1,000 kr. | 3,366,500 | 8.3 | 3,826,000 | 9.0 | 3,927,000 | 8.9 | 4,216,500 | 9.0 | 4,876,000 | 9.3 |
| 500 kr. | 1,095,500 | 2.7 | 1,180,250 | 2.8 | 1,178,750 | 2.7 | 1,210,750 | 2.6 | 1,280,000 | 2.4 |
| Total | 40,719,500 | 100.0 | 42,533,750 | 100.0 | 44,245,750 | 100.0 | 47,040,750 | 100.0 | 52,507,500 | 100.0 |
| <i>Coin:</i> | | | | | | | | | | |
| 100 kr. | 1,435,600 | 57.8 | 1,519,600 | 58.3 | 1,624,600 | 58.7 | 1,730,600 | 59.4 | 1,905,300 | 60.2 |
| 50 kr. | 436,390 | 17.6 | 453,890 | 17.4 | 482,890 | 17.4 | 494,940 | 17.0 | 532,540 | 16.8 |
| 10 kr. | 413,720 | 16.6 | 429,320 | 16.5 | 450,120 | 16.3 | 471,850 | 16.2 | 500,730 | 15.8 |
| 5 kr. | 100,934 | 4.1 | 103,434 | 4.0 | 107,434 | 3.9 | 110,149 | 3.8 | 114,609 | 3.6 |
| 1 kr. | 98,502 | 4.0 | 102,054 | 3.9 | 104,714 | 3.8 | 107,026 | 3.7 | 110,458 | 3.5 |
| Total | 2,485,146 | 100.0 | 2,608,298 | 100.0 | 2,769,758 | 100.0 | 2,914,565 | 100.0 | 3,163,637 | 100.0 |
| Total in circulation | 43,204,646 | | 45,142,048 | | 47,015,508 | | 49,955,315 | | 55,671,137 | |

Table 4 Summary of the accounts of deposit money banks¹

| <i>M.kr. at year-end</i> | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <i>Assets:</i> | | | | | | | |
| Domestic assets, total | 2,673,417 | 2,479,410 | 2,564,836 | 2,543,041 | 2,590,418 | 2,602,667 | 2,838,878 |
| Cash and cash balances with Central Bank | 133,772 | 117,766 | 121,303 | 159,955 | 184,184 | 139,069 | 294,629 |
| Deposits in domestic banks | 12,075 | 10,667 | 5,240 | 4,544 | 3,994 | 5,287 | 12,989 |
| Domestic credit and marketable securities | 2,261,319 | 2,136,555 | 2,186,617 | 2,184,177 | 2,211,173 | 2,314,376 | 2,422,358 |
| Lending ² | 1,779,184 | 1,725,928 | 1,766,476 | 1,774,800 | 1,860,835 | 1,939,689 | 2,025,522 |
| Redeemed liabilities | 2,681 | 2,757 | 969 | 531 | 364 | 237 | 56 |
| Overdrafts | 204,203 | 199,407 | 190,635 | 175,868 | 181,882 | 176,407 | 174,058 |
| Bills | 2,075 | 1,287 | 663 | 255 | 223 | 141 | 29 |
| Unindexed bonds | 805,448 | 847,574 | 836,334 | 732,824 | 754,046 | 774,870 | 778,207 |
| Indexed bonds | 701,020 | 727,302 | 847,355 | 807,573 | 834,788 | 783,035 | 815,159 |
| Foreign currency bonds | 2,102,527 | 1,664,990 | 722,556 | 549,114 | 402,652 | 362,942 | 349,400 |
| Foreign currency overdrafts | 71,022 | 58,393 | 34,825 | 20,838 | 20,208 | 21,269 | 20,322 |
| Provisions | -2,109,792 | -1,775,781 | -866,860 | -512,203 | -333,329 | -179,212 | -111,709 |
| Leasing contracts | 60,302 | 46,632 | 38,356 | 40,273 | 40,860 | 40,654 | 47,144 |
| Marketable bonds and bills | 410,690 | 353,616 | 345,054 | 333,885 | 266,856 | 270,133 | 263,711 |
| Equities | 11,142 | 10,379 | 36,731 | 35,219 | 42,623 | 63,900 | 85,981 |
| Derivatives | 13,011 | 1,508 | 1,245 | 1,066 | 2,312 | 2,143 | 3,182 |
| Share in associates | 12,868 | 8,324 | 14,575 | 13,817 | 24,200 | 9,244 | 2,084 |
| Share in affiliated undertakings | 106,606 | 92,566 | 113,247 | 93,981 | 80,214 | 71,116 | 41,922 |
| Other assets | 133,766 | 112,024 | 122,608 | 85,501 | 84,341 | 61,432 | 61,715 |
| Foreign assets, total | 284,789 | 286,003 | 349,512 | 366,209 | 437,998 | 394,722 | 350,587 |
| Deposits in foreign banks | 52,769 | 55,650 | 67,083 | 101,666 | 84,187 | 91,729 | 99,074 |
| Foreign credit and and marketable securities | 203,019 | 223,683 | 277,742 | 254,542 | 348,582 | 297,602 | 245,965 |
| Foreign lending | 257,374 | 267,638 | 286,991 | 266,919 | 298,374 | 168,881 | 156,486 |
| Provisions | -98,514 | -90,619 | -94,155 | -101,040 | -114,296 | -6,405 | -11,583 |
| Marketable bonds and bills | 40,134 | 43,350 | 81,593 | 83,331 | 163,054 | 133,415 | 99,227 |
| Equities | 4,026 | 3,314 | 3,313 | 5,332 | 1,451 | 1,709 | 1,835 |
| Derivatives | 962 | 23 | 315 | 1,227 | 864 | 1,167 | 1,955 |
| Share in associates | 0 | 1,367 | 0 | 3,945 | 0 | 0 | 0 |
| Share in affiliated undertakings | 25,523 | 2,528 | 1,726 | 1,914 | 1,320 | 1,076 | 43 |
| Other assets | 2,516 | 2,751 | 2,646 | 2,914 | 3,045 | 3,149 | 3,549 |
| Assets, total | 2,958,205 | 2,765,413 | 2,914,347 | 2,909,250 | 3,028,416 | 2,997,389 | 3,189,465 |
| <i>Liabilities:</i> | | | | | | | |
| Domestic liabilities, total | 2,336,998 | 2,142,689 | 2,316,087 | 2,279,183 | 2,333,757 | 2,242,985 | 2,265,269 |
| Central Bank facilities | 13,669 | 42,815 | 4,655 | 18,011 | 53,536 | 57,253 | 56,163 |
| Deposits of residents, total | 1,582,868 | 1,414,301 | 1,512,350 | 1,438,653 | 1,507,208 | 1,608,177 | 1,695,779 |
| Current accounts | 386,245 | 385,995 | 394,547 | 345,425 | 341,828 | 341,463 | 352,993 |
| Current accounts in foreign currency | 17,547 | 15,944 | 19,303 | 28,639 | 41,196 | 28,038 | 33,446 |
| Sight deposits | 584,274 | 498,940 | 553,501 | 500,901 | 515,790 | 572,154 | 552,629 |
| Indexed deposits | 227,133 | 213,420 | 223,018 | 219,437 | 210,213 | 192,856 | 178,823 |
| Holiday pay accounts | 6,745 | 6,733 | 7,462 | 7,922 | 8,446 | 9,125 | 10,134 |
| Supplementary pension deposits | 74,057 | 80,769 | 86,327 | 89,010 | 93,750 | 99,198 | 106,678 |
| Other time deposits | 286,867 | 212,499 | 228,192 | 247,319 | 295,985 | 365,343 | 461,077 |
| Deposits from deposit taking corporations | 172,741 | 144,117 | 66,198 | 70,418 | 133,816 | 17,351 | 4,919 |
| Bond issue | 19,643 | 7,557 | 134,623 | 150,962 | 179,333 | 181,652 | 235,437 |
| Subordinated loans | 33,208 | 48,846 | 55,358 | 58,966 | 55,129 | 54,239 | 31,152 |
| Direct borrowing | 434,162 | 404,194 | 450,992 | 418,802 | 279,614 | 229,196 | 145,407 |
| Derivatives | 22,848 | 18,192 | 25,170 | 43,598 | 34,299 | 19,002 | 19,641 |
| Other liabilities | 57,858 | 62,666 | 66,741 | 79,772 | 90,822 | 76,115 | 76,770 |
| Foreign liabilities, total | 311,467 | 207,607 | 153,335 | 121,549 | 143,927 | 150,800 | 282,567 |
| Deposits from foreign deposit taking corporations | 180,259 | 160,489 | 107,438 | 63,451 | 57,966 | 46,931 | 55,220 |
| Deposits from foreign parties, other than deposit taking corporations | 80,729 | 45,850 | 44,205 | 57,786 | 67,362 | 66,266 | 50,766 |
| Derivatives | 0 | 807 | 1,692 | 142 | 128 | 125 | 1,238 |

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

| <i>M.kr. at year-end</i> | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Bond issue | 0 | 0 | 0 | 0 | 18,294 | 37,262 | 175,247 |
| Subordinated loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Direct borrowing | 50,340 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other foreign liabilities | 140 | 462 | 0 | 170 | 177 | 216 | 96 |
| Total equity and minority interest | 309,740 | 415,117 | 444,925 | 508,519 | 550,732 | 603,604 | 641,629 |
| Total liabilities and equity | 2,958,205 | 2,765,413 | 2,914,347 | 2,909,250 | 3,028,416 | 2,997,389 | 3,189,465 |

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

Table 5 Summary of the accounts of the banking system¹

| <i>M.kr. at year-end</i> | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|------------|------------|-----------|-----------|-----------|-----------|-----------|
| Foreign assets, total | 769,919 | 952,439 | 1,396,981 | 906,155 | 925,622 | 924,958 | 1,004,139 |
| Foreign credit and marketable securities | 434,593 | 441,505 | 549,814 | 661,827 | 780,348 | 778,115 | 736,766 |
| Other foreign assets | 335,326 | 510,934 | 847,167 | 244,328 | 145,275 | 146,843 | 267,373 |
| Foreign liabilities, total | 515,384 | 487,759 | 553,059 | 315,129 | 316,217 | 239,804 | 320,351 |
| Foreign bond issue | 0 | 0 | 0 | 0 | 18,294 | 37,262 | 175,247 |
| Other foreign liabilities | 515,384 | 487,759 | 553,059 | 315,129 | 297,923 | 202,542 | 145,104 |
| Domestic assets, total | 3,197,474 | 2,925,230 | 2,981,214 | 2,902,883 | 2,862,512 | 2,832,990 | 2,765,865 |
| Domestic credit and marketable securities | 2,426,717 | 2,307,080 | 2,378,522 | 2,369,303 | 2,390,705 | 2,470,081 | 2,523,612 |
| Treasury and Government institutions | 421,116 | 408,682 | 413,844 | 402,619 | 393,879 | 371,800 | 310,315 |
| Municipalities | 15,300 | 22,714 | 18,801 | 15,430 | 12,844 | 18,931 | 19,626 |
| Financial companies | 273,872 | 144,098 | 63,144 | 58,819 | 46,745 | 82,318 | 51,622 |
| Holding Companies | 1,103,270 | 903,608 | 431,930 | 303,495 | 234,287 | 179,256 | 178,084 |
| Non-financial companies | 2,003,638 | 1,866,479 | 1,525,343 | 1,304,039 | 1,171,214 | 1,102,579 | 1,160,462 |
| Households | 719,312 | 737,280 | 792,319 | 797,105 | 865,065 | 887,453 | 907,679 |
| Non-profit institutions serving households | 0 | 0 | 0 | 0 | 0 | 6,955 | 7,534 |
| Provisions | -2,109,792 | -1,775,781 | -866,860 | -512,203 | -333,329 | -179,212 | -111,709 |
| Other domestic assets | 770,757 | 618,150 | 602,692 | 533,580 | 471,807 | 362,909 | 242,253 |
| Domestic liabilities, total | 3,452,009 | 3,389,910 | 3,825,136 | 3,493,909 | 3,471,917 | 3,518,144 | 3,449,653 |
| Broad money and bonds (M4) ² | 1,608,343 | 1,431,999 | 1,665,273 | 1,610,062 | 1,703,647 | 1,813,507 | 1,958,236 |
| Domestic bond issue | 19,643 | 7,557 | 134,623 | 150,962 | 179,333 | 181,652 | 235,437 |
| Broad money (M3) | 1,588,700 | 1,424,442 | 1,530,650 | 1,459,100 | 1,524,314 | 1,631,855 | 1,722,799 |
| Time deposits | 592,646 | 509,011 | 540,280 | 558,879 | 604,200 | 663,068 | 754,660 |
| Money supply and sight deposits (M2) | 996,054 | 915,431 | 990,370 | 900,222 | 920,114 | 968,788 | 968,139 |
| Sight deposits | 576,467 | 487,258 | 542,584 | 490,491 | 504,357 | 561,074 | 538,682 |
| Money supply (M1) | 419,587 | 428,173 | 447,786 | 409,730 | 415,757 | 407,713 | 429,457 |
| Demand deposits | 393,862 | 393,507 | 408,395 | 368,868 | 374,140 | 363,686 | 380,587 |
| Notes and coin in circulation | 25,725 | 34,666 | 39,391 | 40,862 | 41,617 | 44,028 | 48,871 |
| Other domestic liabilities | 1,843,667 | 1,957,911 | 2,159,863 | 1,883,847 | 1,768,270 | 1,704,637 | 1,491,417 |
| Equity | 392,618 | 484,496 | 528,702 | 606,618 | 640,539 | 678,631 | 703,588 |
| Other domestic liabilities n.i.e. | 1,451,048 | 1,473,415 | 1,631,161 | 1,277,228 | 1,127,731 | 1,026,006 | 787,830 |
| Liabilities and equity, total | 3,967,393 | 3,877,668 | 4,378,195 | 3,809,038 | 3,788,134 | 3,757,948 | 3,770,004 |

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

Table 6 Liquidity and reserve ratios in %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 | | |

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

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

| <i>2015</i> | <i>Non-indexed loans</i> | <i>Indexed loans</i> | <i>Penalty rates</i> | <i>General interest damage claims</i> |
|--------------|--------------------------|----------------------|----------------------|---------------------------------------|
| 1 January | 6.50 | 3.50 | 12.25 | 4.33 |
| 1 February | 6.00 | 3.65 | 12.25 | 4.00 |
| 1 March | 6.00 | 3.65 | 12.25 | 4.00 |
| 1 April | 6.00 | 3.65 | 12.25 | 4.00 |
| 1 May | 6.00 | 3.65 | 12.25 | 4.00 |
| 1 June | 6.00 | 3.65 | 12.75 | 4.00 |
| 1 July | 6.00 | 3.65 | 12.75 | 4.00 |
| 1 August | 6.10 | 3.65 | 12.75 | 4.07 |
| 1 September | 6.10 | 3.65 | 13.25 | 4.07 |
| 1 October | 6.60 | 3.65 | 13.25 | 4.40 |
| 1 November | 7.00 | 3.65 | 13.25 | 4.67 |
| 1 December | 7.05 | 3.65 | 13.50 | 4.70 |
| Average 2015 | 6.28 | 3.64 | 12.73 | 4.19 |
| Average 2014 | 6.73 | 3.50 | 12.98 | 4.49 |

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> | |
| 2003 | 12.0 | 9.0 | 12.0 | 9.1 | 17.3 | 14.2 | 2.7 |
| 2004 | 12.2 | 8.0 | 12.3 | 8.0 | 17.3 | 12.8 | 3.9 |
| 2005 | 14.8 | 10.2 | 11.6 | 7.2 | 20.3 | 15.5 | 4.2 |
| 2006 | 17.8 | 10.2 | 14.5 | 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 |

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 | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|---------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Assets: | 1,178,082 | 1,328,240 | 1,585,775 | 1,074,954 | 1,003,777 | 957,277 |
| <i>Foreign assets</i> | 485,131 | 666,436 | 1,047,469 | 539,947 | 487,624 | 530,236 |
| Gold | 8,664 | 10,426 | 12,249 | 13,757 | 8,817 | 9,598 |
| SDR | 18,161 | 13,079 | 87,295 | 1,767 | 953 | 1,014 |
| Currency balance with the IMF | 3,649 | 3,322 | 3,525 | 3,710 | 3,326 | 3,447 |
| Foreign deposits | 222,894 | 420,098 | 672,144 | 113,242 | 42,578 | 35,375 |
| Foreign securities | 231,574 | 217,821 | 272,072 | 407,286 | 431,765 | 480,514 |
| Other reserve assets | 0 | 0 | 0 | 0 | 0 | 104 |
| Other foreign assets | 190 | 1,690 | 184 | 184 | 184 | 184 |
| <i>Domestic assets</i> | 692,952 | 661,804 | 538,306 | 535,007 | 516,153 | 427,041 |
| <i>Deposit money banks</i> | 28,869 | 90,037 | 4,312 | 17,792 | 53,327 | 57,048 |
| Collateral loans | 9,249 | 40,825 | 0 | 12,346 | 0 | 0 |
| Overnight loans | 1,700 | 995 | 0 | 0 | 0 | 0 |
| Other claims in foreign currency | 11,197 | 48,217 | 4,312 | 5,446 | 53,327 | 57,048 |
| Other claims | 6,722 | 0 | 0 | 0 | 0 | 0 |
| <i>Other financial institutions</i> | 3,133 | 3,004 | 3,122 | 3,050 | 2,782 | 2,342 |
| Listed securities | 3,133 | 3,004 | 3,122 | 3,050 | 2,782 | 2,342 |
| Collateral loans | 0 | 0 | 0 | 0 | 0 | 0 |
| Overnight loans | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Central government</i> | 165,398 | 170,525 | 191,905 | 185,126 | 179,531 | 153,362 |
| Listed securities | 0 | 0 | 18,582 | 13,965 | 7,192 | 7,374 |
| Bonds receivable | 165,398 | 170,525 | 173,323 | 171,161 | 172,339 | 145,989 |
| <i>Other sectors</i> | 490,665 | 393,125 | 334,320 | 324,423 | 275,912 | 209,737 |
| Sundry accounts | 0 | 93 | 349 | 436 | 208 | 138 |
| Equity holdings | 2 | 1,509 | 4,688 | 10,475 | 25,207 | 30,053 |
| Securities | 490,663 | 391,524 | 329,283 | 313,512 | 250,498 | 179,537 |
| <i>Properties</i> | 4,420 | 4,370 | 4,320 | 4,270 | 4,226 | 4,202 |
| <i>Other assets</i> | 467 | 743 | 327 | 344 | 374 | 358 |
| Liabilities and capital: | 1,178,082 | 1,328,240 | 1,585,775 | 1,074,954 | 1,003,777 | 957,277 |
| <i>Foreign liabilities</i> | 203,917 | 280,152 | 399,724 | 193,581 | 172,290 | 89,004 |
| Short term | 36,680 | 66,943 | 36,979 | 35,874 | 29,782 | 24,596 |
| Long term | 145,267 | 193,238 | 341,604 | 135,493 | 122,610 | 43,787 |
| IMF SDR allocation | 21,970 | 19,971 | 21,141 | 22,214 | 19,898 | 20,621 |
| <i>Domestic liabilities</i> | 891,287 | 978,709 | 1,102,274 | 783,273 | 741,680 | 793,246 |
| <i>Notes and coin</i> | 28,958 | 38,269 | 43,205 | 45,142 | 47,016 | 49,955 |
| <i>Deposit money banks</i> | 152,664 | 170,537 | 118,114 | 158,377 | 185,662 | 133,546 |
| Sight deposits | 87,607 | 55,660 | 31,286 | 53,215 | 51,643 | 31,372 |
| Time deposits | 6,657 | 0 | 0 | 0 | 0 | 100,602 |
| Certificates of deposit | 29,702 | 60,957 | 70,015 | 100,658 | 126,689 | 0 |
| Other claims | 9,409 | 47,903 | 0 | 0 | 77 | 0 |
| Sight deposits in foreign currency | 19,290 | 6,017 | 16,813 | 4,504 | 7,253 | 1,572 |
| <i>Other financial institutions</i> | 245,418 | 316,915 | 358,224 | 42,334 | 48,020 | 65,070 |
| Sight deposits | 36,081 | 36,916 | 13,898 | 14,887 | 18,273 | 36,072 |
| Time deposits | 0 | 0 | 0 | 0 | 0 | 5,059 |
| Certificates of deposit | 0 | 4,505 | 8,511 | 4,716 | 6,420 | 0 |
| Sight deposits in foreign currency | 56,196 | 22,515 | 157,557 | 13,832 | 14,133 | 13,909 |
| Time deposits in foreign currency | 153,142 | 252,979 | 178,258 | 8,899 | 9,194 | 10,030 |
| <i>Central government</i> | 446,668 | 424,648 | 528,816 | 489,189 | 404,706 | 514,372 |
| Treasury current accounts | 166,050 | 130,050 | 143,851 | 141,052 | 88,022 | 143,215 |
| Government institutions, current accounts | 282 | 1,427 | 1,111 | 1,068 | 2,157 | 2,735 |
| Treasury sight deposits in foreign currency | 49,129 | 175,842 | 376,466 | 338,491 | 306,636 | 360,885 |
| Treasury time deposits in foreign currency | 231,208 | 117,328 | 7,388 | 8,578 | 7,891 | 7,452 |
| Other claims | 0 | 0 | 0 | 0 | 0 | 84 |
| <i>Other liabilities</i> | 17,579 | 28,340 | 53,915 | 48,230 | 56,276 | 30,303 |
| <i>Capital and reserves</i> | 82,878 | 69,379 | 83,777 | 98,100 | 89,807 | 75,027 |

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

| <i>End of month 2015</i> | | | | | | | | | | | |
|--------------------------|-----------------|--------------|--------------|------------|-------------|-------------|---------------|--------------|-------------|-------------|-------------|
| <i>January</i> | <i>February</i> | <i>March</i> | <i>April</i> | <i>May</i> | <i>June</i> | <i>July</i> | <i>August</i> | <i>Sept.</i> | <i>Oct.</i> | <i>Nov.</i> | <i>Dec.</i> |
| 984,648 | 985,753 | 1,024,051 | 1,009,501 | 996,743 | 1,006,355 | 1,027,483 | 999,238 | 994,765 | 976,210 | 975,631 | 948,340 |
| 550,304 | 554,547 | 592,418 | 581,581 | 585,194 | 596,536 | 616,287 | 598,208 | 593,846 | 583,678 | 583,657 | 653,009 |
| 10,901 | 10,296 | 10,367 | 9,913 | 10,221 | 9,849 | 9,399 | 9,384 | 9,077 | 9,379 | 9,042 | 8,790 |
| 1,034 | 1,280 | 1,294 | 1,261 | 1,163 | 1,151 | 21,142 | 20,406 | 20,056 | 20,128 | 20,361 | 20,072 |
| 3,516 | 3,509 | 3,548 | 3,459 | 3,509 | 3,472 | 3,514 | 3,411 | 3,353 | 3,364 | 3,418 | 3,369 |
| 40,127 | 45,865 | 71,726 | 49,821 | 55,762 | 82,245 | 98,982 | 112,976 | 104,814 | 71,033 | 75,873 | 129,809 |
| 494,382 | 485,777 | 502,371 | 516,643 | 514,117 | 499,337 | 465,343 | 451,635 | 448,437 | 464,286 | 471,851 | 490,663 |
| 159 | 176 | 194 | 299 | 238 | 298 | 17,723 | 210 | 1,561 | 2,906 | 98 | 120 |
| 184 | 7,645 | 2,918 | 184 | 184 | 184 | 184 | 185 | 6,548 | 12,583 | 3,014 | 184 |
| 434,344 | 431,206 | 431,633 | 427,921 | 411,549 | 409,819 | 411,195 | 401,030 | 400,919 | 392,532 | 391,974 | 295,331 |
| 63,106 | 61,024 | 61,090 | 58,483 | 59,889 | 58,978 | 59,683 | 56,291 | 55,433 | 55,618 | 56,935 | 55,993 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 63,106 | 61,024 | 61,090 | 58,483 | 59,889 | 58,978 | 59,683 | 56,291 | 55,433 | 55,618 | 56,935 | 55,993 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2,298 | 2,226 | 2,261 | 2,338 | 2,259 | 2,289 | 2,278 | 2,182 | 2,183 | 2,184 | 2,143 | 2,154 |
| 2,298 | 2,226 | 2,261 | 2,238 | 2,259 | 2,289 | 2,278 | 2,182 | 2,183 | 2,184 | 2,143 | 2,154 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 153,901 | 153,195 | 153,054 | 151,140 | 151,003 | 150,932 | 151,116 | 151,239 | 151,511 | 151,533 | 151,328 | 98,413 |
| 7,387 | 7,432 | 7,232 | 7,214 | 7,101 | 6,982 | 7,107 | 7,293 | 7,470 | 7,452 | 7,272 | 7,357 |
| 146,514 | 145,763 | 145,823 | 143,926 | 143,902 | 143,949 | 144,009 | 143,946 | 144,041 | 144,081 | 144,055 | 91,056 |
| 210,297 | 210,046 | 210,481 | 211,236 | 193,697 | 192,936 | 193,384 | 186,560 | 187,044 | 178,496 | 176,617 | 134,187 |
| 174 | 152 | 28 | 27 | 31 | 38 | 151 | 44 | 37 | 25 | 49 | 7,644 |
| 30,206 | 30,206 | 30,206 | 30,206 | 30,206 | 30,206 | 30,206 | 30,206 | 30,206 | 30,206 | 30,206 | 11,682 |
| 179,918 | 179,688 | 180,247 | 181,003 | 163,461 | 162,692 | 163,027 | 156,310 | 156,801 | 148,265 | 146,362 | 114,862 |
| 4,202 | 4,202 | 4,202 | 4,202 | 4,202 | 4,177 | 4,177 | 4,177 | 4,165 | 4,165 | 4,165 | 4,152 |
| 539 | 514 | 545 | 521 | 499 | 508 | 557 | 581 | 584 | 538 | 787 | 433 |
| 984,648 | 985,753 | 1,024,051 | 1,009,501 | 996,743 | 1,006,355 | 1,027,483 | 999,238 | 994,765 | 976,210 | 975,631 | 948,340 |
| 92,865 | 98,834 | 91,540 | 90,621 | 90,933 | 89,083 | 90,438 | 89,771 | 87,463 | 51,858 | 41,778 | 37,378 |
| 27,141 | 33,477 | 25,422 | 26,138 | 25,591 | 24,384 | 24,913 | 26,244 | 24,989 | 31,646 | 21,333 | 17,223 |
| 44,694 | 44,366 | 44,891 | 46,275 | 44,354 | 43,930 | 44,503 | 43,122 | 42,419 | 86 | 0 | 0 |
| 21,030 | 20,991 | 21,227 | 18,208 | 20,988 | 20,769 | 21,023 | 20,405 | 20,055 | 20,126 | 20,445 | 20,156 |
| 808,997 | 808,349 | 850,288 | 845,663 | 832,818 | 849,311 | 866,038 | 847,295 | 849,523 | 866,971 | 873,732 | 832,202 |
| 49,094 | 48,871 | 49,179 | 48,641 | 50,200 | 51,351 | 52,920 | 52,914 | 52,235 | 52,304 | 52,493 | 55,671 |
| 153,952 | 156,561 | 173,845 | 196,359 | 181,166 | 193,662 | 242,340 | 259,481 | 282,031 | 297,137 | 288,199 | 288,064 |
| 33,731 | 41,271 | 37,455 | 44,031 | 36,441 | 73,167 | 64,027 | 56,747 | 41,157 | 104,347 | 100,421 | 48,254 |
| 117,141 | 114,019 | 125,092 | 141,134 | 133,462 | 118,782 | 177,053 | 201,498 | 239,765 | 191,942 | 186,928 | 239,064 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1,811 | 1 | 5 | 2 | 0 | 2 | 1 | 15 | 8 | 5 | 2 | 1 |
| 1,269 | 1,270 | 11,292 | 11,191 | 11,263 | 1,711 | 1,259 | 1,221 | 1,102 | 843 | 848 | 744 |
| 96,759 | 105,201 | 115,039 | 110,229 | 100,989 | 98,594 | 105,335 | 106,715 | 114,368 | 119,536 | 130,449 | 53,236 |
| 67,044 | 75,873 | 85,082 | 83,396 | 73,995 | 70,393 | 78,012 | 80,935 | 88,158 | 92,947 | 107,637 | 31,753 |
| 5,614 | 5,186 | 5,485 | 2,711 | 2,556 | 3,882 | 2,801 | 2,006 | 2,904 | 3,213 | 4,219 | 3,015 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13,727 | 24,142 | 13,846 | 13,797 | 13,890 | 13,875 | 13,898 | 13,580 | 13,329 | 13,276 | 8,241 | 8,414 |
| 10,374 | 0 | 10,626 | 10,325 | 10,548 | 10,444 | 10,624 | 10,194 | 9,977 | 10,100 | 10,352 | 10,054 |
| 473,771 | 478,513 | 492,697 | 468,453 | 466,870 | 469,689 | 426,089 | 394,814 | 387,030 | 388,348 | 383,309 | 392,458 |
| 93,604 | 106,555 | 111,001 | 98,060 | 98,883 | 96,874 | 76,038 | 109,076 | 105,817 | 106,151 | 96,336 | 89,054 |
| 3,213 | 2,205 | 2,774 | 2,355 | 1,026 | 997 | 1,463 | 1,603 | 1,328 | 1,838 | 1,557 | 1,732 |
| 369,199 | 361,716 | 370,982 | 359,952 | 366,519 | 371,358 | 348,368 | 283,892 | 279,622 | 280,076 | 285,111 | 301,344 |
| 7,433 | 7,491 | 7,538 | 7,665 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 321 | 546 | 402 | 421 | 441 | 460 | 219 | 242 | 263 | 284 | 306 | 328 |
| 35,421 | 19,203 | 19,528 | 21,983 | 33,593 | 36,015 | 39,354 | 33,371 | 13,859 | 9,647 | 19,281 | 42,774 |
| 82,786 | 78,571 | 82,223 | 73,218 | 72,992 | 67,961 | 71,007 | 62,172 | 57,779 | 57,381 | 60,121 | 78,760 |