



# ANNUAL REPORT 2018



## Annual Report 2018

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This photo of the Bank's employees was taken on the day of the vernal equinox, 20 March 2019, with telltale signs of Icelandic spring flurrying around the group. Standing at the center front are Deputy Governor Rannveig Sigurdardóttir and Governor Már Gudmundsson.

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

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**Icelandic letters:**

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

**Symbols:**

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

# I Objectives and policy

The Central Bank of Iceland's principal objective is to promote price stability. It is also required to promote financial stability. With ministerial approval, the Bank has declared a numerical inflation target. The inflation target is defined in a joint declaration issued by the Icelandic Government and the Central Bank of Iceland on 27 March 2001 as a 2½% rise in the consumer price index over the previous twelve months.<sup>1</sup> The Act of the Central Bank of Iceland, no. 36/2001, provides the Bank with full independence in the implementation of monetary policy so as to achieve the target. The Bank shall also promote the implementation of the Government's economic policy as long as it does not regard this policy to be inconsistent with its main objective of price stability. The Central Bank Act also stipulates that, in addition to promoting price stability and financial stability, the Bank is obliged to manage Iceland's international reserves and to promote a safe and effective financial system, including domestic and cross-border payment systems. The Act also requires that the Bank report publicly on monetary policy and developments in monetary, exchange rate, and currency matters, as well as its activities in general. In October, it was announced that a Ministerial Committee on Economic Affairs and Restructuring of the Financial System had decided to commence a review of the statutory framework for monetary policy, macroprudential policy, and financial market supervision. The Committee emphasised retaining price stability as the principal monetary policy objective and stressed the importance of the independence of the Central Bank and the Monetary Policy Committee in applying their policy instruments in pursuit of that objective. Furthermore, it was decided to begin preparing the merger of the Central Bank and the Financial Supervisory Authority (FME) in a manner that would build greater trust and ensure efficiency in the implementation of macroprudential policy and financial supervision.

## **Monetary policy**

A five-member Monetary Policy Committee (MPC) takes decisions on the application of the Bank's monetary policy instruments. These monetary policy instruments are its interest rates, transactions with credit institutions other than loans of last resort, 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 endorsed by the Bank's Supervisory Board.<sup>2</sup> The appointment of the Committee is provided for in the Act on the Central Bank of Iceland. The Governor is the chair of the Committee, which also includes the Deputy Governor, a senior Central Bank executive in the field of monetary policy formation, and two other economic and mon-

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

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

etary experts appointed by the Minister of Finance and Economic Affairs.

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

### **Financial stability**

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

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

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

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

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

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

## II Monetary policy

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

### Developments in inflation, interest rates, and exchange rate in 2018

Inflation measured 2.7% in 2018, after four years below the target. Inflation excluding housing measured 0.9% in 2018, and the spread between inflation including and excluding housing narrowed over the course of the year. Underlying inflation rose during the year, measuring 3.7% in December 2018, according to the median of various measures, as compared with 1.8% a year earlier.

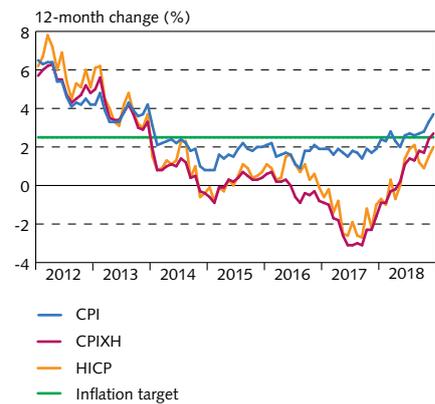
The main drivers of inflation in 2018 were rising prices for housing and imported goods, new motor vehicles in particular. The pace of house price inflation eased as the year progressed, however, and the twelve-month rise in the housing component of the consumer price index (CPI) measured 6.4% in December 2018, down from 12% a year earlier. The rise in domestic goods prices also affected the CPI.

The exchange rate of the króna remained relatively stable in H1/2018, but in early September it began to fall and exchange rate volatility began to increase. The slide in the exchange rate was to some extent due to temporary uncertainty about domestic airline WOW Air's financing in early September. The macroeconomic factors that had generally driven the appreciation of the króna in recent years appeared to have given way as well. Terms of trade had deteriorated, and export growth had slowed. In addition, the operating environment in the tourism industry had grown more difficult, and the outlook was for a slowdown in output growth in H2/2018. By the end of the year, the króna had depreciated by 9.8% in trade-weighted terms, as opposed to a depreciation of 0.7% in 2017.

The Monetary Policy Committee (MPC) kept Central Bank interest rates unchanged until November 2018, when it raised them by 0.25 percentage points after having kept them unchanged for over a year. At the end of 2018, the Bank's key interest rate – i.e., the seven-day term deposit rate – was 4.5%. The rationale for the rate hike in November was that the increase in inflation and inflation expectations had lowered the Bank's real rate more than was desirable in view of the then-current economic situation and outlook. In spite of nominal rate increases, the monetary stance eased during the year. The Bank's real rate in terms of the average of various measures of inflation and inflation expectations had fallen by 1 percentage point over the course of the year, to 0.7% by the year-end. The Bank's real rate in terms of twelve-month inflation fell by 1.5 percentage points over the same period, to 0.8% at the end of the year.

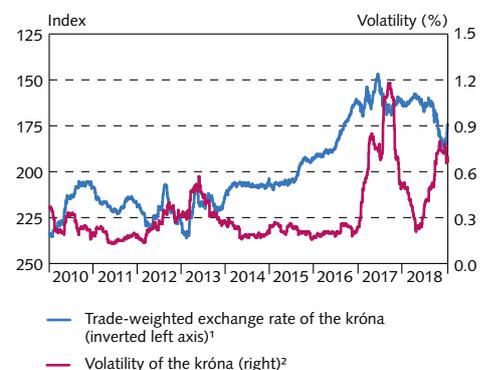
The Central Bank conducted four transactions in the interbank foreign exchange market in 2018. It bought foreign currency for 0.4

Chart II-1  
Various measures of inflation  
January 2012 - December 2018



Sources: Statistics Iceland, Central Bank of Iceland.

Chart II-2  
Exchange rate and volatility of the króna  
Daily data 4 January 2010 - 31 December 2018

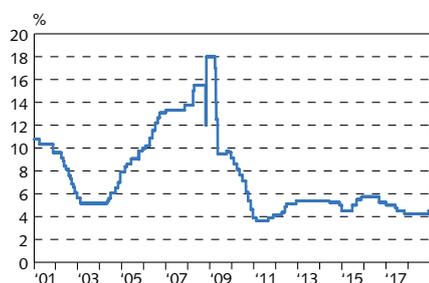


1. Price of foreign currency in terms of the króna. Inverted axis shows a stronger króna as a rise. 2. Volatility is measured by the standard deviation of daily changes in the past 3 months.  
Source: Central Bank of Iceland.

Chart II-3

Central Bank of Iceland key interest rate<sup>1</sup>

Daily data 3 January 2001 - 28 December 2018



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

Source: Central Bank of Iceland.

Chart II-4

Real Central Bank of Iceland interest rates<sup>1</sup>

January 2010 - December 2018



— Real Central Bank of Iceland interest rate in terms of twelve-month inflation  
 — Real Central Bank of Iceland interest rate in terms of various measures of inflation and inflation expectations<sup>2</sup>

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

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

b.kr. and sold foreign currency for 3.3 b.kr., and the Bank's share in total turnover was 2%, as opposed to 20% in 2017. Total market turnover contracted by 54% between 2017 and 2018.

At an extraordinary meeting in the beginning of June 2018, the MPC decided to divide credit institutions' minimum reserve requirements into two parts: a fixed 1% non-remunerated reserve requirement and a 1% reserve requirement of the type that had been in place until that time, bearing 4.25% interest as of the year-end (i.e., the rate on current accounts with the Bank). These changes were not intended to affect the monetary stance. At its regular meeting in June, the MPC was of the opinion that the change had not had such an effect, nor had it affected developments in the financial markets.

Yields on nominal Treasury bonds started to rise in late 2017 and continued to do so until November 2018, when they began to fall. Yields on most nominal Treasury bonds lay in the 5.3-5.5% range at the end of the year, an increase of as much as 0.6 percentage points since year-end 2017. In H1/2018, yields on indexed Treasury and Housing Financing Fund bonds changed relatively little, but in H2 they began to fall in line with the decline in the Central Bank's real rate. At the end of December, the yield on the longest indexed Treasury bonds was 1.6%, or 0.3 percentage points lower than at the same time in 2017.

New inflows of foreign currency for new investment in the domestic bond market contracted markedly year-on-year in 2018. Inflows for the year totalled 4.3 b.kr., including 2.7 b.kr. invested in Treasury bonds and 1.7 b.kr. deposited in special reserve accounts in accordance with Central Bank rules. Capital inflows into listed equities, which are not subject to the Bank's special reserve requirement, also declined between years, to 18.5 b.kr. In addition, outflows began to increase over the course of the year and, in Q4, outflows due to new investments outweighed inflows for the first time.

In June 2016, the Bank introduced a capital flow management measure, a special reserve requirement (SRR) entailing that 40% of new inflows of foreign currency for investment in high-yielding deposits and electronically registered bonds and bills issued in krónur must be held in a non-remunerated account with the Central Bank for one year. At the beginning of November 2018, the ratio was lowered to 20%, as conditions had developed that permitted a reduction in the SRR, with a narrowing interest rate differential and a lower exchange rate of the króna. Furthermore, it was announced at the beginning of December that a bill of legislation providing for increased flexibility in the implementation of the SRR was to be introduced before Parliament.

## Monetary policy decisions

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

## The Monetary Policy Committee and its decisions

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

The Committee was chaired by Governor Már Gudmundsson, as is provided for by law, and until July 2018, other members were Deputy Governor Arnór Sighvatsson, Chief Economist Thórarinn G. Pétursson, Professor Gylfi Zoëga of the University of Iceland, and Katrín Ólafsdóttir, Assistant Professor at Reykjavík University. In July, however, Rannveig Sigurdardóttir was appointed to replace Arnór Sighvatsson as Deputy Governor and took his place on the MPC. In February 2018, Gylfi Zoëga was reappointed to the Committee for a term of five years.

The Central Bank Act requires that the MPC meet at least eight times each year. After each rate-setting meeting, the Committee issues a statement on its decision. The MPC is required to publish the minutes of its meetings and account for its decisions and the premises upon which they are based. The minutes are published two weeks after the announcement of each interest rate decision. Included in the minutes is the Committee's assessment of economic and monetary developments and prospects, as well as the rationale for members' positions. The MPC reports to Parliament on its activities twice a year, as is provided for by law.

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

### Interest rate decisions 2018

Eight rate-setting meetings were held in 2018. In addition, the MPC met with the Systemic Risk Committee (see Chapter I) in order to discuss the interactions between monetary policy, macroprudential policy, and financial stability. According to the Rules of Procedure for the MPC, adopted in 2010, the Bank's annual report has hitherto specified how individual Committee members voted during the previous year. Beginning with the first MPC meeting of 2019, however, each member's vote shall be specified in the minutes.<sup>1</sup>

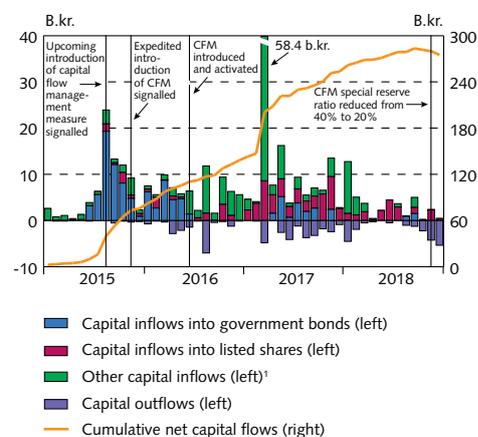
The Committee's interest rate decisions in 2018 were as follows:

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

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

1. This is described in the December 2018 review of MPC procedures.

Chart II-5  
Capital flows due to registered new investments  
January 2015- December 2018



1. Other inflows in March 2017 derive almost entirely from non-residents' acquisition of a holding in a domestic commercial bank.  
Source: Central Bank of Iceland.

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

At an extraordinary meeting on 4 June, the Committee decided that the arrangements for credit undertakings' minimum reserve requirements should be changed and the requirement split into two parts: a fixed 1% reserve requirement bearing no interest and another 1% requirement of the same type as had been in effect until that time. These changes were not intended to affect the monetary stance.

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

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

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

*5 November:* The Governor proposed that the Bank's interest rates be raised by 0.25 percentage points. Már Gudmundsson, Rannveig Sigurdardóttir, Gylfi Zoëga, and Katrín Ólafsdóttir voted in favour of the Governor's proposal, while Thórarinn G. Pétursson voted against it, voting instead for a rate increase of 0.5 percentage points.

*12 December:* The Governor proposed that the Bank's interest rates be held unchanged. Már Gudmundsson, Rannveig Sigurdardóttir, Gylfi Zoëga, and Katrín Ólafsdóttir voted in favour of the Governor's proposal, while Thórarinn G. Pétursson voted against it, voting instead for a rate increase of 0.25 percentage points.



*The Monetary Policy Committee at year-end 2018, together with the secretary of the Committee. Seated, from left: Katrín Ólafsdóttir, Már Gudmundsson (Chairman), and Rannveig Sigurdardóttir. Standing, from left: Thórarinn G. Pétursson, Karen Áslaug Vignisdóttir (Secretary), and Gylfi Zoëga.*

# III The financial system

## Financial stability

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

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

The Bank attempts to maintain a constant, clear overview of the position of credit institutions, financial markets, households, and businesses. Furthermore, the external position of the economy, capital flows, and refinancing risks faced by domestic entities in foreign credit markets are monitored closely. As in previous years, the Central Bank prepared the meetings of the Systemic Risk Committee in consultation with the FME and compiled analytical materials for the meetings.

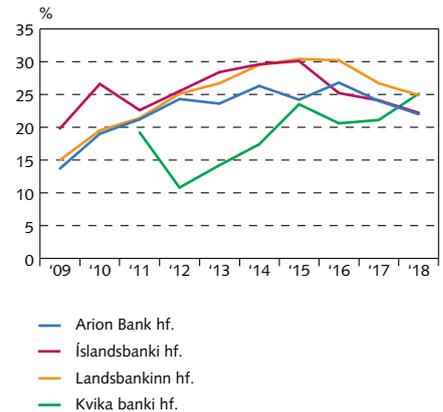
During the year, a stress test was carried out on the large commercial banks for the fourth year in a row, and key results were published in the autumn issue of *Financial Stability*. The stress test is useful for general risk assessment, as it gives indications of the banks' vulnerability to adverse developments and shocks. The stress scenarios in the test spanned a horizon of three years and provided for stronger shocks to the banks than the previous stress tests had done. Among other things, the test assumed a sharp contraction in exports and tourism revenues. The results indicated that on the whole, the banks would be able to withstand such a shock.

New Rules on Foreign Exchange Balance, no. 784/2018, took effect in late August. The review of the Rules focused on reducing exchange rate risk by limiting permissible foreign exchange imbalances still further, both relative to each bank's capital base — i.e., the maximum open foreign exchange position relative to the capital base was reduced from 15% to 10% for systemically important banks — and by implementing a maximum imbalance of 25 b.kr. as a prudential measure.

## Developments in financial stability

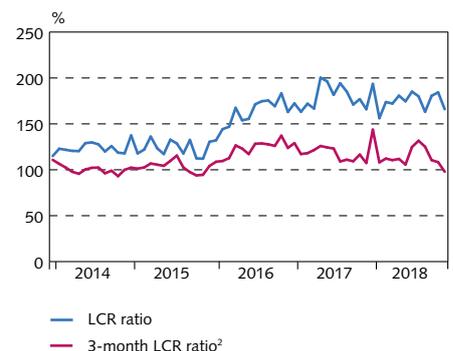
Economic developments have generally been beneficial for the financial system in recent years, and most economic indicators have developed favourably. In 2018, however, economic uncertainty began to increase

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



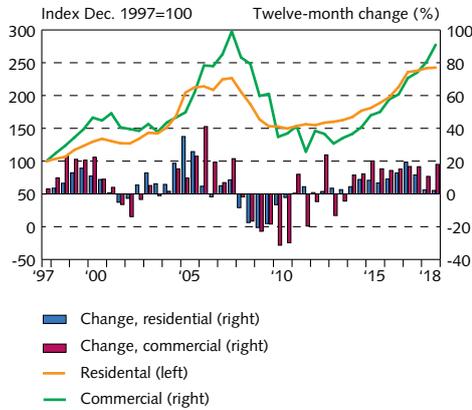
1. Consolidated figures. Capital base as % of risk-weighted base. CAR for MP Bank 2011-2014.  
Sources: Commercial banks' annual accounts.

Chart III-2  
The three large commercial banks' liquidity coverage ratio<sup>1</sup>



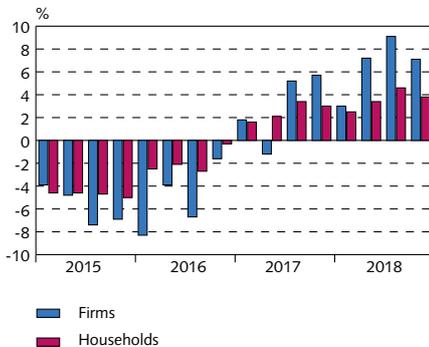
1. Consolidated figures. New rules apply from end of March 2017.  
2. In accordance with older liquidity rules, the Central Bank also monitors three-month liquidity coverage ratios.  
Source: Central Bank of Iceland.

Chart III-3  
Real property prices<sup>1</sup>



1. Price indices for the greater Reykjavik area, deflated with the CPI. Commercial property prices are the avg. of industrial, retail, and office property.  
Sources: Statistics Iceland, Central Bank of Iceland.

Chart III-4  
Real credit growth to households and firms<sup>1</sup>



1. Year-on-year change in total credit to households and nonfinancial firms, excluding holding companies, deflated with the consumer price index. Claim value.  
Sources: Statistics Iceland, Central Bank of Iceland.

even though GDP growth had been robust. Risk in the financial system has increased alongside these developments, but it remains moderate. The increase in risk is due mainly to tourism and the real estate market. In 2018, the increase in tourist arrivals slowed markedly, and growth in the sector was healthier. Growth in lending by the large commercial banks to the tourism sector did not decline commensurably, however. Airlines' operating environment deteriorated markedly during the year, concurrent with rising oil prices and increased competition. The króna depreciated in early autumn, which could have a favourable impact on tourism and other export sectors. Although new investments by non-residents generated net outflows in Q4/2018 for the first time, capital flows were positive for the year as a whole. Terms of trade worsened in 2018, and the current account surplus narrowed. Real house and commercial property prices have risen steeply in recent years and are high in historical terms. House price inflation eased in 2018, however, whereas the rise in commercial property prices remained strong. High property prices and increased activity in the real estate market played a large role in last year's uptick in credit growth relative to previous years. High property prices also increase the likelihood of a sudden drop if the economy suffers a setback, as real estate price volatility is often a major factor in financial crises. Households' and businesses' equity position continued to strengthen during the year, however, and both are better positioned to withstand shocks than they have been in a long time.

The banks' profits declined between years, owing mainly to reduced income from financial activities and impairment. Underlying returns on regular income (i.e., net interest income and commission and fee income) have been stable in recent years, however. The banks' lending growth was relatively strong during the year. Even though customers' debt increased, credit risk subsided as their equity position improved. There was a sudden turnaround in the banks' market-based credit funding during the year, as terms deteriorated markedly after having improved virtually without interruption since the financial crisis. The terms offered to Icelandic banks worsened more than those offered to comparable foreign banks. Increased uncertainty and elevated risk require that the financial undertakings' resilience be safeguarded. As is stated earlier in this chapter, the Central Bank stress test showed that the large commercial banks could withstand a severe shock. Their liquidity position is well above the minimum provided for in the Central Bank's liquidity rules. The banks paid sizeable dividends during the year, which reduced their capital and leverage ratios. Their capital ratios are still somewhat above the level required by the FME, although there is limited scope for further reductions. Even though the Icelandic banks' leverage ratio (which shows their capital ratio without adjusting for specific risk weights) has declined, it is still high in international context, and their common Tier 1 equity relative to their capital base is also high in international comparison.

1. The Financial Stability Council is chaired by the Minister of Finance and Economic Affairs. Other members are the Governor of the Central Bank and the Director-General of the FME. The Systemic Risk Committee is chaired by the Governor of the Central Bank. Other members are the Director-General of the FME, who acts as deputy chairman; the Deputy Governor of the Central Bank; the Deputy Director-General of the FME; and one expert who is appointed by the Minister without nomination for a term of five years.

### Financial Stability Council and Systemic Risk Committee

The Financial Stability Council (FSC) 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.<sup>1</sup> The role and tasks of the Systemic Risk Committee are to assess the current situation and outlook for the financial system, systemic risk, and financial stability. In its work, the Committee uses, among other things, analyses prepared by the Central Bank of Iceland and the FME, as is stipulated in the Cooperation Agreement between the two institutions. The Committee compiles risk reports for the Financial Stability Council and presents proposals to the Council in accordance with the law and the Committee's rules of procedure. Administrative matters relating to the Committee are handled by the Central Bank. Last year the Systemic Risk Committee met four times and prepared a wide range of materials for the Financial Stability Council's meetings. The Committee also met once with the Monetary Policy Committee.

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 Financial Stability Council also confirms the classification of systemically important financial undertakings, infrastructure, and markets whose activities are such that they could affect financial stability. The Council met five times in 2018. Among other matters, the Council reviewed risks to the financial system at its meetings. The Council has published criteria for its decision on systemically important financial institutions and has confirmed the systemic importance of Landsbankinn hf., Arion Bank hf., and Íslandsbanki hf. Upon receiving instructions from the Financial Stability Council, the FME has activated a capital buffer for systemic risk, a buffer for systemic importance, and a countercyclical capital buffer. A capital conservation buffer has also taken effect by law. In May, the FME decided, in accordance with

Table III-1 Capital buffers

<i>Capital buffer</i>	<i>FSC recommendation</i>	<i>FME decision</i>	<i>Value</i>	<i>Effective date</i>
Systemic risk buffer, D-SIBs <sup>1</sup>	22 Jan 2016	1 Mar 2016	3%	1 Apr 2016
Systemic risk buffer,	22 Jan 2016	1 Mar 2016	2%	1 Jan 2018
other deposit institutions	13 Apr 2018	15 May 2018	3%	1 Jan 2020
Capital buffer for systemic importance <sup>1</sup>	22 Jan 2016	1 Mar 2016	2%	1 Apr 2016
Countercyclical capital buffer	30 Sep 2016	1 Nov 2016	1.25%	1 Nov 2017
	13 Apr 2018	15 May 2018	1.75%	15 May 2019
	19 Dec 2018	1 Feb 2019	2%	1 Feb 2020
Capital conservation buffer			2.5%	1 Jan 2017

1. Domestic systemically important banks (D-SIB) are Landsbankinn hf., Arion Bank hf., and Íslandsbanki hf.  
Source: Central Bank of Iceland.

Table III-2 Other macroprudential tools

<i>Loan-to-value (LTV) ratio</i>	<i>Value</i>	<i>Effective date</i>
Maximum LTV ratio, new consumer mortgages	i) 85% of the market value of the property ii) 90% for first-time buyers	20 Jul 2017

Source: Financial Supervisory Authority.

instructions from the Financial Stability Council, to increase the countercyclical capital buffer by 0.5 percentage points. The new countercyclical capital buffer level, 1.75%, will take effect in mid-May 2019. In December, the Financial Stability Council instructed the FME to increase the countercyclical capital buffer to 2%.

## Financial market infrastructure

The Central Bank of Iceland oversees systemically important financial market infrastructure (payment systems) and operates the interbank netting and real-time gross settlement (RTGS) systems. The Bank also issues notes and coin, operates vaults and owns the company Greidsluveitan ehf.

The Central Bank's oversight of financial market infrastructure aims at promoting security, efficiency, and efficacy of core infrastructure in the Icelandic financial system, thereby safeguarding financial stability. Systemically important financial market infrastructure as defined by the Financial Stability Council currently includes the Bank's RTGS system and Greidsluveitan ehf.'s netting system, which together constitute Iceland's interbank system. In addition to these, the Nasdaq CSD Iceland hf. securities settlement system is considered systemically important. The operation and oversight of the Central Bank's interbank payment systems is carried out in accordance with the BIS/CPMI and IOSCO Principles for Financial Market Infrastructures (PFMI).

In general, operation of interbank systems went smoothly in 2018; however, there were a few incidents that gave cause for suggestions and improvements. Preparation for the renewal of the Bank's interbank systems was still underway during the year. Through their joint financial market infrastructure risk group, the Central Bank and the FME cooperated on contingency matters, analysis, and assessment of systemic risk relating to implementation of core payment intermediation infrastructure. The Bank and the FME also completed a joint coordination plan, a permanent part of the two institutions' general contingency measures in the field of payment intermediation. The objective of the coordination plan is to enable the authorities to address difficulties relating to financial market infrastructure in a systematic way, so that incidents or extraordinary circumstances have as little impact on the financial system as possible.

With regard to oversight, work continued during the year towards developing payment intermediation databases so as to assess operational and liquidity risks in systemically important financial market infrastructure, develop indicators for the Systemic Risk Committee, and monitor developments in payment services in Iceland more closely. In the field of retail payment intermediation, work was done towards incorporating the amended EU Payment Services Directive (PSD2) into Icelandic law and implementing the EU Regulation on interchange fees for card-based payment transactions (IFR). It is hoped that the reduction in interchange fees provided for in the Regulation will lower the service fees that acquirers charge merchants. Furthermore, work was done towards amending legislation on the activities of securities depositories and securities settlement with the implementation of the EU Regulation on central securities depositories (CSDR).

In addition to its *Financial Market Infrastructure* report, published annually, the Bank issued a report on retail payment intermediation from the standpoint of contingency and financial stability during the year. It includes a discussion of debit card use, real-time settlement, and the importance of effective electronic payment intermediation in Iceland during favourable and unfavourable times. One of the conclusions drawn in the report is that it is consistent with the demands of modern times that domestic electronic alternate routes are available for use in case core systems malfunction. In addition, the Bank published a report during the year on the advantages and disadvantages of issuing central bank digital currency (rafkrónur), no matter whether such issuance is value based (e-money) or account based with the Central Bank. The report was issued with reference to the forthcoming systemic changes in the field of retail payment intermediation and to provide information on the discourse abroad about central bank digital currencies.

### System operations – systemically important financial infrastructure

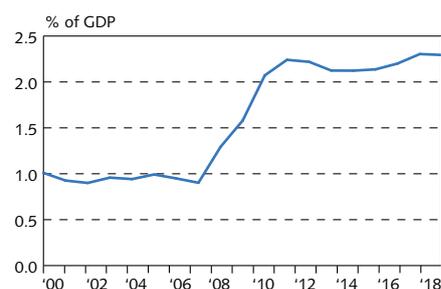
RTGS and netting system operations went smoothly in 2018. However, several incidents occurred, most of them due to changes in the Icelandic Banks' Data Centre's tech environment in connection with the launch of new deposit systems. The number of such incidents rose year-on-year, and nearly 90% of incidents were due to the current infrastructure and its interactions with new infrastructure elements. As a result of the incidents involving the Icelandic Banks' Data Centre's mainframe environment and financial undertakings' internal systems, the Central Bank had to extend the opening hours of the RTGS system a few times, for 1-2 hours each time. The number of system participants was unchanged. Total RTGS system turnover contracted by 4.6% between years, to just over 16 trillion krónur (16,000 b.kr.). The number of payment orders increased by 5.6% year-on-year, however, to 113,607. Total netting system turnover increased by 8.5% year-on-year in 2018, to 4.2 b.kr. The number of transactions in the netting system rose 5% between years, to 87.9 million.

One contingency exercise involving the RTGS and netting systems was held during the year, with the participation of market agents and the Icelandic Banks' Data Centre. The exercise was undertaken to prepare for the launch of Íslandsbanki's new deposit and internal payment intermediation system from Sopra. The exercise went smoothly and delivered the desired results. During the year, work continued on the preparation for the launch of a new interbank system that will replace the RTGS and netting systems.

### Cash

Cash in circulation outside deposit institutions and the Central Bank totalled 64.3 b.kr. at the end of 2018, an increase of 4.1 b.kr., or 6.7%, between years. In recent years, cash in circulation has increased markedly compared with the period before the 2008 financial crisis, although it is still limited in an international context. At the end of 2018, cash in circulation amounted to 2.3% of GDP. In value terms, 10,000 kr. notes accounted for 56.6% of issued banknotes, or 38.9 b.kr. The

Chart III-5  
Cash in circulation



Sources: Statistics Iceland, Central Bank of Iceland.

share of 5,000 kr. notes has declined sharply since the 10,000 kr. note was introduced, and it now accounts for 31% of issued banknotes. In 2018, the Central Bank's note processing department received 6.3 million banknotes from banks and destroyed 4.3 million of them.



*Systemic Risk Committee at year-end 2018. From left: Harpa Jónsdóttir, Director, Financial Stability Department, Central Bank of Iceland; Björn Rúnar Guðmundsson, expert representative appointed by the Minister without nomination; Tinna Finnbogadóttir, Specialist, Department of Financial Services, Ministry of Finance and Economic Affairs; Unnur Gunnarsdóttir, Director General, Financial Supervisory Authority (Deputy Chairman); Jónas Thórdarson, Head, Financial Infrastructure, Central Bank of Iceland (Secretary of Committee); Már Guðmundsson, Governor, Central Bank of Iceland (Chairman); Bryndís Ásbjarnardóttir, Head, Macroeconomic Department, Financial Supervisory Authority; Rannveig Sigurdardóttir, Deputy Governor, Central Bank of Iceland; Jón Thór Sturluson, Deputy Director General, Financial Supervisory Authority; and Guðrún Thorleifsdóttir, Head, Department of Financial Services, Ministry of Finance and Economic Affairs.*

## IV International reserves

The Central Bank of Iceland manages the country's international reserves. The reserves have four main roles: first, to mitigate fluctuations in Iceland's balance of payments, with reference to the Bank's monetary and exchange rate policies; second, to reduce the likelihood that capital flows to and from the country will jeopardise financial stability; third, as a part of the Treasury and Central Bank's management of assets and liabilities, so that the Icelandic Government can service its foreign debt, pay foreign expenses, and honour other international obligations; fourth, as a reserve fund that can be tapped in the event of large, unexpected shocks that undermine foreign currency generation. This multi-faceted objective places certain limits on reserve management, including the need to maintain liquid assets that could be used to respond to unexpected short-term volatility, on the one hand, and to cover foreseeable obligations, on the other.

### Size

At any given time, the appropriate size of the international reserves is determined by, among other things, Iceland's external debt position, monetary policy, the structure and position of the financial system, the scope of international trade, and capital flows to and from the country.

The Bank's international reserves increased by roughly 49 b.kr. in 2018 and amounted to 736 b.kr. at year-end. In US dollar terms, however, they contracted by 0.3 billion dollars, to a total of 6.3 billion dollars at the year-end. At that time, the reserves totalled 26% of GDP and 38% of broad money holdings (M3), and they covered eight months' worth of goods and services imports.

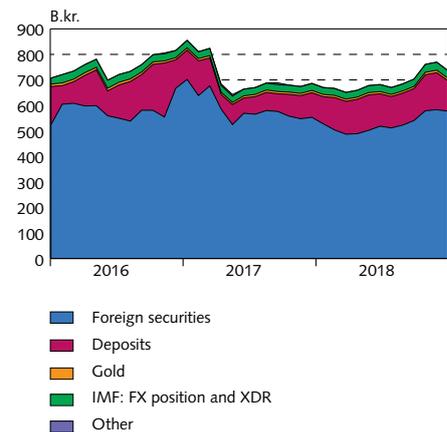
### Main drivers of change

The increase in the reserves during the year was due mainly to the effects of recognised exchange rate movements, which amounted to 60.3 b.kr., plus 7.3 b.kr. in interest income. The offsetting factors, which reduced the size of the reserves, included foreign exchange market intervention in the net amount of 2.9 b.kr.; recognised changes in the market value of securities, which amounted to 2.4 b.kr.; Treasury interest payments on foreign debt, totalling 2.1 b.kr.; and other foreign exchange transactions, which reduced the reserves by 15.3 b.kr.

### Financial result

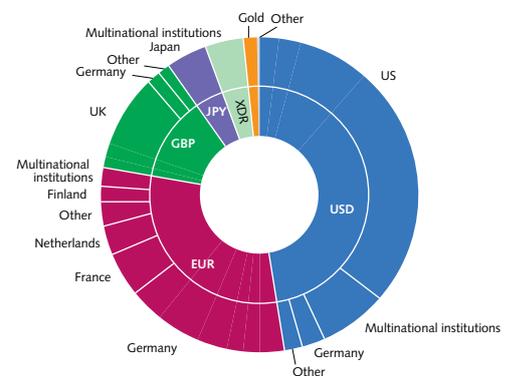
Returns on the international reserves were positive in the amount of 65.2 b.kr., owing mainly to the depreciation of the króna. The recognised exchange rate difference was positive by 60.3 b.kr. Interest income on the reserves was positive in the amount of 7.3 b.kr., whereas recognised changes in the market value of securities reduced the reserves by 2.4 b.kr. During the year, the return on bonds and deposits was 0.7%, excluding the effect of exchange rate differences.

Chart IV-1  
International reserves  
January 2016 – December 2018



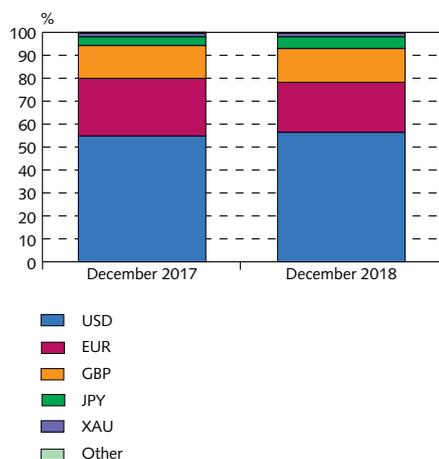
Source: Central Bank of Iceland.

Chart IV-2  
Reserve assets by currency and issuer/  
counterparty country



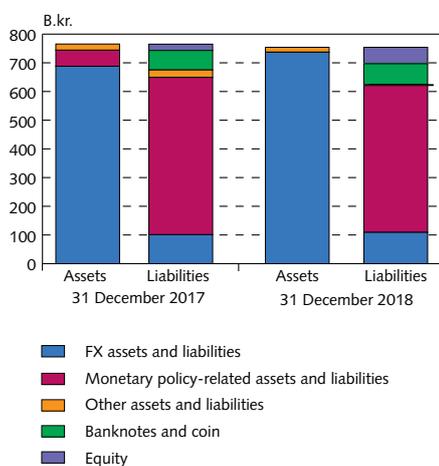
Source: Central Bank of Iceland.

Chart IV-3  
Foreign exchange balance by currency



Source: Bloomberg AIM.

Chart IV-4  
Central Bank of Iceland balance sheet



Source: Central Bank of Iceland.

## Reserve management

Rules of procedure on the maintenance of the international reserves are set by the Governor and endorsed by the Supervisory Board. The rules contain provisions on responsibility and division of tasks in connection with the maintenance of the reserves. The rules of procedure were revised in 2018. In addition to clarifying the reserve management framework to reflect experience gained, the objective of the revision was to adapt the rules to the larger size of the reserves and create conditions for increased risk-adjusted returns.

Within the framework of the rules of procedure, the Investment Committee sets the reserve investment policy, which places limits on financial risk. The investment policy is currently under review. Asset portfolios are assembled and used as benchmarks for investment policy execution. The reserves are measured, managed, and administered in accordance with these benchmarks.

In maintaining and investing the international reserves, the Central Bank takes risks that must be managed. The main risk in maintaining the reserves centres on the Bank's being unable to use the reserves to achieve its objectives or carry out its role as a central bank. Exchange rate risk is the risk that has the greatest impact on the Bank's balance sheet. The reserves are in foreign currencies, whereas most of the Bank's liabilities are in Icelandic krónur. This means that exchange rate movements strongly affect the income and expenses measured in Icelandic krónur. From the standpoint of crisis management and the role of the reserves, the value in krónur terms is of secondary importance in comparison with the above-described main risk. In order to mitigate the potential damage to the Bank's balance sheet from movements in currency markets, exchange rate gains are entered to a revaluation account before profit is paid as a transfer to the Treasury. The foreign exchange balance<sup>1</sup> is kept within the limits specified in the investment policy and managed with reference to defined benchmarks. At year-end, the foreign exchange balance was positive by 627 b.kr., or 5.4 billion US dollars. The outcome of the 2018 foreign exchange balance was at par with the benchmark.

The reserves are invested to a large extent in foreign securities. At year-end, securities constituted 78% of the total reserves. Deposits, nearly all of them held with central banks and the Bank for International Settlements, accounted for 16%. During the year, the Bank resumed issuing securities loans for the first time since 2011.

The Bank's gold holdings were unchanged year-on-year in terms of weight. They were valued at 9.6 b.kr. and accounted for about 1% of the total reserves at the end of 2018.

According to the reserve investment policy, highly liquid assets include bonds denominated in US dollars, euros, or pounds sterling and issued by the government in its own currency, and deposits with the central banks in these regions or with the Bank for International Settlements.<sup>2</sup> Highly liquid assets accounted for 73% of the Central Bank's international reserves at the end of 2018.

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

2. Issuers of securities must have a minimum credit rating of AA in order for the instruments to be classified as highly liquid assets.

# V Treasury debt management

## Agreement on Treasury debt management

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

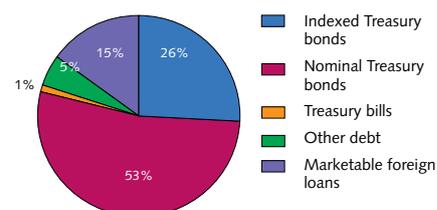
## Domestic debt management

At the end of December 2017, the Central Bank, on behalf of the Treasury, published its annual Government Debt Management Prospect for 2018. According to the Prospect, Treasury bonds were to be issued for a total market value of 40 b.kr. in 2018 in order to fund the debt maturing during the year. The target was met, and all sales took place through public auctions. The annual Prospect also included a new indexed series, RIKS 26 0216, to be issued during the year. The bond was issued towards the year-end. The bond, the Treasury's first indexed issue since 2016, was met with positive response.

Maturing during the year was a Treasury bond originally issued in 2008 to recapitalise financial institutions in the wake of the financial crisis. The original size was 213 b.kr., but Treasury buybacks in recent years, undertaken to reduce the State's refinancing risk, reduced it to 9.5 b.kr. by the maturity date.

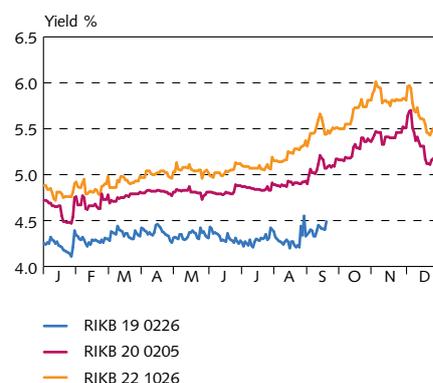
Four switch auctions were held during the year, wherein the Treasury bought back RIKB 19 0226 versus sales of RIKB 20 0205, RIKB 22 1026, and RIKB 28 1115 for a total of 9.5 b.kr. The switch auction was an element in smoothing out the Treasury redemption profile to some extent, as there were only four months between the maturity dates of RIKH 18 1009 and RIKB 19 0226. As was stated in the annual Prospect for 2018, issuance in connection with switch auctions was added to the 40 b.kr. issuance for the year, as it reduces the financing need for 2019. Unilateral market making was adopted for RIKB 19 0226 in September, in accordance with the agreement between the Treasury and primary dealers, which state that primary dealers' bid-ask spreads are not subject to a defined maximum for

Chart V-1  
Government debt portfolio  
Year end 2018



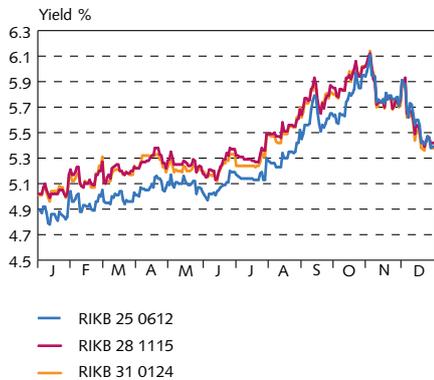
Source: Central Bank of Iceland.

Chart V-2  
Nominal Treasury bonds, maturity < 5 yr



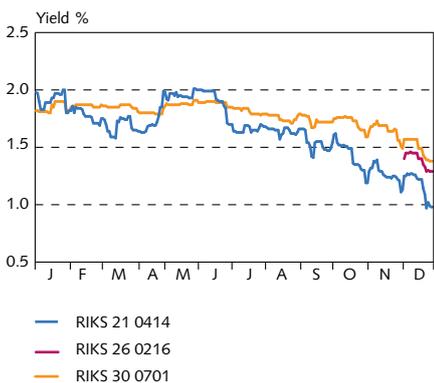
Source: Central Bank of Iceland.

Chart V-3  
Nominal Treasury bonds, maturity > 5 yr



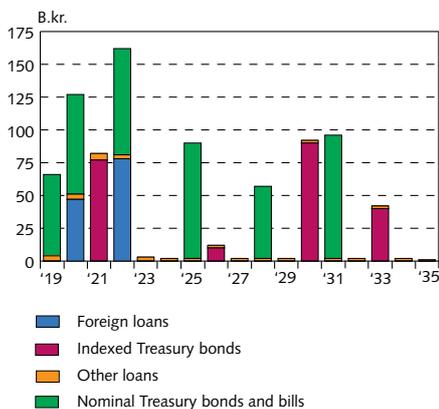
Source: Central Bank of Iceland.

Chart V-4  
Indexed Treasury Bonds



Source: Central Bank of Iceland.

Chart V-5  
Redemption profile of Treasury debt



Source: Central Bank of Iceland.

Treasury maturities of six months or less. Under unilateral market making, primary dealers are only obliged to submit bids for the series in question, which causes price formation to be less efficient.

Strong emphasis has been placed on reducing refinancing risk by spreading out and lengthening the maturities of new loans. Systematic action has been taken to reduce the amounts maturing each year relative to previous years. According to the Government's debt management strategy, the objective is to keep maturities in each Treasury bond series at or below 70 b.kr., apart from older bonds issued before 2016. One of the risk management priorities is to refinance these loans in a timely manner and smooth out the redemption profile of the debt portfolio still further.

A change in the arrangements for Treasury bill issuance was announced in the 2018 Government Debt Management Prospect. Issuance is now more flexible than before, making it easier to address temporary fluctuations in revenues and expenditures within the year. As a result of the change, Treasury bill issuance dates and maturity dates take better account of the liquidity position at the time in question, and the previous policy of issuing always at mid-month, and with maturities three to six months later, has been abandoned. Treasury bill issuance was successful during the year, and the position was 10.9 b.kr. at the year-end.

The domestic bond market was characterised by considerable uncertainty during the year, owing largely to unrest in the labour market. In addition, the increase in global oil prices caused oil import prices to rise. Because of this, demand for indexed bonds grew, at the expense of nominal issues and the nominal bonds yields rose. An unexpected spike in inflation at the end of Q2, when twelve-month inflation outpaced forecasts and jumped from 2.0% to 2.6%, caused further rises in nominal bond yields.

When Statistics Iceland published Q2 GDP growth data in September, the actual figure was 7.2%, nearly twice as high as the forecasts. This surging growth took the market utterly by surprise, and nominal yields rose still further afterwards. In Q3, airline WOW Air's financing problems and mounting concerns about the economic outlook caused nominal yields to rise and the exchange rate of the króna to fall. The depreciation of the króna led to a rise in nominal bond yields, until the uncertainty about WOW's future was partially mitigated in Q4, when a foreign investor's plans to invest in the company were announced. Nominal bond yields then fell, probably due to the expectation that tourist arrivals to Iceland would not fall as much as had been feared and the adverse impact on the króna would be less than previously anticipated.

### Foreign debt management

At the end of 2018, Treasury foreign debt totalled 124.6 b.kr., after increasing by just over 8 b.kr. because of the depreciation of the króna. According to the Medium-Term Debt Management Strategy for 2018-2022, new Treasury loans taken in foreign currencies will be used mainly to expand the Central Bank's international reserves, to refinance outstanding market issues, and to maintain access to foreign

credit markets. Because the Treasury's foreign exchange position was good during the year and the Central Bank's international reserves sufficient, it was not considered necessary to build up the reserves with new borrowings.

### State guarantees

The Treasury may not undertake a guarantee unless authorised by law, as is provided for in Act no. 121/1997. In order to mitigate risk to the Treasury, the collateral provided must be deemed satisfactory by the State Guarantee Fund, which oversees State guarantees. The Fund is also tasked with keeping abreast of the activities of entities that have received State guarantees and maintaining a record of the obligations to which the guarantees apply. 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 957 b.kr. at the end of 2018, as opposed to 1,032 b.kr. at year-end 2017.

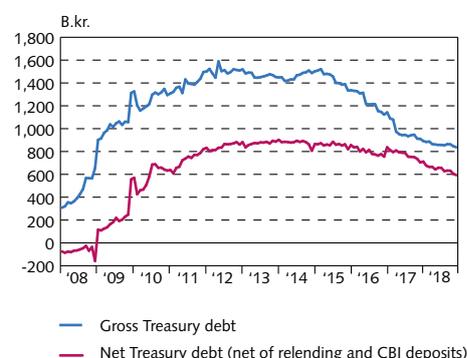
### Sovereign credit rating of the Republic of Iceland

Three international credit rating agencies issue ratings for the Republic of Iceland on a regular basis: Fitch Ratings, Moody's Investors Service, and S&P Global Ratings. The Central Bank of Iceland communicates regularly with these agencies on behalf of the Government. Iceland's sovereign credit rating affects the borrowing terms offered to it in foreign credit markets, as well as providing a benchmark for terms offered to other domestic entities. In 2018, Iceland had A ratings from all of the agencies: Fitch and S&P Global ranked it in the middle of single A category, whereas Moody's assigned the sovereign a rating of A3, at the bottom of single A category. The outlook was stable on the ratings from Fitch and S&P Global, and Moody's upgraded the outlook to positive in July.

In its annual report on Iceland's sovereign ratings, Fitch stated that the A rating was supported by high per capita income, strong institutional structure, and a favourable business environment. Weaknesses included a high level of commodity export dependence, vulnerability to external shocks, and a history of macroeconomic and financial volatility. A stable outlook indicates that the likelihood of a rating upgrade or downgrade is roughly equal. In a statement released in December 2018, Fitch noted that a sustained improvement in the external position and increased resilience to external shocks could result in a rating upgrade. On the other hand, evidence of overheating in the domestic economy or substantial capital outflows leading to external imbalances and pressure on the exchange rate could result in a downgrade.

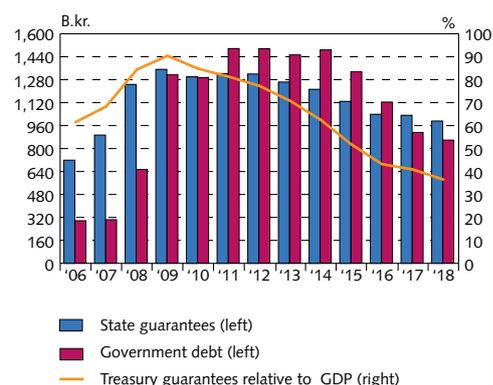
Moody's Investors Service based the July 2018 change in outlook from stable to positive on two main factors: on the one hand, increased economic resilience due to an improved external position, more balanced GDP growth, and growing strength in the banking system; and on the other hand, a more favourable Government debt

Chart V-6  
Developments in Treasury debt 2008-2018



Source: Central Bank of Iceland.

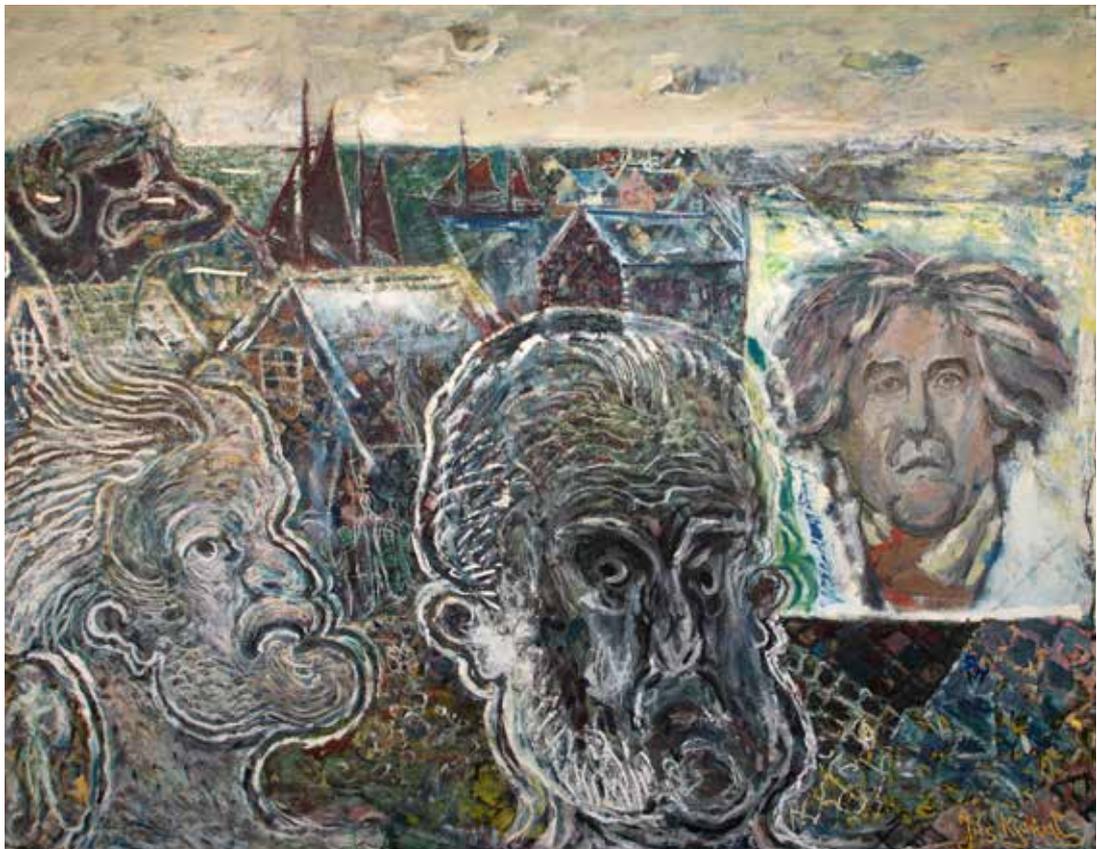
Chart V-7  
Treasury debt and guarantees  
2006-2018



Sources: Statistics Iceland, Central Bank of Iceland.

position than had been expected. The positive outlook also reflected Iceland's progress in lifting the capital controls and settling its offshore króna obligations. In its credit opinion from December, Moody's said that an upgrade could be forthcoming if the Government debt ratio continued to decline and the economy achieved a soft landing without significant adverse impact on the external position in spite of the rebalancing of the tourism sector and the ongoing wage negotiations. However, the positive outlook could be withdrawn or the rating even downgraded if a marked slowdown or outright contraction should occur in the tourism industry, or if other shocks should reduce the sustainability of external or Government debt or threaten financial stability, particularly if Iceland were forced to reinstate capital controls.

In an opinion published in June, S&P Global Ratings noted that Iceland's sovereign rating was supported by the country's strong institutional framework and effective economic policy, low Government debt, and high per capita income. These strengths were offset, however, by Iceland's vulnerability to external developments. The stable outlook reflected S&P's expectation that the potential for an improvement in Iceland's Government and external balance sheets was more or less equal to the risk stemming from overheating. An upgrade could therefore be in the offing if Iceland's external and fiscal position should improve more than expected, while a downgrade could result if economic overheating should adversely affect long-term growth prospects, the balance of payments, or financial stability.



A painting from the Bank's collection by Jóhannes S. Kjarval, *Morning of Life (Industry)*, painted between 1958 and 1964, size 164 x 205 cm.

## VI International cooperation

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

### **International Monetary Fund**

The Central Bank formally represents Iceland at the International Monetary Fund (IMF). A mission from the IMF held its annual discussions on the current situation and future prospects for the Icelandic economy with the authorities in September. The IMF Executive Board then held its regular Article IV Consultation on the Icelandic economy in November. All of the IMF's reports on its regular surveillance of the Icelandic economy are published on the Fund's website and that of the Central Bank.

Iceland collaborates with the Nordic and Baltic countries at the IMF and forms a constituency with them. These countries jointly elect one representative to the Fund's 24-member Executive Board. The Constituency's representative on the Executive Board in 2018 was Thomas Östros from Sweden. Twice a year, the Nordic-Baltic office compiles a report on the salient issues on the agenda of the Fund and the Executive Board, including the Constituency's views on them. These reports are published on the Central Bank's website.

The International Monetary and Financial Committee meets each spring and autumn. Governor Már Gudmundsson represented of the Nordic-Baltic Constituency at the spring meeting of the IMFC. The Governor is also Iceland's representative to the IMF Board of Governors, which meets each year at the Fund's annual meetings.

### **Bank for International Settlements**

The Central Bank is a shareholder in the Bank for International Settlements (BIS) 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 various banking services to central banks. During the year, the Governor attended central bank governors' meetings held every other month by the BIS. One of these meetings is the meeting of central bank governors from small open economies. Governor Már Gudmundsson chairs this group.

### **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 visit Iceland on a regular basis to keep abreast of economic developments, and they issue periodic reports setting forth the Organisation's opinion of economic developments and prospects in the country.

### **Cooperation with other central banks and financial supervisors**

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

Among other things, the Governor attends regular meetings of central bank governors and financial supervisory officials in the Nordic and Baltic countries, and the Bank participates in the co-operative work of the Nordic-Baltic Stability Group (NBSG).

Since 2017, the Governor has attended meetings of the European Systemic Risk Board as an observer. A Bank representative also attends meetings of the European Banking Authority (EBA).

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

#### **Other financial institutions**

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



A painting from the Central Bank's art collection, by Louisa Matthíasdóttir, *Sheep*, oil painting, size 75 x 93 cm.

## VII Special projects

### Capital Controls Surveillance Unit

The Central Bank of Iceland monitors implementation of the Foreign Exchange Act, no. 87/1992, and rules adopted on the basis of the Act, including the Rules on Special Reserve Requirements for New Foreign Currency Inflows, and the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, no. 37/2016. The Bank conducts general and specialised monitoring of compliance with the aforementioned regulatory instruments and provides guidance to individuals and legal entities. It also processes applications for exemptions from the Foreign Exchange Act and applications for withdrawals from accounts subject to special restrictions. In addition, the Bank investigates alleged violations of the Foreign Exchange Act, the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions, and rules issued on the basis of these Acts. It carries out other tasks as well, including matters related to capital account liberalisation, new investment in Iceland, the special reserve requirement for new inflows of foreign-denominated capital, drafting of legislation, and issuance of rules.

In 2018, the Central Bank received six requests for exemptions from the Foreign Exchange Act, no. 87/1992, as opposed to 92 in 2017 and 1,020 in 2016. The reduction in the number of requests received is due to the virtually complete removal of capital controls in 2017. Of the nine requests processed during the year, three pertained to cases not requiring exemptions, three exemption requests were granted, one exemption request was withdrawn, and two requests were rejected. In view of the reduction in the number of exemption requests received, the Exemption Department of the Capital Controls Surveillance Unit discontinued operation in August 2018. In 2018, the Bank received 137 notifications of new investment, cf. Article 13(m) of the Foreign Exchange Act, in the total amount of 62.6 b.kr. Of these, 12 notifications pertained to investment subject to special reserve requirements pursuant to the Rules on Special Reserve Requirements for New Foreign Currency Inflows, no. 490/2016, and 1.6 b.kr. were deposited to special reserve accounts in accordance with the Rules. A total of 34 requests for confirmation of hedging transactions were submitted on the basis of the Rules on Foreign Exchange, and 34 were granted, six withdrawn, and one rejected.

At the end of 2018, offshore króna assets amounted to 84 b.kr., as opposed to 88 b.kr. at the beginning of the year. The reduction is due primarily to the Bank's revaluation of various offshore króna assets. During the year, withdrawals on the basis of Article 12 of the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions were confirmed for a total of 628 m.kr.

No new cases involving possible violations of the Foreign Exchange Act and the Rules on Foreign Exchange were registered during the year, and 54 investigations were either dropped or concluded at the administrative level. There were no cases involving possible viola-

tions of the Act and Rules on the Treatment of Króna-Denominated Assets Subject to Special Restrictions during the year.

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

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

At the end of 2009, these assets were transferred to a separate company owned by the Central Bank, the Central Bank of Iceland Holding Company ehf. (ESÍ). At the end of 2018, ESÍ had two subsidiaries: Hilda ehf., taken over by ESÍ in mid-2011; and SPB ehf., taken over by ESÍ in mid-2016.

At year-end 2018, ESÍ's consolidated balance sheet totalled 4.4 b.kr., after shrinking by 3.8 b.kr. since end-2017, primarily due to dividends paid to the Central Bank. ESÍ's after-tax profit for the year amounted to 312 m.kr.

The aim is to wind up ESÍ ehf., Hilda ehf., and SPB ehf. in H1/2019.

### Greidsluveitan ehf.

Greidsluveitan ehf. is a company owned by the Central Bank of Iceland. Its principal role is to operate core payment intermediation systems and provide related services, in accordance with the regulatory framework as current at any given time. Greidsluveitan is also involved with various aspects of interbank system operations; i.e., the RTGS and netting systems.

### Jóhannes Nordal cultural heritage grants

The seventh allocation of cultural heritage grants in the name of former Central Bank Governor Jóhannes Nordal took place on 26 April 2018. A total of 26 applications were received, and three grants were awarded.

Gudný Thorsteinsdóttir, Fridrik Magnússon, and Emil Hjörvar Petersen received 1.5 m.kr. for the project *Hulduheimur: Leikjabók um íslenskan þjóðararf fyrir spjaldtölvur* [*Hidden World: a book of tablet computer games about Iceland's national heritage*], an interactive book of computer games focusing on the adventures of 19th-century twin siblings Bóthildur and Flóki.

Árni Heimir Ingólfsson received 1 m.kr. for the publication of the book *Íslensk nótnahandrit frá 1100 til 1800* [*Icelandic Musical Manuscripts from 1100 to 1800*], in co-operation with Crymogea publishing. The book will present several hundred musical manuscripts from the period in a form accessible to the public.

Pamela de Sensi, in co-operation with Tónlistarsafn Íslands [the Icelandic Music Collection], received 500,000 kr. for the project *Ferðast um fullveldið – sögur af fullvalda börnum* [*Sojourns in a Sovereign Nation — stories of sovereign children*], a book, compact disc, and

concert commemorating the 100-year anniversary of Iceland's sovereignty. The project focuses on events in the lives of children during the period 1918-2018. Þórarinn Eldjárn is the author, Heida Rafnsdóttir is the illustrator, and Elín Gunnlaugsdóttir is the composer.

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

### Chronicle — a century of economic developments and statistics

During the year, the Central Bank had a chronicle compiled of economic developments and historical statistics for Iceland beginning in 1918, the year Iceland became a sovereign state. The chronicle details monetary and economic actions, events, and developments over the past hundred years, as well as containing historical statistics; i.e., an extension of various data series published in *Hagskinna* in 1997. *Hagskinna* contained 12 data series consisting mainly of information on monetary policy and the banking system. The summary was compiled so as to provide useful information to those interested in exploring monetary and economic developments in Iceland over the past century. The chronicle is published on the website, in Icelandic, <https://fullveldi.sedlabanki.is>.



Oil painting by Gunnlaugur Scheving, *Herring boats*, from 1950. Size 100 x 135 cm.



The Supervisory Board, 18 April 2018. Seated, from left: Sigurdur Kári Kristjánsson, Gylfi Magnússon (Chairman), and Þórunn Guðmundsdóttir. Standing, from left: Una María Óskarsdóttir, Frosti Sigurjónsson, Bolli Hédinsson, and Jacqueline Clare Mallett.

## VIII Accounts and organisation

### Operating results and balance sheet

The Central Bank launched a new treasury and risk management system in 2018. At the same time, changes were made to financial reporting methods, and interest income is now entered according to the effective interest rate rather than the nominal interest rate. In addition, gold is now recognised among currencies rather than among goods. Exchange rate differences are itemised according to whether they are realised or unrealised, as are asset value adjustments. These changes affect individual items in the financial statements but do not change the final operating results or asset position. The effects are specified in the notes to the financial statements, but comparison figures have not been recalculated.

According to its profit and loss account, the Central Bank of Iceland recorded a net profit of 35,247 m.kr. in 2018, compared with a loss of 23,254 m.kr. in the previous year. Excluding exchange rate differences and income tax, the Bank's operations generated a loss of 19,509 m.kr. in 2018, as opposed to a loss of 7,323 m.kr. in 2017. The table in the margin illustrates the changes in the principal items of the Bank's profit and loss account.

The Bank's operating performance was positive, improving by 58,501 m.kr. from the previous year, mostly as a result of exchange rate differences. Net interest expense totalled 13,343 m.kr. during the year, as opposed to 14,157 m.kr. in 2017, a reduction of 5.7%. Interest income on domestic assets declined by 2,687 m.kr., due to asset sales. Interest expense on domestic sight deposits and term deposits declined by 5,240 m.kr. between years.

Exchange rate gains totalled 54,757 m.kr. in 2018, owing to the Bank's large international reserves and depreciation of the króna during the year, but 98% of assets held by the Bank are foreign. In 2017, however, exchange rate differences generated a loss of 15,931 m.kr. The króna depreciated by 7.3% in trade-weighted terms from the beginning to the end of 2018. It depreciated by 6.6% against the euro and by 11.4% against the US dollar.

Other operating income declined by 14,269 m.kr. year-on-year, owing to exchange rate gains of 14,386 m.kr. on the offshore króna auction in 2017. Asset valuation adjustments were expensed in the amount of 2,859 m.kr. during the year. Services income net of services expense increased by 818 m.kr. between years, owing to services expenses in connection with the offshore króna auction held in 2017. Apart from these items, other operating income declined by 8 m.kr. year-on-year. Foreign exchange transactions generated exchange rate gains of 11 m.kr. in 2018, and the Bank's operating expense rose by 64 m.kr. between years, mainly because of wage increases and other operating expenses.

The Central Bank of Iceland is exempt from income tax, but companies owned by it are not. The Central Bank of Iceland Holding

Table VIII-1 Profit and loss account highlights

(Figures in ISK millions)	2018	2017	Change
Performance for the year	35,247	(23,254)	58,501
<i>Changes specify as follows:</i>			
Net interest expense	(13,343)	(14,157)	(814)
Other revenues	730	14,999	(14,269)
including			
Exchange rate gain, offshore ISK auction	0	14,386	(14,386)
Market difference	(2,905)	(5,906)	(3,001)
Operating expenses	(4,216)	(4,127)	(89)
Impact of non-consolidated companies	279	1,931	(1,651)
Exchange rate difference	54,757	(15,931)	70,688
Income tax	(54)	(62)	(7)

Table VIII-2 Balance sheet highlights

(Figures in ISK millions)	2018	2017	Change
Equity:	58,335	22,202	36,133
<i>Changes specify as follows</i>			
<i>Assets:</i>			
Gold	9,576	8,732	844
Foreign assets	715,699	668,332	47,367
FX balance with the IMF	11,314	10,389	925
Domestic financial assets	6,095	61,886	(55,791)
Fixed operational assets	7,187	6,193	994
Other assets	4,766	8,251	(3,485)
<i>Liabilities:</i>			
Banknotes and coin	72,773	68,007	4,766
Foreign liabilities	24,358	23,047	1,311
Counterpart to IMF	18,186	16,698	1,487
Deposits of financial institutions	80,661	102,388	(21,727)
Other deposits	267,911	226,790	41,120
Domestic financial liabilities	231,622	303,822	(72,200)
Other liabilities	793	827	(34)
Equity	58,335	22,202	36,133

Company ehf. (ESÍ) was being wound up at the end of the year and is therefore held outside the Central Bank of Iceland's consolidated accounts. ESÍ generated a consolidated profit of 312 m.kr. in 2018.

The Bank's assets totalled 754,637 m.kr. at year-end 2018, as opposed to 763,781 m.kr. at the end of 2017. Foreign assets increased by 47,600 m.kr. during the year, as a result of exchange rate movements. The Bank's equity totalled 58,335 m.kr. at year-end 2018, and its equity ratio was 7.7%, as compared with 2.9% at year-end 2017. At the end of 2018, the Bank's foreign assets constituted 98% of its total assets, up from 90% at year-end 2017.

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

### **Outlook and capital adequacy criteria**

According to the Central Bank Act, the Bank shall have the financial strength needed to enable it to carry out its legally mandated role. In keeping with this, each year the Bank must determine capital adequacy criteria that reflect its need for capital and interest-bearing assets. The capital adequacy criteria are based on the Bank's operating expenses and the risks and uncertainties facing it at any given time. The decision on capital adequacy criteria is endorsed by the Supervisory Board.

In 2018, the capital adequacy benchmark was set at 150 b.kr. Although its end-2017 equity was much lower, at 22 b.kr., the Bank did not call in equity from the Treasury in accordance with the statutory authority providing for callable equity of up to 52 b.kr. (at the price level as of the provision's entry into force).

There are several reasons for this, including the following: First of all, the Bank was following an action plan aimed at improving its operating performance, including changes to minimum reserve requirements and possible changes in its reserve investment policy, with the objective of boosting returns on the reserves, which had become much larger than before. Minimum reserve requirements were changed in 2018, but the reserve investment policy is still under review. This work has revealed, however, that it is not possible to expect a significant change in operating performance — at least not in the short run. Increased returns will not be achieved without increased risk, and given the nature of the international reserves, it is considered appropriate to exercise caution in assuming such risk. Second, the Bank's equity increased in H2/2018, as a result of the lower exchange rate. Because of this and other factors, it was therefore deemed appropriate to pause and await further developments.

The results of a scenario analysis of developments in the Central Bank's performance and equity over the period 2019-2027 show that the Bank's performance will be broadly similar to that a year ago, whereas equity will be higher because the initial position is better. The risk facing the Bank is also considered broadly unchanged since last year. In view of this, it is not considered necessary to change the capital adequacy criteria set in 2018. It has therefore been decided to keep the benchmark unchanged at 150 b.kr.

Each year, a decision is taken on the disposition of the Bank's profit, in accordance with a method introduced with Act no. 122/2014.

The Bank's profit, after allocations have been made to the reserve fund, is transferred to the Treasury, to the extent that it is not used to strengthen the Bank's capital. Because the Bank's operating results for 2018 were negative after the allocation to the reserve fund, no decision on the disposition of profit need be made.

### Assessment of seigniorage gains

The Central Bank of Iceland has the exclusive right to issue banknotes and coin in Iceland. Because banknotes and coin do not bear interest and the Bank uses their issuance to finance the purchase of interest-bearing assets, the issuance generates a profit. Although these seigniorage gains can be measured in various ways, two methods are considered most appropriate for Iceland.

The first method entails measuring the increase in banknotes and coin in a single year and designating that as the seigniorage gains for that year. By this measure, the Bank's seigniorage gains amounted to 0.17% of GDP in 2018, or about 4.9 b.kr., slightly above the 1995-2018 average of 0.16%.

The second method for measuring seigniorage gains takes account of interest income. By this measure, seigniorage gains entail interest income on the assets that the Bank can acquire by issuing banknotes and coin. Because there are no specific assets earmarked explicitly for this purpose, this must be estimated. That is done here by assuming that the Bank used issued currency to acquire assets bearing risk-free short-term interest, which is estimated using the Bank's key interest rate. By this measure, the Bank's seigniorage gains amounted to 0.10% of GDP, or just under 3 b.kr., slightly below the 1995-2018 average of 0.11%. It should be noted, however, that this is only a rough estimate. Direct costs arising from equipment, printing of banknotes, and minting of coins totalled just over 170 m.kr. in 2018, or 0.006% of GDP, whereas the 2009-2018 average was 0.008%.

## Management and staff

### Supervisory Board

The Central Bank Act, no. 36/2001, stipulates that there shall be seven members of the Supervisory Board, which shall be appointed by Parliament following each Parliamentary election. At the beginning of 2018, Thórunn Gudmundsdóttir was Chair of the Board. Other members were Sveinn Agnarsson, Björn Valur Gíslason, Sigurdur Kári Kristjánsson, Thór Saari, Frosti Sigurjónsson, and Audur Hermannsdóttir, and alternates were Kristín Thoroddsen, Hildur Traustadóttir, Thórlindur Kjartansson, Ólafur Margeirsson, Audbjörg Ólafsdóttir, Bára Valdís Ármannsdóttir, and Sunna Jóhannsdóttir. The Supervisory Board was elected on 18 April 2018. The Board must be elected after each Parliamentary election, which took place in autumn 2017. Those elected to serve on the Board were Gylfi Magnússon (elected chair at the first meeting of the new Board), Thórunn Gudmundsdóttir, Bolli Hédinsson, Una María Óskarsdóttir, Sigurdur Kári Kristjánsson, Jacqueline Clare Mallett, and Frosti Sigurjónsson. Thórlindur Kjartansson, Jóhanna Vigdís Gudmundsdóttir, Hildur Traustadóttir, Vilborg Hansen, Kristín Thoroddsen, Ólafur Margeirsson, and Bára Valdís Ármannsdóttir were elected as alternates. Vilborg Hansen resigned from the Board in No-

vember, and Valgerdur Sveinsdóttir was elected to take her place in December. The Supervisory Board held 15 meetings in the course of 2018.

### **Governor and Deputy Governor**

During the year, Már Gudmundsson served as Governor of the Central Bank. He was reappointed for a five-year term on 20 August 2014. Arnór Sighvatsson served as Deputy Governor until the end of June, after having been reappointed to a five-year term beginning on 1 July 2013. Rannveig Sigurdardóttir was appointed Deputy Governor for a five-year term on 1 July 2018.

### **Central Bank organisation**

At the beginning of the year, the Bank's activities took place in six main departments and four support departments, plus the International Relations and General Secretariat department. During the year, Operations and Information Technology was split into two departments: Operations, on the one hand, and IT, on the other.

The International Relations and General Secretariat department is separate from the Bank's main departments. It provides general office and administrative service to the Governors; provides services to the Supervisory Board; communicates with the Government, Parliament, and other domestic institutions; 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 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 also oversees a range of projects relating to the work of the Bank's Monetary Policy Committee. 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 handling transactions with domestic financial institutions. It also manages the Bank's balance sheet, handles the custody and investment of the international reserves, and oversees Government debt affairs, Treasury guarantees, and Treasury relending. The Department also oversees communications with the foreign financial institutions with which the Central Bank and the Treasury conduct business.

The role of the Capital Controls Surveillance Unit (CCSU) is to monitor compliance with the Foreign Exchange Act and rules set on the basis of the Act, including the Rules on Special Reserve Require-

ments for New Foreign Currency Inflows. It also monitors compliance with the Act on the Treatment of Króna-Denominated Assets Subject to Special Restrictions. In addition, the CCSU processes requests for exemptions to the Foreign Exchange Act and conducts investigations of possible violations of the law.

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

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

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

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

The Operations Department carries out tasks involving the Bank's internal operations and the service it provides. Among them are operation and administration of the Bank's real estate; oversight of and responsibility for security matters; purchasing for all Bank departments; expenditure control, including budget preparation; cafeteria and catering; management of the Bank's records in compliance with the Act on Public Archives; and operation of the Bank's library and numismatic collection. The department consists of four service units: Asset Management and Service, Internal Information Services, Catering and Cafeteria, and Operations and Office Services.

The Information Technology Department oversees and is responsible for the development, architecture, and operation of the Bank's

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

<i>Department</i>	<i>Number</i>
International Relations and General Secretariat	11
Governor and Deputy Governor	2
Finance	13
Financial Market Infrastructure	11
Financial Stability	15
Statistics	16
Capital Controls Surveillance Unit	11
Economics and Monetary Policy	21
Internal Auditor	1
Legal Department	5
Human Resources	3
Treasury and Market Operations	23
Operations	27
Informational technology	14
Custodial and other part-time positions	8
Total	181

information systems. It also carries out cross-disciplinary analysis and processing of procedures and organisation of information pertaining to the Bank's administrative structure. The Department comprises four service units: Systems Administration, Database Administration, Software Development, and Business Intelligence.

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

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

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

The Internal Auditor works according to Article 28(c) of the Act on the Central Bank of Iceland, no. 36/2001, under the supervision of the Supervisory Board, and is responsible to the Board. Internal audit is defined as activity that provides impartial and objective confirmation and whose aim is to enhance value and improve the operations 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**

At the end of 2018, there were 173 employees, four part-time custodial employees, and four part-time employees in other departments of the Bank, bringing the total to 181.

During the year, 21 employees were hired and 25 left the Bank. Ten summer staff members were employed by the Bank in 2018. The gender ratio was broadly unchanged between years. At the beginning of the year, there were 92 men and 93 women, and at the end of the year there were 92 men and 89 women. The ratio of university-educated employees was 86% at the year-end. Six departmental directors were male and six were female, and 14 deputy directors and managers were male and nine female. As of year-end 2018, 12 employees worked for companies owned by the Bank, including 11 employed by Greidsluveitan ehf. and one by the Central Bank of Iceland Holding Company ehf.

## Central Bank of Iceland 31 December 2018

### Supervisory Board

#### *Principal members*

Gylfi Magnússon, Chairman  
 Thórunn Guðmundsdóttir, Deputy Chairman  
 Bolli Hédinsson  
 Una María Óskarsdóttir  
 Sigurdur Kári Kristjánsson  
 Jacqueline Clare Mallett  
 Frosti Sigurjónsson

#### *Alternates*

Thórlindur Kjartansson  
 Jóhanna Vigdís Guðmundsdóttir  
 Hildur Traustadóttir  
 Valgerdur Sveinsdóttir  
 Kristín Thoroddsen  
 Ólafur Margeirsson  
 Bára Valdís Ármannsdóttir

### Governor

Már Guðmundsson

### Deputy Governor

Rannveig Sigurdardóttir

#### *Principal Officers*

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

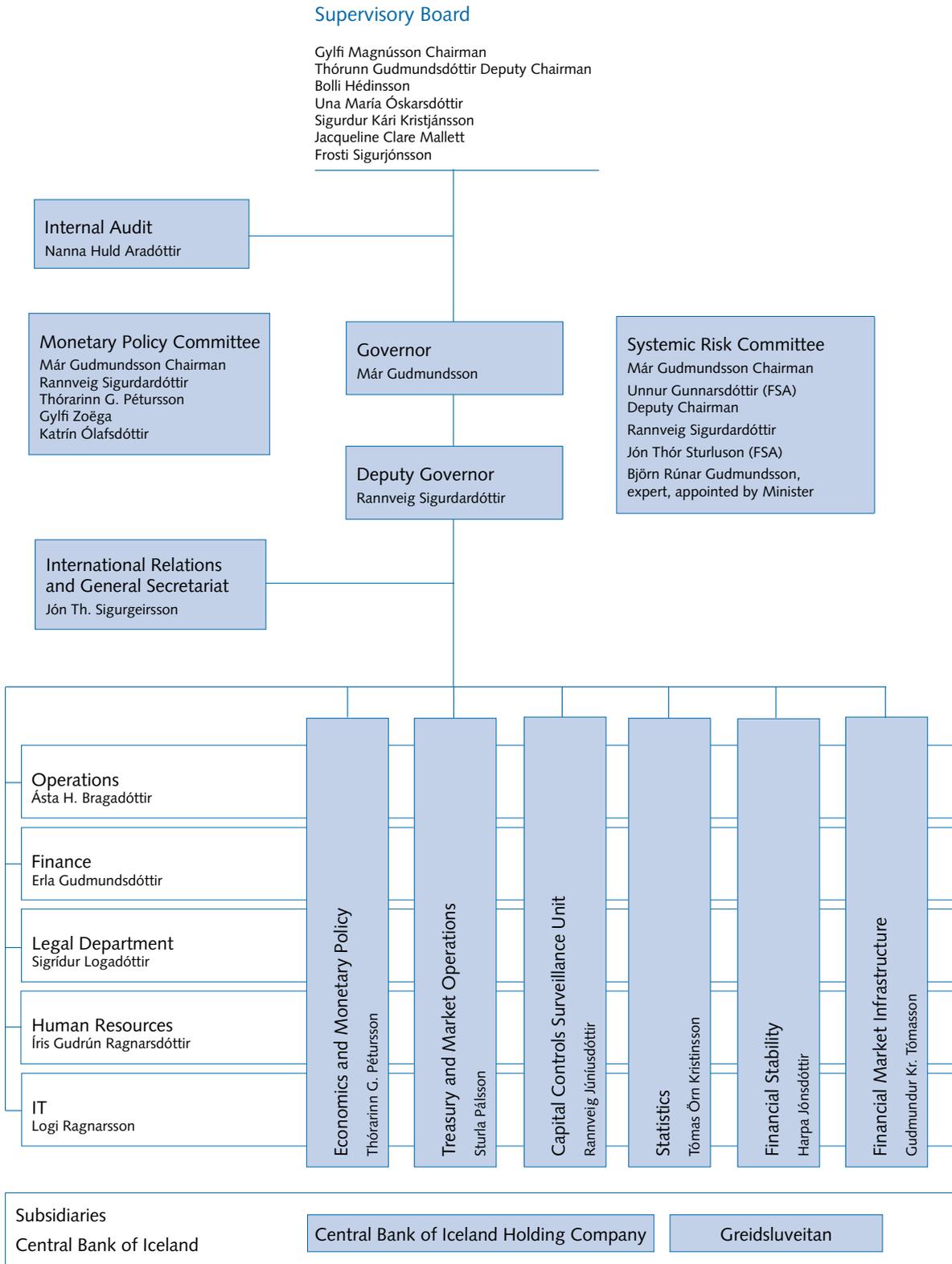
Jón Th. Sigurgeirsson, Director  
 Erla Guðmundsdóttir, Director  
 Guðmundur Kr. Tómasson, Director  
 Harpa Jónsdóttir, Director  
 Tómas Örn Kristinsson, Director  
 Rannveig Júníusdóttir, Director  
 Thórarinn G. Pétursson, Chief Economist  
 Sigríður Logadóttir, General Counsel  
 Íris Guðrún Ragnarsdóttir, Director  
 Sturla Pálsson, Director  
 Ásta H. Bragadóttir, Director  
 Logi Ragnarsson, Director  
 Nanna Huld Aradóttir

#### *Companies owned by the Central Bank of Iceland*

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

Haukur C. Benediktsson, Director  
 Vigdís Ósk Helgadóttir, Acting Director

## The organisational chart of the Central Bank of Iceland





# CONSOLIDATED ANNUAL ACCOUNTS 2018



## *Independent Auditors' Report*

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

### *Opinion*

We have audited the consolidated financial statements of the Central Bank of Iceland for the year ended December 31, 2018, which comprise a confirmation by the management of the Central Bank of Iceland, profit and loss account, balance sheet, statement of cash flows, statement of changes in equity for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Central Bank of Iceland as at December 31, 2018, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Icelandic Financial Statement Act, the act on Financial Undertakings, and the Rules on the Central Bank of Iceland's Accounting and Annual Accounts.

### *Basis for Opinion*

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

### *Other information*

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

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

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

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

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

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

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

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

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

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

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

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

Kópavogur, 28 March 2019

Deloitte ehf.

Benóni Torfi Eggertsson  
State Authorized Public Accountant

Árni Thór Vilhelmsson  
State Authorized Public Accountant

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

The Supervisory Board and Governor of the Central Bank of Iceland hereby confirm the Bank's annual financial statements for the year 2018 with their signatures. Frosti Sigurjónsson expresses the reservation that he does not consider it appropriate to include banknotes and coin with liabilities in the balance sheet.

Reykjavík, 15 March 2019

### Confirmation by the Supervisory Board

*Gylfi Magnússon*  
Chairman

*Thórunn Guðmundsdóttir*  
*Thórlindur Kjartansson*  
*Frosti Sigurjónsson*

*Bolli Hédinsson*  
*Una María Óskarsdóttir*  
*Jacqueline Clare Mallett*

### Confirmation by the Governor

*Már Guðmundsson*

## Confirmation by the Prime Minister's Office

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

Reykjavík, 28 March 2019

*Katrín Jakobsdóttir*



## Profit and Loss Account 2018

	Notes	2018	2017
<b>Interest income</b>			
From domestic assets .....		1,801,885	4,488,695
From foreign assets .....		7,567,820	9,130,552
	1	<u>9,369,705</u>	<u>13,619,246</u>
<b>Interest expense</b>			
From domestic liabilities .....		(22,336,393)	(27,576,697)
From foreign liabilities .....		(376,532)	(200,038)
	2	<u>(22,712,925)</u>	<u>(27,776,735)</u>
Net interest expense		(13,343,220)	(14,157,488)
<b>Operating revenues</b>			
Service revenues .....	3	1,237,226	1,257,360
Service expenses .....	4	(556,609)	(1,395,697)
Withdrawn banknotes .....		435	233
Revenues from shareholdings .....	5	37,750	46,094
Value adjustments of asset prices .....	6	(2,905,087)	(5,905,814)
Value adjustment of gold .....		0	1,088,994
Exchange rate gains on foreign exchange transactions .....	7	10,849	14,001,731
		<u>(2,175,436)</u>	<u>9,092,898</u>
Outcome before operating expense		(15,518,656)	(5,064,590)
<b>Operating expenses</b>			
Salaries and related expenses .....	8	(2,858,824)	(2,780,915)
Other operating expenses .....	9	(1,032,266)	(870,586)
Expense due to banknotes and coin .....	11	(166,197)	(309,034)
Depreciation of property and equipment .....	26	(155,967)	(166,519)
Impairment of claims .....	12	(2,657)	0
		<u>(4,215,911)</u>	<u>(4,127,055)</u>
Impact of non-consolidated companies .....	28	279,450	1,930,670
Operating loss before tax and exchange rate difference		(19,455,116)	(7,260,975)
Income tax .....	14	(54,244)	(61,606)
Loss without exchange rate difference		(19,509,359)	(7,322,581)
Exchange rate difference .....	13	54,756,631	(15,931,345)
Profit (loss) for the year		<u>35,247,271</u>	<u>(23,253,926)</u>

Amounts are in ISK thousands.

## Balance Sheet 31 December 2018

Assets	Notes	2018	2017
Gold .....	16	9,576,083	8,731,798
Foreign assets .....	17-20	715,699,022	668,331,558
FX balance with the IMF .....	21	11,313,923	10,389,136
Domestic financial assets .....	22-25	6,095,001	61,885,567
Fixed operational assets .....	26	7,187,175	6,192,902
Other assets .....	28	4,765,995	8,250,889
Assets		<u>754,637,199</u>	<u>763,781,851</u>
<b>Equity and liabilities</b>			
Capital .....		88,796,492	86,911,446
Uncalled capital .....	37	(57,295,492)	(55,410,446)
Reserve fund .....	15	42,255,199	0
Revaluation of real estate and liquid assets .....		6,411,632	5,589,826
Translation reserve .....		0	(8,359)
Unrealised share in profit of associates .....	38	4,244,046	8,097,639
Other equity (negative) .....		(26,077,233)	(22,978,007)
Equity	39	<u>58,334,644</u>	<u>22,202,098</u>
Banknotes and coin .....	30	72,773,138	68,007,394
Foreign liabilities .....	31	24,357,812	23,046,769
Counterpart to IMF .....	21	18,185,675	16,698,397
Deposits of financial institutions .....	32	80,661,135	102,388,236
Other deposits .....	33	267,910,508	226,790,418
Domestic financial liabilities .....	34	231,621,612	303,821,539
Pension obligations .....	35	193,522	210,733
Other liabilities .....	36	599,154	616,266
Liabilities		<u>696,302,556</u>	<u>741,579,753</u>
Equity and liabilities		<u>754,637,199</u>	<u>763,781,851</u>

## Statement of Cash Flows 2018

	2018	2017
<b>Operating activities</b>		
Collected interest income .....	10,775,498	11,381,562
Paid interest expense .....	(22,999,607)	(27,604,335)
	(12,224,108)	(16,222,773)
Collected service revenues .....	1,466,156	1,066,420
Paid service expense .....	(886,924)	(1,346,747)
Paid-in dividends on shareholdings .....	37,750	46,094
	(11,607,126)	(16,457,007)
Paid operating expense .....	(3,785,477)	(3,713,018)
Cash and equivalents to operations w/o tax	(15,392,603)	(20,170,025)
Paid income tax .....	(67,426)	(25,027)
Net cash to operating activities	(15,460,029)	(20,195,052)
<b>Investment activities</b>		
Purchased property and equipment .....	(264,945)	(232,017)
Dividends paid by non-consolidated companies .....	3,900,000	28,700,000
Sold (purchased) Government bonds .....	52,457,991	(51,875,561)
Increase in claims .....	(250,817)	0
Collected instalments on securities, etc. ....	4,256,837	48,451,135
Securities purchased in international reserves .....	(213,272,770)	(135,427,621)
Securities sold in international reserves .....	229,163,626	231,453,345
	75,989,921	121,069,281
<b>Financing activities</b>		
Banknotes and coin .....	4,765,744	5,679,451
Certificates of deposit .....	(366,232)	(35,736,879)
Term deposits .....	(90,650,000)	(1,010,000)
Foreign currency deposits .....	5,137,348	(94,120,268)
DMB deposits .....	(7,229,151)	34,915,997
Deposits, other parties .....	(12,057,852)	(4,553,017)
Deposits, central government .....	29,214,569	9,505,746
Deposits, non-consolidated companies .....	(1,270,075)	(30,272,248)
Minimum reserve requirements .....	20,532,650	0
Swap agreements .....	0	(105,142)
	(51,922,998)	(115,696,360)
<b>Changes in cash position</b>		
Foreign bank deposits, increase (decrease) .....	8,606,894	(14,822,130)
Exchange rate difference on bank deposits .....	13,755,913	(309,172)
Foreign cash balance at beginning of year .....	96,731,979	111,863,281
Foreign cash balance at year-end .....	119,094,786	96,731,979

Amounts are in ISK thousands.

## Statement of Changes in Equity 2018

	Capital	Uncalled capital	Reserve fund	Real estate revaluation	Translation reserve	Unrealised share in profit of associates	Other equity (negative)	Total equity
Equity 1 Jan 2017 .....	85,634,079	(54,133,079)	0	4,250,168	(8,359)	34,770,780	(26,446,217)	44,067,372
Indexation of uncalled capital .....	1,277,367	(1,277,367)						0
Restricted dividends paid .....						(28,795,301)	28,795,301	0
Loss for the year 2017 .....						2,122,159	(25,376,085)	(23,253,926)
Real estate revaluation .....				1,388,652				1,388,652
Depr. of revalued assets 2017 .....			(48,994)			48,994	0	
Equity 31 Dec 2017 .....	86,911,446	(55,410,446)	0	5,589,826	(8,359)	8,097,639	(22,978,007)	22,202,098
Equity 1 Jan 2018 .....	86,911,446	(55,410,446)	0	5,589,826	(8,359)	8,097,639	(22,978,007)	22,202,098
Indexation of uncalled capital .....	1,885,047	(1,885,047)				(4,350,000)	4,350,000	0
Restricted dividends paid .....						496,408	(7,504,335)	35,247,271
Profit for the year 2018 .....			42,255,199					885,274
Real estate revaluation .....				885,274				885,274
Translation reserve .....				(63,469)	8,359		(8,359)	0
Depr. of revalued assets 2018 .....			42,255,199				63,469	0
Equity 31 Dec 2018 .....	88,796,492	(57,295,492)	42,255,199	6,411,632	0	4,244,046	(26,077,233)	58,334,644

Amounts are in ISK thousands.

## Summary of main accounting principles

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

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

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

### Basis for accounting methods

### Estimates and decisions

### Group

### Shares in subsidiaries and affiliated companies

### Translation reserve

### Entry of revenues and expenses

ation changes in securities are entered in the profit and loss account, irrespective of whether the securities have been redeemed.

#### Banknotes and coin

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

#### Foreign currencies

- Assets and liabilities in foreign currency are presented in Icelandic currency using the mid-exchange rate as of year-end 2018. Revenues and expenses in foreign currency are converted using the exchange rate on the transaction date.

	Average exchange rate for the year		End-of-period exchange rate	
	2018	2017	2018	2017
Euro (EUR) .....	127.73	120.54	133.23	125.05
US dollar (USD) .....	108.38	106.78	116.33	104.42
Pound sterling (GBP) .....	144.35	137.45	148.33	140.98
Canadian dollar (CAD) .....	83.61	82.36	85.47	83.32
Danish krone (DKK) .....	17.14	16.20	17.84	16.80
Norwegian krone (NOK) .....	13.31	12.93	13.40	12.73
Swedish krona (SEK) .....	12.46	12.52	13.02	12.71
Swiss franc (CHF) .....	110.72	108.43	118.23	107.07
Japanese yen (JPY) .....	0.98	0.95	1.06	0.93
Polish zloty (PLN) .....	29.96	28.30	31.02	29.97
Chinese yuan (CNY) .....	16.35	15.80	16.91	16.05
Gold (XAU) .....	137,134	134,279	149,192	136,038

#### Indexed assets and liabilities

- Indexed assets and liabilities are entered with accrued indexation as of year-end 2018, using the index value of January 2019, which reflects year-end 2018 price levels. Indexation is recognised in the profit and loss account, with interest.

#### Portfolio investment

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

#### Interest income and expense

- Interest income is recognised in profit and loss, using the effective interest rate method. The effective interest rate is the required rate of return that calculates the present value of cash flows over the lifetime of financial instruments, adjusted for premiums and discounts.
- The effective interest rate is determined when the financial instrument is initially recognised and is not updated.
- Entries were changed from the nominal interest rate to the effective interest rate at the beginning of 2018. Comparison figures have not been updated.

#### Taxation

- Income tax is calculated and entered in the annual financial statements. Its calculation is based on earnings before taxes, adjusted

for permanent differences between taxable earnings and earnings according to the annual accounts. The income tax rate is 20%.

- Income tax payable is income tax that is estimated to become due and payable in the next year due to taxable profit for the year, plus an adjustment of income tax payable for previous years.
- Deferred tax derives from the difference between balance sheet items in the tax settlement, on the one hand, and the annual accounts, on the other. The difference stems from the fact that the company's income tax base is obtained by means other than those used in the preparation of the financial statements.
- The income tax credit balance is assessed on the accounting date and is only recognised to the extent that it is likely to be used to offset taxable profit in the future.
- Assets are listed among fixed operational assets when it is likely that the economic benefits of the assets concerned will be useful to the group and when it is possible to estimate the cost due to the assets in a reliable manner. Fixed operational assets are recognised using either the cost-price method or the revaluation method. According to the cost-price method, fixed operational assets are entered at original cost price less accumulated depreciation and impairment. The cost price of fixed operational assets consists of the purchase price and all direct costs relating to putting the asset into revenue-generating condition. The revaluation method uses fair value on the date the fixed operational assets are revalued, less depreciation and impairment.
- Depreciation is calculated as a fixed annual percentage of the cost price/revaluation price based on the holding period during the year with consideration given to expected scrap value.
- Profit or loss due to the sale of assets is the difference between the sale price and the book value of the asset on the date of sale.
- The gold held in the Bank's international reserves is recognised as a foreign asset denominated in gold as a currency, and changes in the value of gold are recognised as exchange rate differences in the profit and loss account.
- Obligations are written up in the balance sheet if it is considered likely that the company will be faced with financial expense in the future due to a specified event or transaction and it is possible to assess the monetary amount in a reliable manner.

## Fixed operational assets

## Gold

## Obligations

## Explanatory notes to consolidated financial statements 2018

### Interest income

1. Interest income specifies as follows:

	2018	2017
<i>Interest income on domestic assets:</i>		
Interest income on overnight loans .....	8,149	8,032
Interest income on non-indexed securities .....	1,330,205	3,268,010
Interest income on indexed securities .....	409,024	614,467
Interest income on other domestic assets .....	54,507	598,185
	<u>1,801,885</u>	<u>4,488,695</u>
<i>Interest income on foreign assets:</i>		
Interest income on balance with IMF .....	253,042	135,543
Interest income on bank accounts .....	1,177,230	479,630
Interest income on securities .....	5,797,147	8,197,881
Interest income on other foreign assets .....	340,401	317,498
	<u>7,567,820</u>	<u>9,130,552</u>

- Interest income on domestic assets declined by 2.7 b.kr. from the year 2017, or by 60.2%, owing mainly to changes in the treatment of interest and to securities sales.
- In 2018, a total of 24 overnight loans were granted in the amount of 42.7 b.kr., as opposed to 13 overnight loans totalling 18.6 b.kr. in 2017 .
- Interest income on non-indexed securities fell by 1.9 b.kr. between years. Of that amount, 1.2 b.kr. is due to securities sales, as the Bank sold all of its Treasury bonds during the year, and 7 m.kr. is due to the change from nominal to effective interest rates.
- Interest income on indexed securities fell by 205 m.kr. between years. Of that amount, 50 m.kr. is due to the change from nominal to effective interest rates, and 155 m.kr. is due to securities sales.
- Interest income from other domestic assets declined by 557 m.kr. between years because of the retirement of a Government loan in May 2017.
- Interest income on the balance with IMF increased by 86.7%. This was due to an increase in the Fund's interest rate during the year.
- Interest income from foreign bank accounts rose by 700 m.kr. between years.
- Interest income from foreign securities declined by 2.4 b.kr. between years. This includes a 2.44 b.kr. reduction due to the change from nominal to effective interest rates. Nominal interest rose by 39.7 m.kr.

Amounts are in ISK thousands.

## Interest expense

2. Interest expense specifies as follows:

	2018	2017
<i>Interest expense on domestic liabilities:</i>		
Interest expense on certificates of deposit .....	180,523	224,355
Interest expense on term deposits .....	12,752,063	16,807,194
Interest expense on current accounts .....	5,248,392	7,168,385
Interest expense on Treasury current accounts .....	3,498,163	2,765,448
Interest expense on foreign-currency accounts .....	3,323	159,325
Interest expense on other domestic liabilities .....	653,929	451,989
	<u>22,336,393</u>	<u>27,576,697</u>
<i>Interest expense on foreign liabilities:</i>		
Interest expense on balance with IMF .....	161,740	86,678
Interest expense on foreign bank accounts .....	214,792	107,574
Interest expense on foreign borrowings .....	0	5,786
	<u>376,532</u>	<u>200,038</u>

- Interest expense on domestic liabilities declined by 19% between years. This is due mainly to a reduction of 78.2 b.kr. in interest-bearing króna-denominated term deposits and demand deposits. A portion of the reduction is due to the decision on the non-remunerated reserve requirement, imposed in mid-2018.
- Interest expense on term deposits totalled 12.8 b.kr. in 2018, as opposed to 16.8 b.kr. in 2017. The Bank offers term deposits with two different maturities: seven-day deposits bearing fixed interest, and one-month term deposits.
- Interest expense on current accounts declined by 1.9 b.kr., or 26.8%. The Bank's current account rate was 4.0% at the beginning of 2018 and was raised by 0.25% on 7 November, to 4.25% as of the year-end.
- Interest expense on Treasury current accounts rose by 26.5% between years.
- Interest expense on the balance with the IMF rose by 86.6%. This was due to an increase in the Fund's interest rate during the year.
- Interest expense on foreign bank accounts stems from negative interest on deposit balances.

Amounts are in ISK thousands.

## Service revenues

3. Service revenues specify as follows:

	2018	2017
Income from payment intermediation .....	1,071,772	1,095,210
Income from market transactions .....	130,123	128,470
Other service income .....	35,330	33,680
	<u>1,237,226</u>	<u>1,257,360</u>

- Income from payment intermediation derives from Greidsluveitan ehf., a company owned by the Bank.

## Service expenses

4. Service expense specifies as follows:

	2018	2017
Expenses from payment intermediation .....	486,814	509,685
Expenses due to foreign currency auctions .....	0	793,326
Expenses due to custodial fees .....	35,623	47,993
Expenses due to securities transactions .....	34,171	44,693
	<u>556,609</u>	<u>1,395,697</u>

- Service expense declined by 60% year-on-year. The reduction is due mainly to foreign currency auctions in connection with the Bank's offshore króna auction in 2017, as no such auctions were held in 2018.

## Revenues from shareholdings

5. Income from equity holdings specifies as follows:

	2018	2017
Dividend income from Bank for International Settlements	<u>37,750</u>	<u>46,094</u>
	<u>37,750</u>	<u>46,094</u>

## Value adjustment of assets

6. Value adjustments in financial assets specify as follows:

	2018	2017
Realised revaluation .....	(2,424,546)	
Domestic securities .....	(883,044)	
Foreign securities and securities funds .....	(1,541,503)	
<i>Unrealised revaluation</i> .....	(480,541)	(7,309,658)
Domestic securities .....	337,737	(1,051,544)
Domestic derivatives .....	0	(904,780)
Foreign securities and securities funds .....	(663,622)	(6,227,403)
Foreign derivatives .....	(154,656)	874,068
<i>Price adjustments</i>		
Appropriated assets .....		1,403,844
	<u>(2,905,087)</u>	<u>(5,905,814)</u>

- The revaluation of financial assets includes both realised and unrealised changes in fair value. The revaluation of financial assets at fair value is recognised in profit and loss.
- The distinction between realised and unrealised value adjustments in the accounts was introduced with the launch of the new treasury and risk management system at the beginning of 2018.

<i>Nominal value of foreign securities and funds, by each currency:</i>	2018	2017
EUR .....	1,343,500,000	1,594,000,000
GBP .....	590,000,000	545,000,000
USD .....	2,610,000,000	2,555,100,000
CNY .....	61,555	61,555

## Exchange rate gains on foreign exchange transactions

7. Exchange rate gains (losses) on foreign exchange transactions:

	2018	2017
Exchange rate gains due to offshore króna auction .....	0	14,386,427
Exchange rate losses on foreign exchange transactions .....	10,849	(384,696)
	<u>10,849</u>	<u>14,001,731</u>

- Foreign exchange transactions in connection with the offshore króna auction in 2017 generated exchange rate gains of 14.4 b.kr.
- Exchange rate gains (losses) on foreign exchange transactions in which the Bank sold or bought foreign currency are recognised as income or expense in the profit and loss account.

## Salaries and related expenses

8. Salaries and related expenses specify as follows:

	2018	2017
Wages and salaries .....	2,294,074	2,248,537
Pension fund .....	334,368	319,535
Salary-related expenses .....	205,796	202,425
Contribution to pension obligations .....	24,586	10,418
	<u>2,858,824</u>	<u>2,780,915</u>
Number of man-years .....	188	189

- In 2018, total remuneration to the Governor, senior management, and the Supervisory Board amounted to 368.4 m.kr. There were 14 departmental directors and key employees in 2018, as opposed to 13 in 2017. The Governor is not remunerated for participation in boards and committees jointly operated by institutions in the financial market or to which the Central Bank of Iceland appoints a representative by law. Total remuneration to the Governors, senior management, and the Supervisory Board in 2018 specifies as follows:

	2018	2017
<i>Governor</i>		
Már Gudmundsson .....	25.2	25.0
<i>Deputy Governor</i>		
Rannveig Sigurdardóttir, from 1 July 2018 onwards .....	11.4	0.0
Arnór Sighvatsson, until 30 June 2018 .....	11.3	22.6
<i>Senior management</i>		
Departmental directors and senior management .....	306.7	289.2
<i>Supervisory Board</i>		
Gylfi Magnússon, Chairman .....	2.1	0.0
Thórunn Gudmundsdóttir, Chairman .....	0.9	2.8
Thórunn Gudmundsdóttir, Deputy Chairman .....	1.4	0.0
Sveinn Agnarsson, Deputy Chairman .....	0.7	1.4
Jón Helgi Egilsson, Deputy Chairman .....	0.0	0.7
Other Supervisory Board members and alternates .....	8.7	8.0
	<u>368.4</u>	<u>349.8</u>

## Other operating expenses

9. Other operating expenses specify as follows:

	2018	2017
Outsourced services .....	568,630	461,775
Operation of fixed operational assets .....	242,050	221,436
Sundry operational items .....	221,586	187,375
	<u>1,032,266</u>	<u>870,586</u>

## Remuneration to auditors

10. Remuneration to auditors specifies as follows:

	2018	2017
Auditing of annual accounts and consolidated accounts		
Deloitte ehf. ....	20,699	26,746
Consultancy and other services		
Other auditing firms .....	2,775	4,961
	<u>23,473</u>	<u>31,708</u>

## Expense due to banknotes and coin

11. Expense due to banknotes and coin specifies as follows:

	2018	2017
Banknote printing .....	0	308,096
Minting of coins .....	165,619	0
Equipment .....	478	938
Other .....	100	0
	<u>166,197</u>	<u>309,034</u>

- In 2018, 1 kr., 10 kr., 50 kr., and 100 kr. coins were minted. In 2017, 10,000 kr. and 1,000 kr. banknotes were printed.

## Impairment of claims

12. Expensed impairment of claims amounted to 2.7 m.kr. in 2018. The Bank maintains a claim impairment account for the claims it considers likely to be lost.

## Exchange rate difference

13. Exchange rate difference specifies as follows:

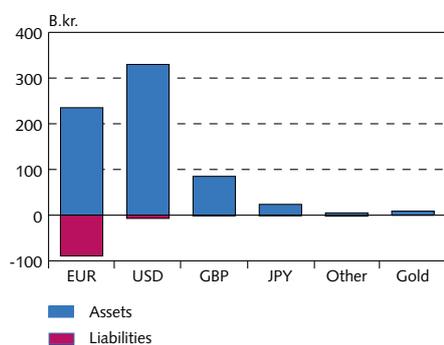
	2018	2017
<i>Realised exchange rate difference</i> .....	11,996,694	(2,419,381)
Foreign bank deposits .....	13,693,310	565,751
Foreign securities and funds .....	3,896,656	0
Domestic foreign currency accounts .....	(5,600,611)	(2,985,234)
Derivative .....	(2,805)	0
Other .....	10,145	102
<i>Unrealised exchange rate difference</i> .....	42,759,937	(13,511,965)
Gold .....	844,286	(666,813)
International Monetary Fund .....	921,634	(212,992)
Foreign securities and funds .....	40,976,334	(12,720,240)
Foreign short-term liabilities .....	0	(60,946)
Derivative .....	0	149,027
Other .....	17,683	0
	<u>54,756,631</u>	<u>(15,931,345)</u>

- An exchange rate difference is deemed realised when a transaction with a financial asset or liability results in a movement of cash and cash equivalents, irrespective of the currency involved. The exchange rate difference in cash and cash equivalents is defined as realised.
- A change was made at the beginning of 2018, as gold is no longer revalued; instead, the cross exchange rate XAU/ISK is revalued.
- The distinction between realised and unrealised exchange rate differences in the accounts was introduced with the launch of the new treasury and risk management system at the beginning of 2018.

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

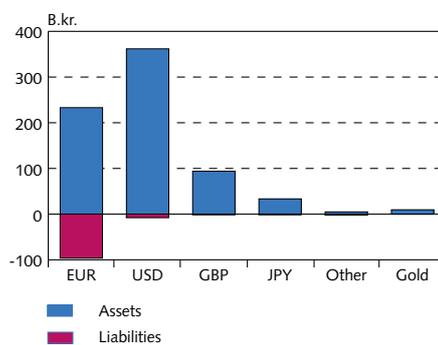
	1/1-31/12 2018	1/1-31/12 2017
USD .....	11.41	(7.45)
EUR .....	6.54	4.97
GBP .....	5.21	1.49
NOK .....	5.30	(2.91)
DKK .....	6.23	4.82
SEK .....	2.42	2.25
JPY .....	13.93	(3.91)
CHF .....	10.42	(3.38)
CAD .....	2.58	(0.48)
XDR .....	8.85	(2.03)
CNY .....	5.41	(1.24)
XAU .....	9.67	3.88

Total assets and liabilities in foreign currency  
2018



Source: Central Bank of Iceland.

Total assets and liabilities in foreign currency  
2017



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:

	2018	2017
Greidsluveitan ehf. ....	(54,244)	(61,606)
	<u>(54,244)</u>	<u>(61,606)</u>

- Income tax payable in 2019 amounts to 54.9 m.kr.

<i>Effective income taxes specify as follows</i>	2018		2017	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Profit of companies owned by the Bank .....	271,201		308,013	
Tax rate .....	(54,240)	(20%)	(61,603)	(20%)
Non-deductible expense .....	(3)	(0%)	(3)	(0%)
Income tax according to profit and loss .....	<u>(54,244)</u>	<u>(20%)</u>	<u>(61,606)</u>	<u>(20%)</u>

## 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 value adjustment reserve. Unrealised losses in excess of previously entered unrealised gains are used to reduce the profit available for disposition. 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 consists of updated market prices and currency exchange rate movements, and it extends to financial assets and liabilities, derivatives, and gold. Financial instruments denominated in domestic and foreign currencies are appraised individually.
- Both realised and unrealised gains are recognised in the profit and loss account. Contributions to the value adjustment reserve consist of the difference between cost price and recorded market price. Both because of systemic changes and because there was no balance in the valuation adjustment reserve at the end of 2017, it was decided that the cost price should reflect the market price as of 31 December 2017.

Operating results specify as follows:

	2018	2017
Net interest expense .....	(13,343,220)	(14,157,488)
Value adjustment, realised and unrealised .....	(2,905,087)	(4,816,821)
Exchange rate difference, realised and unrealised .....	54,767,480	(1,929,615)
Income from shareholdings .....	37,750	46,094
Other revenues .....	1,516,676	3,188,029
Operating expenses .....	(4,772,084)	(5,522,519)
Income tax .....	(54,244)	(61,606)
Performance for the year .....	<u>35,247,271</u>	<u>(23,253,926)</u>

The value adjustment reserve specifies as follows:

	2018	2017
Balance at beginning of year .....	0	0
Value adjustment of foreign securities .....	(663,622)	(4,678,209)
Value adjustment of domestic securities .....	176,587	(515,341)
Exchange rate difference .....	41,897,947	(5,761,725)
Value adjustment of gold .....	844,286	1,088,994
Transferred to retained earnings .....	0	9,866,281
Balance at year-end .....	<u>42,255,199</u>	<u>0</u>

Disposed of the following:

	2018	2017
Profit (loss) for the year .....	35,247,271	(23,253,926)
Change in value adjustment reserve (increase) .....	(42,255,199)	0
Change in restricted earnings, decrease (increase) .....	3,853,592	(34,770,780)
	<u>(3,154,336)</u>	<u>(58,024,706)</u>

- Restricted earnings totalled 8.1 b.kr. at the beginning of the year, and a dividend payment of 4.4 b.kr. in 2018 reduced the balance accordingly. The profit of companies owned by the Bank totalled 496 m.kr. for 2018 and is entered in full as an increase in this item. The balance on the restricted earnings account declined by 3.8 b.kr. in 2018 and is recognised as retained earnings.
- 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 35.3 b.kr. The value adjustment reserve increased by 42.3 b.kr., and the restricted earnings account decreased by 3.8 b.kr. The profit for the year, after adjusting for the valuation adjustment reserve and restricted earnings, is therefore negative by 3.1 b.kr. for 2018.

## Gold

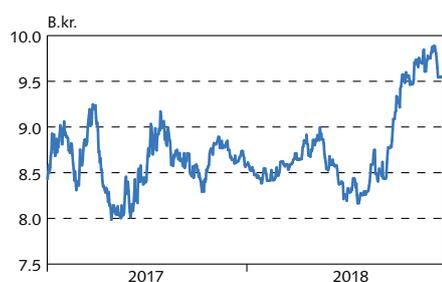
16. The Bank's holdings in gold amounted to 64,186.28 ounces at year-end 2018. Gold is entered at an exchange rate of 149,492 kr. per ounce as of year-end 2018. Thus the Bank's holdings in gold were valued at 9.6 b.kr.

Changes in gold holdings specify as follows:

	2018	2017
Balance at beginning of year .....	8,731,798	8,309,617
Value adjustment .....	0	1,088,994
Exchange rate difference .....	844,286	(666,813)
Balance at year-end .....	<u>9,576,083</u>	<u>8,731,798</u>

- A change was made at the beginning of 2018, as gold is no longer revalued; instead, the cross exchange rate XAU/ISK is revalued.

Developments in gold holdings



Source: Central Bank of Iceland.

## Foreign assets

17. Foreign assets specify as follows:

	2018	2017
Foreign bank deposits .....	119,094,789	96,731,979
Foreign securities .....	576,110,046	552,121,469
Foreign securities funds .....	1,175,317	1,114,998
Special drawing rights (SDR) with the IMF .....	18,248,728	16,673,764
Foreign derivatives .....	605,800	833,022
Foreign assets not held in reserves .....	464,342	856,326
	<u>715,699,022</u>	<u>668,331,558</u>

## 18. Foreign bank deposits specify as follows:

	2018	2017
Balance in foreign central banks.....	77,276,545	50,723,863
Deposits with the IMF.....	40,715,513	44,900,616
Balance in other foreign banks .....	1,102,731	1,107,500
	<u>119,094,789</u>	<u>96,731,979</u>
Deposits available for withdrawal .....	70,523,224	51,780,492
Term deposits, available within 3 months .....	48,571,565	44,951,487
	<u>119,094,789</u>	<u>96,731,979</u>

## 19. Changes in foreign securities and funds during the year specify as follows:

	2018	2017
Balance at beginning of year .....	553,236,467	667,108,704
Purchases during the year.....	213,272,770	135,427,621
Sold and collected during the year.....	(227,066,925)	(231,340,975)
Change in accrued interest and indexation.....	(2,472,851)	(112,371)
Unrealised valuation adjustments .....	(663,488)	(5,126,272)
Exchange rate difference.....	40,979,389	(12,720,240)
Balance at year-end.....	<u>577,285,363</u>	<u>553,236,467</u>

## 20. Foreign assets not held in reserves

Foreign assets not held in reserves specify as follows:

	2018	2017
Shareholdings in the Bank for International Settlements..	184,486	184,486
Other assets not held in reserves.....	279,856	671,840
	<u>464,342</u>	<u>856,326</u>

## International Monetary Fund (IMF)

21. Iceland's quota with the International Monetary Fund (IMF) totalled SDR 321.8 million at year-end 2018. An increase in the IMF quota took effect in February 2016. One-fourth of the increase was paid with foreign currency and the remainder in krónur. The Bank's year-end foreign exchange balance with the Fund totalled SDR 69.9 million, which is the difference between the quota and the Fund's ISK deposits with the Bank; cf. the table below. The SDR allocation totalled SDR 112.4 million.

<i>Assets:</i>	<i>SDR (thous.)</i>	<i>ISK (thous.)</i>
Central Bank of Iceland quota .....	321,800	52,073,676
IMF deposit with Central Bank of Iceland .....	(252,002)	(40,779,033)
Central Bank's FX balance with IMF .....	69,917	11,313,923
Central Bank's deposit balance with IMF .....	112,772	18,248,728
	<u>182,689</u>	<u>29,562,651</u>
<i>Liabilities:</i>		
Counterpart to IMF allocations .....	112,382	18,185,675
IMF current account with Central Bank of Iceland .....	6	986
	<u>112,388</u>	<u>18,186,661</u>

### Domestic financial assets

22. Counterparties to domestic financial assets specify as follows:

	2018	2017
Financial institutions .....	861	84,379
Treasury .....	0	55,515,527
Other parties .....	6,094,140	6,285,661
	<u>6,095,001</u>	<u>61,885,567</u>

23. Domestic financial assets at financial institutions specify as follows:

	2018	2017
Deposits .....	861	6,495
Loans .....	0	77,884
	<u>861</u>	<u>84,379</u>

24. Domestic financial assets with the Treasury specify as follows:

	2018	2017
Treasury bonds .....	0	55,515,527
	<u>0</u>	<u>55,515,527</u>

- The Bank sold all of its Treasury bonds in 2018.

25. Other parties specify as follows:

	2018	2017
Housing Bonds .....	5,996,265	6,168,077
Other parties .....	97,875	117,584
	<u>6,094,140</u>	<u>6,285,661</u>

## Fixed operational assets

26. Fixed operational assets are recognised using either the cost-price method or the revaluation method.

- According to the cost-price method, fixed operational assets are entered at original cost price less accumulated depreciation and impairment. The cost price of fixed operational assets consists of the purchase price and all direct costs relating to putting the assets into revenue-generating condition.
- Assets are listed among fixed operational assets when it is likely that the economic benefits of the assets concerned will be useful to the group and when it is possible to estimate the cost due to the assets in a reliable manner. The revaluation method uses fair value on the date the fixed operational assets are revalued, less depreciation and impairment.
- The Bank's real estate holdings were reappraised as of end-2005. Because of amendments made to the Annual Accounts Act in summer 2016, the Bank's real estate must be reappraised annually, as it has previously been reappraised. A reappraisal of real estate was carried out at the end of 2017. The reappraisal of one of the Bank's properties, Einholt 4, was based on an appraisal from an impartial real estate agent, while other Bank-owned real estate was reappraised internally.
- At the end of 2018, the reappraisal of two properties, Kalkofnsvegur 1 and Ægisída 54, was completed. That appraisal, which was conducted by an impartial real estate agent, results in an increase of 885 m.kr.
- Fixed operational assets as of year-end 2018 specify as follows:

	Country	Real estate	Equipment	Libraries and collections	Total
<i>Cost price and valuation</i>					
Cost price at beginning of year 2017 ...	0	98,901	947,807	9,687	1,056,395
Valuation at beginning of year 2017 ....	24,000	4,575,331	30,226	237,000	4,866,557
Total at beginning of year 2017	24,000	4,674,232	978,033	246,687	5,922,952
Special revaluation .....		1,388,652			1,388,652
Capitalised during the year .....			177,099		177,099
Disposals during the year (cost price) ...			(14,511)		(14,511)
Cost price at beginning of year 2018 ...	0	98,901	1,110,395	9,687	1,218,983
Valuation at beginning of year 2018 ...	24,000	5,963,983	30,226	237,000	6,255,209
Total at beginning of year 2018	24,000	6,062,884	1,140,621	246,687	7,474,192
Special revaluation .....		885,275			885,275
Capitalised during the year .....			264,830	1,000	265,830
Disposals during the year (cost price) ...			(2,234)		(2,234)
Sold (cost price) .....			(885)		(885)
Cost price at year-end 2018 .....	0	98,901	1,372,106	10,687	1,481,694
Valuation at year-end 2018 .....	24,000	6,849,258	30,226	237,000	7,140,484
Total at year-end 2018	24,000	6,948,159	1,402,332	247,687	8,622,178

Amounts are in ISK thousands.

	Country	Real estate	Equipment	Libraries and collections	Total
<i>Depreciation</i>					
Cost price at beginning of year 2017 ...		9,966	502,690		512,656
Valuation at beginning of year 2017 ...		586,213	30,226		616,439
Total at beginning of year 2017	0	596,180	532,916	0	1,129,095
Depreciation for the year at cost price ...		1,141	116,570		117,711
Depr. for the year at valuation price ...		48,994			48,994
Disposals during the year (cost price) ...			(14,511)		(14,511)
Cost price at beginning of year 2018 ...	0	11,108	604,749	0	615,856
Valuation at beginning of year 2018 ...	0	635,208	30,226	0	665,433
Total at beginning of year 2018	0	646,315	634,974	0	1,281,290
Depreciation for the year at cost price ...		1,141	90,258		91,399
Depr. for the year at valuation price ...		64,568			64,568
Disposals during the year (cost price) ...			(2,234)		(2,234)
Capital gain on sales			(21)		(21)
Cost price at year-end 2018	0	12,249	692,752	0	705,001
Valuation at year-end 2018	0	699,776	30,226	0	730,001
Total at year-end 2018	0	712,025	722,978	0	1,435,003
<i>Book value</i>					
Book value at beginning of year 2017 ...	24,000	4,078,052	445,118	246,687	4,793,857
Book value at beginning of year 2018 ...	24,000	5,416,569	505,647	246,687	6,192,902
Book value at year-end 2018	24,000	6,236,134	679,354	247,687	7,187,175
Annual depreciation rate	0%	1-3%	10-33%	0%	

- The official year-end property valuation of fixed operational assets was 5.4 b.kr.
- The year-end insurance valuation of fixed operational assets was 8.4 b.kr.

### Deferred tax

27. Deferred tax specifies as follows:

	(Liability)/Assets
Balance as of 1 January 2017	(1,764)
Calculated income tax for year 2017	(61,606)
Income tax for payment in 2018	67,426
Balance as of 31 December 2017	4,056
Calculated income tax for year 2018	(54,244)
Income tax for payment in 2019	54,923
Balance as of 31 December 2018	4,735

The income tax credit is allocated as follows to individual balance sheet items:

	2018	2017
Fixed operational assets .....	5,552	5,315
Exchange rate difference .....	(9)	(265)
Accounts receivable .....	(808)	(995)
	<u>4,735</u>	<u>4,056</u>

## Other assets

28. Other assets specify as follows:

	2018	2017
Shares in subsidiaries and associates .....	4,291,083	7,911,633
Deferred tax assets .....	4,735	4,056
Investment tax withheld .....	7,472	6,557
Other assets .....	462,705	328,644
	<u>4,765,995</u>	<u>8,250,889</u>

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

Associates are valued using the equity method:

	Location	Ownership share	Primary activities
Central Bank of Iceland Holding Company ehf. (ESÍ) .....	Iceland	100%	Holding company
Holdings in subsidiaries and associates specify as follows:			
		2018	2017
Balance at beginning of year .....		7,911,633	10,000
ESÍ transferred from the group .....		0	34,670,963
Dividend paid .....		(3,900,000)	(28,700,000)
Share in earnings .....		311,612	1,930,670
Share from prior year .....		(32,162)	0
Year-end balance .....		<u>4,291,083</u>	<u>7,911,633</u>

## The consolidated entity and companies owned by the Bank

### 29. Companies owned by the bank

	Location	Ownership share	Primary activities
<i>Companies within the group:</i>			
Greidsluveitan ehf. ....	Iceland	100%	Payment system operations
<i>Companies outside the group:</i>			
Central Bank of Iceland Holding Company ehf. (ESÍ) .....	Iceland	100%	Holding company
<i>Companies owned by ESÍ:</i>			
Hilda ehf. ....	Iceland	100%	Holding company
SPB ehf. ....	Iceland	100%	Holding company

### Banknotes and coin

#### 30. Issuance of banknotes and coin specifies as follows:

<i>Banknotes:</i>	2018	2017
10,000 krónur .....	38,892,500	33,577,500
5,000 krónur .....	21,593,500	22,788,500
2,000 krónur .....	216,000	220,000
1,000 krónur .....	6,333,500	6,084,500
500 krónur .....	1,704,500	1,559,250
	<u>68,740,000</u>	<u>64,229,750</u>
<i>Coin:</i>		
100 krónur .....	2,521,200	2,335,500
50 krónur .....	679,790	638,090
10 krónur .....	584,190	561,430
5 krónur .....	128,359	125,169
1 króna .....	119,599	117,455
	<u>4,033,138</u>	<u>3,777,644</u>
Total issued banknotes and coin	<u>72,773,138</u>	<u>68,007,394</u>

### Foreign liabilities

#### 31. Foreign liabilities specify as follows:

	2018	2017
Other liabilities .....	986	987
Certificates of deposit held by non-residents .....	24,356,826	23,045,783
	<u>24,357,812</u>	<u>23,046,769</u>

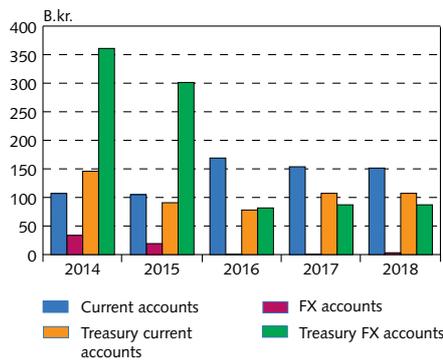
- Certificates of deposit held by non-residents derive from capital account liberalisation measures.

## Deposits

32. Deposits of financial institutions specify as follows:

	2018	2017
Current accounts of deposit institutions .....	72,453,547	79,678,344
Current accounts of other financial institutions .....	7,634,842	22,171,462
Foreign exchange accounts .....	572,746	538,430
	<u>80,661,135</u>	<u>102,388,236</u>

Developments in domestic and FX accounts



Source: Central Bank of Iceland.

- Participants in the Central Bank's real-time gross settlement (RTGS) system can have an intraday overdraft authorisation on their RTGS account. The overdraft must be backed in full by securities that the Central Bank deems eligible as collateral at that time.
- At year-end 2018, RTGS system collateral had a total market value of 14.5 b.kr.

33. Deposits of other entities specify as follows:

	2018	2017
Treasury and Government institutions .....	107,182,755	77,993,940
FX accounts held by the Treasury and Government institutions .....	87,114,332	81,646,137
Domestic deposits of foreign parties .....	3,037,033	582,130
Domestic deposits of other parties .....	70,576,389	66,568,210
	<u>267,910,508</u>	<u>226,790,418</u>

## Domestic financial liabilities

34. Domestic financial liabilities specify as follows:

	2018	2017
Certificates of deposit .....	11,847,607	13,525,945
Term deposits .....	198,563,500	289,462,573
Derivatives agreement with the Treasury .....	677,855	833,022
Non-remunerated reserve requirements .....	20,532,650	0
	<u>231,621,612</u>	<u>303,821,539</u>

- In June 2018 it was decided to change the arrangements for credit institutions' minimum reserve requirements so as to divide the reserve requirement into two parts: a fixed 1% non-remunerated reserve requirement and a 1% reserve requirement that is classified among deposits and bears deposit interest.

## Pension obligations

35. 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 193.5 m.kr. as of year-end 2018. Payments related to these obligations totalled 41.8 m.kr. in 2018 and reduce the previously entered obligation. Increases in the Bank's obligations, after adjusting for payments, totalled 24.6 m.kr. in 2018 and are expensed.

Changes during the year specify as follows:

	2018	2017
Pension obligations at beginning of year .....	210,733	241,090
Paid due to retirement .....	(41,797)	(40,775)
Change during the year .....	24,586	10,418
Pension obligations at year-end .....	<u>193,522</u>	<u>210,733</u>

## Other liabilities

36. Other liabilities specify as follows:

	2018	2017
Unpaid taxes .....	54,923	67,426
Other liabilities .....	544,231	548,840
	<u>599,154</u>	<u>616,266</u>

## Callable equity

37. At the beginning of 2015, the Central Bank of Iceland and the Treasury entered into an agreement providing for callable equity for the Bank, based on the authority contained in Article 34, Paragraph 3, of the Act on the Central Bank of Iceland, no. 36/2001, with subsequent amendments, with the amended provisions to take effect on 31 December 2014.

- With the agreement, the Treasury pledges, based on the authority contained in the National Budget, to contribute capital in the amount of 52 b.kr. to the Central Bank in the form of marketable assets according to the Bank's call-ins in this respect, provided that the Bank considers this necessary in order to fulfil its minimum requirements for paid-in capital.
- The outstanding balance of callable equity shall be written up at year-end to accord with the increase in the consumer price index.

## Restricted earnings

38. Restricted earnings from subsidiaries/associates is a new equity item introduced with amendments to the Annual Accounts Act. If the share entered to the profit and loss account exceeds dividends received during the year, the difference shall be entered as restricted earnings. A dividend of 4.4 b.kr. was paid in 2018, reducing the balance accordingly. The profit of companies owned by the Bank totalled 496 m.kr. for 2018 and is entered in full as an increase in this item. The purpose of restricting the share in the profit of subsidiaries/associates is to prevent companies from paying out dividends on unrealised shares in earnings.

## Developments in the Bank's equity ratio

39. In the past five years, the Bank's equity has changed as follows:

	2018	2017	2016	2015	2014
Equity at year-end (excl. value adjustment) .....	51,923	16,612	39,817	74,460	70,679
Value adjustment of assets at year-end .....	6,412	5,590	4,250	4,299	4,348
Equity at year-end .....	<u>58,335</u>	<u>22,202</u>	<u>44,067</u>	<u>78,760</u>	<u>75,027</u>
<i>Stock figures/ratios at year-end</i>					
Total assets .....	754,637	763,782	876,071	916,977	953,589
Equity (excl. value adjustment of assets) .....	51,923	16,612	39,817	74,460	70,679
Equity ratio .....	7.7%	2.9%	5.0%	8.6%	7.9%

## Treasury

40. Interest income and expense vis-à-vis the Treasury specify as follows:

	2018	2017
Interest income on bond .....	0	475,521
Interest income on Treasury bonds .....	1,349,390	3,268,010
	<u>1,349,390</u>	<u>3,743,531</u>
Interest expense on current accounts .....	3,498,633	2,765,448
Interest expense on foreign-currency accounts .....	3,323	159,325
Interest expense on derivatives contracts .....	346,472	316,245
	<u>3,847,958</u>	<u>3,241,018</u>
Net (interest expense) / interest income .....	<u>(2,498,568)</u>	<u>502,513</u>

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

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

- At year-end 2018, the Bank had access to loan facilities from the BIS in the form of repurchase agreements amounting to 400 million US dollars, or 41.8 b.kr. The Bank did not use these facilities in 2018.

## Derivatives

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

- Forward foreign exchange agreements (FX forwards) are entered based on the forward principal, which is multiplied by the difference between the settlement exchange rate and the spot exchange rate (contract exchange rate) on the date of the transaction. The difference between the exchange rate on the date of the transaction and the contract exchange rate is recognised through profit and loss.
- Gains on FX forwards are entered as exchange rate gains on foreign exchange transactions.
- Interest rate swaps are entered at their current market value.

## Risk management

43. 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 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.

- The assets side of the Central Bank's consolidated accounts consists primarily of the foreign part, which is stored in the Bank's international reserves. The following is a statement on the main financial risk of the Central Bank, which is primarily due to the international reserves.

### International reserves

- The international reserves are managed in accordance with rules of procedure on reserve maintenance, which were updated in September 2018. The rules contain provisions on the distribution of responsibility for reserve management. They outline an investment policy, which determines the acceptable level of financial risk for the reserves, and an investment authorisation, which stipulates how reserve management shall be carried out.

### Claims risk

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

<i>Type of issuer and counterparty in reserves:</i>	2018	2017
Principal issuers .....	65.5%	61.3%
Treasuries .....	53.6%	50.3%
Deposits with central banks and BIS .....	11.9%	11.0%
Liquid sovereigns .....	9.3%	10.1%
Treasuries .....	5.0%	7.0%
Deposits with central banks .....	4.3%	3.1%
High credit ratings .....	19.6%	21.7%
Other issuers .....	1.3%	2.7%
Deposits with financial institutions .....	0.2%	0.2%
Balance with IMF .....	4.1%	4.0%

Amounts are in ISK thousands.

- Issuers and counterparties of the Central Bank with respect to reserve management fall into four categories. Principal issuers are those that are considered, and have historically proven to be, the safest options in case of shocks, but they generally bear lower interest rates than others with similar credit ratings and equal liquidity when markets are in balance. Liquid sovereigns are treasuries and central banks of countries considered highly liquid but not included with principal issuers. The third category includes issuers and counterparties that, under normal circumstances, would be considered to represent limited issuer risk and good liquidity. The fourth category includes other permitted issuers and counterparties.

Credit ratings of issuers and counterparties in the international reserves

<i>Credit rating</i>	<i>2018</i>	<i>2017</i>
AAA .....	73.0%	73.4%
AA+ .....	4.2%	4.2%
AA .....	14.6%	15.0%
AA- .....	1.3%	0.9%
A+ .....	4.2%	2.9%
A .....	0.1%	0.0%
A- .....	0.1%	0.1%
BBB+ .....	0.2%	0.8%
BBB .....	0.9%	1.5%
Gold .....	1.3%	1.3%

- Deposits with central banks and the Bank for International Settlements in the foreign exchange reserves comprise 16% of the reserves. In general, central banks are not assigned credit ratings, and their creditworthiness is deemed to be the same as that of the sovereign. It is assumed that the Bank for International Settlements has a credit rating of AAA (counterparty risk).
- Deposits with commercial banks in the foreign exchange reserves generally account for less than 1% of the reserves and are in various currencies at various banks. The Bank attempts to keep these deposits at a minimum (counterparty risk).

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

<i>Country</i>	<i>Credit rating</i>	<i>2018</i>	<i>2017</i>
United States .....	AAA	36.0%	32.5%
Germany .....	AAA	20.4%	19.6%
United Kingdom .....	AA	10.2%	9.2%
International institutions .....	AAA	8.4%	8.9%
Bank for International Settlements (BIS) <sup>1</sup>	AAA	5.5%	6.6%
France .....	AA	4.7%	5.8%
Japan .....	A+	4.2%	2.8%
Holland .....	AAA	4.1%	5.5%
Finland .....	AA+	1.7%	2.0%
Austria .....	AA+	0.5%	0.6%
Italy .....	BBB	0.5%	1.1%
Sweden .....	AAA	0.5%	1.3%
Denmark .....	AAA	0.5%	0.5%
Belgium .....	AA	0.4%	0.4%
Canada .....	AAA	0.2%	0.0%
Spain .....	A-	0.2%	0.8%
Australia .....	AAA	0.2%	0.0%
China .....	A+	0.2%	0.2%
Norway .....	AAA	0.2%	0.2%
Switzerland .....	AAA	0.0%	0.0%
Luxembourg .....	AAA	0.0%	1.1%
Gold .....	.	1.3%	1.3%

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

### Settlement risk

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

### Liquidity risk

- Liquidity risk is the risk that the Central Bank will be unable to fulfil its tasks and commitments due to insufficient assets, inability to sell assets in time, or inability to sell assets except at significant discounts. The vast majority of the Bank's foreign exchange reserves are invested in highly liquid securities, deposits in central banks, and deposits with the Bank for International Settlements. Highly liquid assets are defined as bonds denominated in US dollars, euros, or pounds sterling and issued by the state in the state's

own currency, and deposits with the central banks in these countries/regions or the Bank for International Settlements. Issuers of securities must have a minimum credit rating of AA in order for the instruments to be classified as highly liquid assets. Highly liquid assets accounted for 73% of the Central Bank's international reserves at the end of 2018.

- 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 2017 (in ISK millions):*

	<i>Matured</i>	<i>Payable on demand</i>	<i>Within 3 mo.</i>	<i>3-12 mo.</i>	<i>1-5 yr.</i>	<i>Over 5 yr.</i>	<i>Total</i>
<i>Foreign-denominated assets</i>							
Gold .....		8,732					8,732
Foreign assets .....		621,697	44,951	833	672		668,153
FX balance with the IMF .....		10,389					10,389
Domestic financial assets .....					78		78
Other assets .....		7					7
<i>ISK-denominated assets</i>							
Domestic financial assets .....		6			61,684	117	61,808
Fixed and liquid assets .....		6,193					6,193
Other assets .....		8,416		7			8,422
	<u>0</u>	<u>655,440</u>	<u>44,951</u>	<u>840</u>	<u>62,433</u>	<u>117</u>	<u>763,782</u>
<i>Foreign-denominated liabilities</i>							
Counterpart to IMF .....		16,698					16,698
Deposits of financial institutions .....		538					538
Other deposits .....		82,883					82,883
Domestic financial liabilities .....						833	833
Other liabilities .....		39					39
<i>ISK-denominated liabilities</i>							
Banknotes and coin .....		68,007					68,007
Foreign liabilities .....				23,047			23,047
Deposits of financial institutions .....		101,850					101,850
Other deposits .....		143,908					143,908
Domestic financial liabilities .....			289,463	13,526			302,989
Pension obligations .....				42	80	89	211
Other liabilities .....			510	67			577
	<u>0</u>	<u>413,923</u>	<u>289,972</u>	<u>36,682</u>	<u>80</u>	<u>922</u>	<u>741,580</u>
Foreign maturity gap .....	<u>0</u>	<u>540,666</u>	<u>44,951</u>	<u>833</u>	<u>750</u>	<u>(833)</u>	<u>586,367</u>
Domestic maturity gap .....	<u>0</u>	<u>(299,150)</u>	<u>(289,972)</u>	<u>(36,376)</u>	<u>61,604</u>	<u>29</u>	<u>(564,165)</u>
Total balance .....	<u>0</u>	<u>241,516</u>	<u>(245,021)</u>	<u>(35,843)</u>	<u>62,353</u>	<u>(804)</u>	<u>22,202</u>

Amounts are in ISK thousands.

*Outstanding balances of assets and liabilities in domestic and foreign currency 2018 (in ISK millions):*

	<i>Payable on Matured</i>	<i>Within demand</i>	<i>Within 3 mo.</i>	<i>3-12 mo.</i>	<i>1-5 yr.</i>	<i>Over 5 yr.</i>	<i>Total</i>
<i>Foreign-denominated assets</i>							
Gold .....		9,576					9,576
Foreign assets .....		666,057	48,572	606	280		715,515
FX balance with the IMF .....		11,314					11,314
Other assets .....		54					54
<i>ISK-denominated assets</i>							
Domestic financial assets .....		1			6,094		6,095
Fixed assets and liquid assets .....		7,187					7,187
Other assets .....		4,686		12	184		4,883
	0	698,875	48,572	618	6,558	0	754,623
<i>Foreign-denominated liabilities</i>							
Counterpart to IMF .....		18,186					18,186
Deposits of financial institutions .....		573					573
Other deposits .....		89,685					89,685
Domestic financial liabilities .....						678	678
Other liabilities .....		22					22
<i>ISK-denominated liabilities</i>							
Banknotes and coin .....		72,773					72,773
Foreign liabilities .....				24,357			24,357
Deposits of financial institutions .....		80,088					80,088
Other deposits .....		178,225					178,225
Domestic financial liabilities .....			198,563	11,848		20,533	230,944
Pension obligations .....			14	28	127	25	194
Other liabilities .....			523	55			578
	0	439,552	199,101	36,287	127	21,235	696,303
Foreign maturity gap .....	0	578,535	48,572	606	280	(678)	627,315
Domestic maturity gap .....	0	(319,212)	(199,101)	(36,275)	6,152	(20,557)	(568,994)
Total balance .....	0	259,323	(150,529)	(35,669)	6,432	(21,235)	58,321

**Market risk**

44. Exchange rate risk is the risk of loss due to changes in the exchange rate of foreign currencies vis-à-vis the Icelandic króna. Attempts are made to minimise the Bank's exchange rate risk at all times by keeping assets in the same currencies and the same amounts as foreign liabilities, insofar as is possible.

- The exchange rate risk exposure of the Bank's net foreign exchange assets (foreign exchange balance) is then kept in a given currency composition.

- The Bank uses derivatives to manage its exchange rate risk. The Central Bank's foreign exchange balance was as follows at year-end 2017 and 2018:

<i>Currencies in financial assets and liabilities 2017 (in ISK millions):</i>							
<i>Assets:</i>	<i>Euro</i>	<i>USD</i>	<i>Pound sterling</i>	<i>Yen</i>	<i>Other currencies</i>	<i>Gold</i>	<i>Total</i>
Gold .....						8,732	8,732
Foreign assets.....	231,774	325,595	84,122	22,814	3,848		668,153
FX balance with the IMF.....	3,379	4,251	847	772	1,141		10,389
Domestic financial assets .....				44	34		78
Other assets.....	4	3					7
	<u>235,158</u>	<u>329,849</u>	<u>84,969</u>	<u>23,629</u>	<u>5,023</u>	<u>8,732</u>	<u>687,359</u>
<i>Liabilities:</i>							
Counterpart to IMF .....	5,432	6,832	1,361	1,240	1,834		16,698
Deposits of financial institutions	323				216		538
Other deposits.....	82,487	269	39		88		82,883
Domestic financial liabilities ...	833						833
Other liabilities.....	21	9	8				39
	<u>89,094</u>	<u>7,111</u>	<u>1,408</u>	<u>1,240</u>	<u>2,137</u>	<u>0</u>	<u>100,992</u>
Net ISK assets.....	<u>146,063</u>	<u>322,738</u>	<u>83,561</u>	<u>22,389</u>	<u>2,886</u>	<u>8,732</u>	<u>586,368</u>

<i>Currencies in financial assets and liabilities 2018 (in ISK millions):</i>							
<i>Assets:</i>	<i>Euro</i>	<i>USD</i>	<i>Pound sterling</i>	<i>Yen</i>	<i>Other currencies</i>	<i>Gold</i>	<i>Total</i>
Gold .....						9,576	9,576
Foreign assets.....	229,393	357,082	92,763	32,570	3,706		715,515
FX balance with the IMF.....	3,607	4,739	888	878	1,203		11,314
Domestic financial assets .....							
Other assets.....	51	2					54
	<u>233,051</u>	<u>361,823</u>	<u>93,651</u>	<u>33,448</u>	<u>4,909</u>	<u>9,576</u>	<u>736,458</u>
<i>Liabilities:</i>							
Counterpart to IMF .....	5,798	7,617	1,427	1,411	1,933		18,186
Deposits of financial institutions	342				230		573
Other deposits.....	90,114	196	1		53		90,364
Domestic financial liabilities ...	1		3				5
Other liabilities.....	13	3					17
	<u>96,269</u>	<u>7,816</u>	<u>1,431</u>	<u>1,411</u>	<u>2,217</u>	<u>0</u>	<u>109,144</u>
Net ISK assets.....	<u>136,783</u>	<u>354,007</u>	<u>92,452</u>	<u>32,037</u>	<u>2,692</u>	<u>9,576</u>	<u>627,548</u>

Amounts are in ISK thousands.

- The following table shows the net recognised impact on foreign exchange positions of a 10% change in the value of the Icelandic króna vis-à-vis other currencies, calculated using the balance of the currencies in the reserves. This sensitivity analysis does not include an examination of the correlation between the currency cross in question and other market risk. A depreciation of the króna would have a positive impact on the reserves, and an appreciation would have a negative impact. The table shows only the impact of a change on that date, not the impact of a 10% change in exchange rate over the year.

	2018 +/- 10% (m.kr.)	2017 +/- 10% (m.kr.)
USD .....	35,430	32,010
EUR .....	22,639	22,893
GBP .....	9,257	8,311
JPY .....	8,391	5,269
Total .....	40,287	36,473

### 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 did not loan gold to other financial institutions during the year.

### Market transactions

- The Bank's market transactions with domestic financial institutions are of two types: short-term collateralised loans granted by the Bank to financial institutions, and financial institutions' deposits with the Bank.
- The claims risk attached to Central Bank loan facilities is negligible. Collateral accepted by the Central Bank for these loans is issued by the Icelandic Government, bears a Treasury guarantee, or consists of deposits held with the Central Bank. The Central Bank grants loans for short periods of time. If a counterparty is unable to repay the loan, the Bank retains the underlying collateral. The Bank al-

ways takes delivery of the collateral before granting the loan and does not return it until the loan has been repaid. As a result, its settlement risk is negligible.

- Market risk is limited. The Bank monitors the market price of collateral it accepts for loans or as payment system collateral. A haircut is always taken from the market price before the loan is granted. In case of a change in the market price of assets, the Bank may require delivery of additional collateral.
- Liquidity risk vis-à-vis the Central Bank is negligible. All regular transactions with financial institutions are conducted in Icelandic krónur, and there is little likelihood that the Central Bank will be unable to meet its obligations.



## APPENDICES



## Press releases from the Central Bank of Iceland 2018

- |     |    |                  |  |
|-----|----|------------------|--|
| No. | 1  | 11 January 2018  | Foreign exchange market, exchange rate developments and international reserves 2017  |
| –   | 2  | 7 February 2018  | Statement of the Monetary Policy Committee 7 February 2018   |
| –   | 4  | 2 March 2018     | Current account surplus 2.8 b.kr. in Q4/2017 – net IIP positive by 190 b.kr. at the end of 2017  |
| –   | 5  | 14 March 2018    | Statement of the Monetary Policy Committee 14 March 2018   |
| –   | 6  | 16 May 2018      | Statement of the Monetary Policy Committee 16 May 2018   |
| –   | 7  | 1 June 2018      | Interest rate on Central Bank of Iceland certificates of deposit   |
| –   | 8  | 4 June 2018      | Current account surplus 0.3 b.kr. in Q1/2018 – net IIP positive by 235 b.kr.   |
| –   | 9  | 5 June 2018      | Change in credit institutions' minimum reserve requirements  |
| –   | 10 | 13 June 2018     | Statement of the Monetary Policy Committee 13 June 2018  |
| –   | 11 | 21 June 2018     | Rannveig Sigurdardottir appointed Deputy Governor  |
| –   | 12 | 29 August 2018   | Statement of the Monetary Policy Committee 29 August 2018  |
| –   | 13 | 3 September 2018 | Current account surplus 1.6 b.kr. in Q2/2018 – net IIP positive by 261 b.kr.   |
| –   | 14 | 3 October 2018   | Statement of the Monetary Policy Committee 3 October 2018  |
| –   | 15 | 7 November 2018  | Statement of the Monetary Policy Committee 7 November 2018   |
| –   | 16 | 9 November 2018  | The FX Global Code   |
| –   | 17 | 3 December 2018  | Current account surplus 76.5 b.kr. in Q3 2018  |
| –   | 18 | 7 December 2018  | Amending bill of legislation – liberalisation of capital controls on offshore króna holders and reserve requirement on capital inflows |
| –   | 19 | 12 December 2018 | Statement of the Monetary Policy Committee 12 December 2018  |

## Publications by the Central Bank of Iceland 2018

### *In Icelandic:*

Ársskýrsla 2017

Fjármálastöðugleiki 2018, two issues

Peningamál 2018, four issues

Fjármálainnviðir 2018

Hagvísar 2018, four issues

Sérrit Seðlabanka Íslands, 12. rit: Rafkróna? Áfangaskýrsla. September 2018.

Sérrit Seðlabanka Íslands, 13. rit: Smágreiðslumiðlun frá sjónarhóli viðbúnaðar og fjármálastöðugleika. September 2018.

### *In English:*

Annual Report 2017

Financial Stability 2018, two issues

Monetary Bulletin 2018, four issues

Economic Indicators 2018, four issues

Economy of Iceland 2018

Special Publication, no. 12: Rafkróna – Interim report (September 2018).

Special Publication, no. 13: Retail payment intermediation – Abstract (September 2018).

Central Bank of Iceland Working Paper No. 76, The effects of Airbnb on the residential housing market by Lúdvík Elíasson and Öundur Páll Ragnarsson (February 2018).

Central Bank of Iceland Working Paper No. 77, Disinflation and improved anchoring of long-term inflation expectations: The Icelandic experience, by Thórarinn G. Pétursson (March 2018).

Central Bank of Iceland Working Paper No. 78, The common component of the CPI: A trendy measure of Icelandic underlying inflation, by Adalheidur Ó. Gudlaugsdóttir and Lilja S. Kro (August 2018).

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

## TABLES

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

	<i>CBI current accounts, nominal rate</i>	<i>Reserve requirements, nominal rate</i>	<i>Overnight lending, discount rate</i>	<i>7-day collateral lending, nominal rate</i>	<i>28-day certificate of deposit, max. rate</i>	<i>7-day term deposits</i>
6 February 2013	5.00	5.00	7.00	6.00	5.75	
20 March 2013	5.00	5.00	7.00	6.00	5.75	
15 May 2013	5.00	5.00	7.00	6.00	5.75	
12 June 2013	5.00	5.00	7.00	6.00	5.75	
21 August 2013	5.00	5.00	7.00	6.00	5.75	
2 October 2013	5.00	5.00	7.00	6.00	5.75	
6 November 2013	5.00	5.00	7.00	6.00	5.75	
11 December 2013	5.00	5.00	7.00	6.00	5.75	
12 February 2014	5.00	5.00	7.00	6.00	5.75	
19 March 2014	5.00	5.00	7.00	6.00	5.75	
21 May 2014	5.00	5.00	7.00	6.00		5.25
11 June 2014	5.00	5.00	7.00	6.00		5.25
20 August 2014	5.00	5.00	7.00	6.00		5.25
1 October 2014	5.00	5.00	7.00	6.00		5.25
5 November 2014	4.75	4.75	6.75	5.75		5.00
10 December 2014	4.25	4.25	6.25	5.25		4.50
4 February 2015	4.25	4.25	6.25	5.25		4.50
18 March 2015	4.25	4.25	6.25	5.25		4.50
13 May 2015	4.25	4.25	6.25	5.25		4.50
10 June 2015	4.75	4.75	6.75	5.75		5.00
19 August 2015	5.25	5.25	7.25	6.25		5.50
30 September 2015	5.25	5.25	7.25	6.25		5.50
4 November 2015	5.50	5.50	7.50	6.50		5.75
9 December 2015	5.50	5.50	7.50	6.50		5.75
10 February 2016	5.50	5.50	7.50	6.50		5.75
16 March 2016	5.50	5.50	7.50	6.50		5.75
11 May 2016	5.50	5.50	7.50	6.50		5.75
1 June 2016	5.50	5.50	7.50	6.50		5.75
24 August 2016	5.00	5.00	7.00	6.00		5.25
5 October 2016	5.00	5.00	7.00	6.00		5.25
16 November 2016	5.00	5.00	7.00	6.00		5.25
14 December 2016	4.75	4.75	6.75	5.75		5.00
8 February 2017	4.75	4.75	6.75	5.75		5.00
15 March 2017	4.75	4.75	6.75	5.75		5.00
17 May 2017	4.50	4.50	6.50	5.50		4.75
14 June 2017	4.25	4.25	6.25	5.25		4.50
23 August 2017	4.25	4.25	6.25	5.25		4.50
4 October 2017	4.00	4.00	6.00	5.00		4.25
15 November 2017	4.00	4.00	6.00	5.00		4.25
13 December 2017	4.00	4.00	6.00	5.00		4.25
7 February 2018	4.00	4.00	6.00	5.00		4.25
14 March 2018	4.00	4.00	6.00	5.00		4.25
16 May 2018	4.00	4.00	6.00	5.00		4.25
13 June 2018	4.00	4.00	6.00	5.00		4.25
29 August 2018	4.00	4.00	6.00	5.00		4.25
3 October 2018	4.00	4.00	6.00	5.00		4.25
7 November 2018	4.25	4.25	6.25	5.25		4.50
12 December 2018	4.25	4.25	6.25	5.25		4.50

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

Table 2 Exchange rate indices

	Narrow trade index <sup>1</sup>	Average exchange rate index <sup>2</sup>			Real exchange rate <sup>3</sup>			
		Based on import weights		Based on export weights	Based on relative prices		Based on unit labour cost	
		Average			Index	% change	Index	% change
2000	101.5	96.1	96.3	95.7	86.9	2.9	84.8	2.9
2001	121.4	115.4	115.1	115.3	75.6	-13.0	72.9	-14.0
2002	118.5	112.0	111.7	112.0	80.1	6.0	78.5	7.7
2003	113.4	105.3	104.8	105.4	85.3	6.6	84.8	8.0
2004	112.1	103.1	102.4	103.5	88.2	3.4	86.4	1.9
2005	100.8	92.6	91.9	93.0	100.1	13.5	100.0	15.8
2006	112.7	103.4	102.6	104.0	93.6	-6.5	97.5	-2.5
2007	110.9	100.9	99.9	101.5	98.6	5.3	101.5	4.1
2008	157.3	141.9	140.9	142.4	78.2	-20.7	73.5	-27.5
2009	210.6	191.0	190.0	191.4	63.6	-18.7	49.9	-32.1
2010	204.0	185.0	184.4	185.0	67.7	6.5	56.1	12.3
2011	204.5	183.5	183.0	183.3	68.3	0.8	59.7	6.4
2012	209.1	189.0	188.6	188.8	68.7	0.6	60.3	1.1
2013	206.5	186.3	185.9	186.1	71.3	3.8	62.9	4.3
2014	195.1	177.2	176.2	177.5	76.0	6.6	68.5	8.8
2015	189.5	176.3	175.0	177.1	79.2	4.3	74.5	8.8
2016	169.4	158.9	158.1	159.1	89.4	12.8	86.2	15.7
2017	151.2	141.1	140.6	141.1	100.0	11.9	99.8	15.8
2018	157.2	147.0	146.2	147.2	97.0	-3.0	100.1	0.3

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

Table 3 Banknotes and coin in circulation by denomination

	2014		2015		2016		2017		2018	
	ISK thousands	%								
<i>Notes:</i>										
10,000 kr.	13,197,500	28.1	20,057,500	38.2	27,742,500	47.2	33,577,500	52.3	38,892,500	56.6
5,000 kr.	28,156,000	59.9	26,056,000	49.6	23,868,500	40.6	22,788,500	35.5	21,593,500	31.4
2,000 kr.	260,000	0.6	238,000	0.5	229,000	0.4	220,000	0.3	216,000	0.3
1,000 kr.	4,216,500	9.0	4,876,000	9.3	5,535,500	9.4	6,084,500	9.5	6,333,500	9.2
500 kr.	1,210,750	2.6	1,280,000	2.4	1,445,000	2.5	1,559,250	2.4	1,704,500	2.5
Total	47,040,750	100.0	52,507,500	100.0	58,820,500	100.0	64,229,750	100.0	68,740,000	100.0
<i>Coin:</i>										
100 kr.	1,730,600	59.4	1,905,300	60.2	2,142,300	61.1	2,335,500	61.8	2,521,200	62.5
50 kr.	494,940	17.0	532,540	16.8	592,740	16.9	638,090	16.9	679,790	16.9
10 kr.	471,850	16.2	500,730	15.8	537,410	15.3	561,430	14.9	584,190	14.5
5 kr.	110,149	3.8	114,609	3.6	120,454	3.4	125,169	3.3	128,359	3.2
1 kr.	107,026	3.7	110,458	3.5	114,539	3.3	117,455	3.1	119,599	3.0
Total	2,914,565	100.0	3,163,637	100.0	3,507,443	100.0	3,777,644	100.0	4,033,138	100.0
Total in circulation	49,955,315		55,671,137		62,327,943		68,007,394		72,773,138	

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

<i>M.kr. at year-end</i>	2012	2013	2014	2015	2016	2017	2018
<i>Assets:</i>							
Domestic assets, total	2,543,041	2,590,418	2,602,667	2,848,550	2,970,654	3,080,546	3,267,893
Cash and cash balances with Central Bank	159,955	184,106	139,069	294,597	385,042	378,700	293,870
Deposits in domestic banks	4,543	3,993	5,286	2,888	4,176	6,075	658
Domestic credit and marketable securities	2,184,177	2,211,173	2,314,376	2,421,376	2,461,081	2,582,965	2,861,096
Lending	1,774,800	1,860,835	1,939,689	2,025,061	2,136,566	2,357,794	2,658,135
Redeemed liabilities	531	364	237	56	32	172	121
Overdrafts	175,868	181,882	176,407	174,058	159,861	161,421	172,096
Bills	255	223	141	29	0	0	0
Unindexed bonds	732,824	754,046	774,870	778,048	794,271	860,684	1,020,383
Indexed bonds	807,573	834,788	783,035	815,027	902,996	989,590	1,044,223
Foreign currency bonds	549,114	402,652	362,942	349,405	320,431	366,185	423,294
Foreign currency overdrafts	20,838	20,208	21,269	20,322	34,321	29,812	34,397
Provisions	-512,203	-333,329	-179,212	-111,884	-75,344	-50,069	-36,380
Leasing contracts	40,273	40,860	40,654	47,144	51,174	49,970	49,927
Marketable bonds and bills	333,885	266,856	270,133	263,711	206,056	116,001	95,842
Equities	35,219	42,623	63,900	85,460	67,284	59,199	57,192
Derivatives	1,066	2,390	2,144	3,180	5,381	5,951	6,240
Share in associates	13,817	24,200	9,244	2,075	2,045	2,778	3,898
Share in affiliated undertakings	93,981	80,214	71,116	65,095	61,391	52,583	39,935
Other assets	85,502	84,342	61,433	59,339	51,539	51,494	62,195
Foreign assets, total	366,209	437,998	394,722	348,513	251,208	324,275	413,595
Deposits in foreign banks	101,666	84,187	91,729	99,074	56,299	77,887	107,039
Foreign credit marketable securities	254,542	348,582	297,602	243,646	188,183	233,895	293,474
Foreign lending	266,919	298,374	168,881	156,393	145,876	138,108	156,483
Provisions	-101,040	-114,296	-6,405	-13,793	-13,457	-4,251	-3,211
Marketable bonds and bills	83,331	163,054	133,415	99,227	53,590	85,778	137,139
Equities	5,332	1,451	1,709	1,818	2,175	14,260	3,063
Derivatives	1,227	864	1,167	1,955	2,328	7,951	8,233
Share in associates	3,945	0	0	0	0	0	0
Share in affiliated undertakings	1,914	1,320	1,076	26	23	16	14
Other assets	2,914	3,045	3,149	3,811	4,375	4,527	4,835
Assets, total	2,909,250	3,028,416	2,997,389	3,197,062	3,221,861	3,404,821	3,681,488
<i>Liabilities:</i>							
Domestic liabilities, total	2,279,183	2,333,757	2,242,985	2,256,318	2,073,439	2,146,706	2,372,585
Central Bank facilities	12,508	52,998	55,102	56,024	0	0	0
Deposits of residents, total	1,438,653	1,507,208	1,608,177	1,695,739	1,613,703	1,689,204	1,807,724
Current accounts	345,425	341,828	341,463	352,955	415,612	442,542	449,053
Current accounts in foreign currency	28,639	41,196	28,038	33,446	15,278	20,819	14,804
Sight deposits	500,901	515,790	572,154	552,629	519,050	571,616	648,178
Indexed deposits	219,437	210,213	192,856	178,820	163,112	153,826	155,922
Holiday pay accounts	7,922	8,446	9,125	10,134	11,280	12,412	13,390
Supplementary pension deposits	89,010	93,750	99,198	106,678	114,552	124,639	138,178
Other time deposits	247,319	295,985	365,343	461,077	374,818	363,351	388,199
Deposits from deposit taking corporations	70,418	133,816	17,351	4,593	1,521	1,555	2,102
Bond issue	150,962	179,333	181,652	235,043	301,852	381,545	480,400
Subordinated loans	58,966	55,129	54,239	30,590	506	194	58
Direct borrowing	418,802	279,614	229,196	145,407	65,234	396	911
Derivatives	49,102	34,837	21,153	19,780	9,867	8,853	14,277
Other liabilities	79,772	90,822	76,115	69,143	80,756	64,958	67,113
Foreign liabilities, total	121,549	143,927	150,800	282,531	508,325	600,777	683,834
Deposits from foreign deposit taking corporations	63,451	57,966	46,931	49,082	18,908	15,771	20,619
Deposits from foreign parties, other than deposit taking corporations	57,786	67,362	66,266	50,766	76,405	65,788	63,610
Derivatives	142	128	125	1,238	1,375	2,581	2,234
Bond issue	0	18,294	37,262	175,207	406,055	503,785	577,328

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

<i>M.kr. at year-end</i>	2012	2013	2014	2015	2016	2017	2018
Direct borrowing	0	0	0	6,138	5,169	12,703	19,958
Other foreign liabilities	170	177	216	100	413	148	86
Total equity and minority interest	508,519	550,732	603,604	658,214	640,097	657,338	625,069
Total liabilities and equity	2,909,250	3,028,416	2,997,389	3,197,062	3,221,861	3,404,821	3,681,488

1. The latest data are preliminary. The data only represent DMBs that are operating at each time.

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

<i>M.kr. at year-end</i>	2012	2013	2014	2015	2016	2017	2018
Foreign assets, total	906,155	925,622	924,958	1,001,522	1,067,803	1,011,728	1,150,405
Foreign credit and marketable securities	661,827	780,348	778,115	734,309	855,292	787,131	870,993
Other foreign assets	244,328	145,275	146,843	267,212	212,512	224,596	279,412
Foreign liabilities, total	315,129	316,217	239,804	313,771	547,041	628,407	709,458
Foreign bond issue	0	18,294	37,262	175,207	406,055	503,785	577,328
Other foreign liabilities	315,129	297,923	202,542	138,565	140,986	124,622	132,130
Domestic assets, total	2,902,883	2,862,512	2,832,981	2,792,887	2,669,461	2,778,726	2,990,595
Domestic credit and marketable securities	2,369,303	2,390,705	2,470,081	2,521,943	2,504,163	2,644,648	2,867,099
Treasury and Government institutions	402,619	393,879	371,800	309,627	206,613	125,204	36,913
Municipalities	15,430	12,844	18,931	19,626	18,365	21,387	22,220
Financial companies	58,819	46,745	82,318	51,252	46,698	58,447	82,342
Holding companies	303,495	234,287	179,256	177,708	147,368	136,909	132,652
Non-financial companies	1,304,039	1,171,214	1,102,579	1,160,414	1,201,628	1,325,845	1,487,558
Households	797,105	865,065	887,453	907,667	951,104	1,020,813	1,134,204
Non-profit institutions serving households	0	0	6,955	7,534	7,731	6,112	7,590
Provisions	-512,203	-333,329	-179,212	-111,884	-75,344	-50,069	-36,380
Other domestic assets	533,580	471,807	362,901	270,944	165,299	134,078	123,497
Domestic liabilities, total	3,493,909	3,471,917	3,518,135	3,480,637	3,190,224	3,162,047	3,431,543
Broad money and bonds (M4) <sup>2</sup>	1,610,062	1,703,647	1,813,507	1,957,834	1,944,788	2,107,190	2,326,697
Domestic bond issue	150,962	179,333	181,652	235,043	301,852	381,545	480,400
Broad money (M3)	1,459,100	1,524,314	1,631,855	1,722,792	1,642,936	1,725,644	1,846,298
Time deposits	558,879	604,200	663,068	754,656	662,163	653,131	694,370
Money supply and sight deposits (M2)	900,222	920,114	968,788	968,135	980,772	1,072,513	1,151,927
Sight deposits	490,491	504,357	561,074	538,682	501,211	556,156	631,310
Money supply (M1)	409,730	415,757	407,713	429,453	479,561	516,358	520,618
Demand deposits	368,868	374,140	363,686	380,549	424,464	456,064	456,269
Notes and coin in circulation	40,862	41,617	44,028	48,904	55,097	60,294	64,349
Other domestic liabilities	1,883,847	1,768,270	1,704,628	1,522,803	1,245,436	1,054,857	1,104,845
Equity	606,618	640,539	678,631	736,973	684,165	679,540	682,817
Other domestic liabilities n.i.e.	1,277,228	1,127,731	1,025,997	785,830	561,271	375,317	422,029
Liabilities and equity, total	3,809,038	3,788,134	3,757,939	3,794,408	3,737,265	3,790,454	4,141,000

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

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

<i>Effective date:</i>	<i>Total reserve requirement ratio</i>	<i>Applied reserve requirement, averaging</i>	<i>Effective date:</i>	<i>Total reserve requirement ratio</i>	<i>Applied reserve requirement averaging</i>	<i>Applied reserve requirement, fixed</i>
1 June 1979	28.0	28.0	1 December 1992	5.0	5.0	
17 April 1985	18.0	18.0	1 November 1993	4.0 (2.5) <sup>2</sup>	4.0	
1 March 1987	13.0	13.0	21 May 1998	4.0 (1.5) <sup>2</sup>	4.0	
1 August 1988	12.0	12.0	21 March 2003	3.0 (1.0) <sup>2</sup>	3.0	
1 March 1989	11.0	11.0	21 December 2003	2.0 (0.0) <sup>3</sup>	2.0	
1 May 1990	10.0	10.0	21 October 2015	4.0 (0.0) <sup>4</sup>	4.0	
1 June 1990	7.0	7.0	21 December 2015	2.5 (0.0) <sup>4</sup>	2.5	
31 October 1991	6.0	6.0	21 June 2016	2.0 (0.0) <sup>4</sup>	2.0	
1 January 1992	7.0	7.0	21 June 2018	2.0 (0.0) <sup>5</sup>	1.0	1.0
1 November 1992	6.0	6.0				

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. 5. Change in credit institutions minimum reserve requirements according to rules on reserves ratio no. 585 from 4 June 2018.

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>2018</i>	<i>Non-indexed loans</i>	<i>Indexed loans</i>	<i>Penalty rates</i>	<i>General interest damage claims</i>
1 January	5.60	3.65	12.00	3.73
1 February	5.60	3.65	12.00	3.73
1 March	5.60	3.65	12.00	3.73
1 April	5.60	3.65	12.00	3.73
1 May	5.60	3.65	12.00	3.73
1 June	5.75	3.65	12.00	3.83
1 July	5.75	3.65	12.00	3.83
1 August	5.75	3.65	12.00	3.83
1 September	5.75	3.65	12.00	3.83
1 October	5.75	3.65	12.00	3.83
1 November	5.75	3.65	12.00	3.83
1 December	6.00	3.65	12.25	4.00
Average 2018	5.71	3.65	12.02	3.80
Average 2017	6.11	3.65	12.44	4.07

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

	<i>Non-indexed loans<sup>1</sup></i>		<i>Indexed loans<sup>1</sup></i>		<i>Penalty rates</i>		<i>Credit terms index, 12-month change<sup>3</sup></i>
	<i>Nominal<sup>2</sup></i>	<i>Real</i>	<i>Nominal<sup>2</sup></i>	<i>Real</i>	<i>Nominal<sup>2</sup></i>	<i>Real</i>	
2007	19.3	12.7	15.2	8.8	25.0	18.1	5.9
2008	20.5	3.6	28.1	10.1	25.8	8.1	16.4
2009	16.4	7.2	17.3	8.0	21.2	11.6	8.6
2010	10.4	7.6	9.1	6.4	15.1	12.1	2.6
2011	7.7	2.4	11.7	6.1	11.4	5.9	5.2
2012	8.2	3.5	10.6	5.8	12.4	7.5	4.5
2013	8.2	4.4	9.1	5.3	13.0	9.0	3.7
2014	7.8	6.7	6.4	5.3	13.0	11.8	1.0
2015	7.6	5.5	7.3	5.2	12.7	10.5	2.0
2016	8.3	6.0	7.5	5.3	13.4	11.1	2.1
2017	7.3	5.5	7.0	5.2	12.4	10.5	1.7
2018	6.9	3.5	8.6	5.2	12.0	8.5	3.3

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

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

M.kr.	Year-end					
	2012	2013	2014	2015	2016	2017
<b>Assets:</b>	<b>1,074,954</b>	<b>1,003,777</b>	<b>957,277</b>	<b>948,340</b>	<b>900,649</b>	<b>764,530</b>
<i>Foreign assets</i>	539,947	487,624	530,236	653,009	816,596	687,452
Gold	13,757	8,817	9,598	8,790	8,310	8,732
SDR	1,767	953	1,014	20,072	16,963	16,674
Currency balance with the IMF	3,710	3,326	3,447	3,369	10,596	10,389
Foreign deposits	113,242	42,578	35,375	129,809	111,841	96,728
Foreign securities	407,286	431,765	480,514	490,663	667,109	553,236
Other reserve assets	0	0	104	120	938	837
Other foreign assets	184	184	184	184	839	856
<i>Domestic assets</i>	535,007	516,153	427,041	295,331	84,053	77,077
<i>Deposit money banks</i>	17,792	53,327	57,048	55,993	162	78
Collateral loans	12,346	0	0	0	0	0
Overnight loans	0	0	0	0	0	0
Other claims in foreign currency	5,446	53,327	57,048	55,993	162	78
<i>Other financial institutions</i>	3,050	2,782	2,342	2,154	2,267	6,168
Listed securities	3,050	2,782	2,342	2,154	2,267	6,168
<i>Central government</i>	185,126	179,531	153,362	98,413	40,815	55,516
Listed securities	13,965	7,192	7,374	7,357	12,060	55,516
Bonds receivable	171,161	172,339	145,989	91,056	28,755	0
<i>Other sectors</i>	324,423	275,912	209,728	134,187	36,183	9,195
Sundry accounts	436	208	138	7,644	295	334
Equity holdings	10,475	25,207	30,053	11,682	35,889	8,861
Securities	313,512	250,498	179,537	114,862	0	0
<i>Properties</i>	4,270	4,226	4,202	4,152	4,102	5,441
<i>Other assets</i>	344	374	358	433	524	681
<b>Liabilities and Capital:</b>	<b>1,074,954</b>	<b>1,003,777</b>	<b>957,277</b>	<b>948,340</b>	<b>900,649</b>	<b>764,530</b>
<i>Foreign liabilities</i>	193,581	172,290	89,004	37,378	43,885	40,334
Short term	35,875	29,782	24,597	17,223	2,893	590
Long term	135,492	122,610	43,786	0	23,961	23,046
IMF SDR allocation	22,214	19,898	20,621	20,156	17,030	16,698
<i>Domestic liabilities</i>	783,273	741,680	793,247	832,202	812,697	701,994
<i>Notes and coin</i>	45,142	47,016	49,955	55,671	62,328	68,007
<i>Deposit money banks</i>	158,377	185,662	133,546	288,064	377,922	371,184
Sight deposits	53,215	51,643	31,372	48,254	44,762	79,678
Time deposits	0	0	100,602	239,064	283,537	277,441
Certificates of deposit	100,658	126,689	0	0	48,451	13,526
Other claims	0	77	0	1	2	0
Sight deposits in foreign currency	4,504	7,253	1,572	744	1,170	538
<i>Other financial institutions</i>	42,334	48,020	65,070	53,236	77,824	93,005
Sight deposits	14,887	18,273	36,072	31,753	70,815	80,984
Time deposits	0	0	5,059	3,015	7,010	12,021
Certificates of deposit	4,716	6,420	0	0	0	0
Sight deposits in foreign currency	13,832	14,133	13,909	8,414	0	0
Time deposits in foreign currency	8,899	9,194	10,030	10,054	0	0
<i>Central government</i>	489,189	404,706	514,372	392,458	255,995	160,473
Treasury current accounts	141,052	88,022	143,215	89,054	66,379	76,281
Government institutions, current accounts	1,068	2,157	2,735	1,732	2,085	1,107
Treasury sight deposits in foreign currency	338,491	306,636	360,885	301,344	184,917	81,148
Governm. institutions foreign exch. deposits	0	0	0	0	454	498
Treasury time deposits in foreign currency	8,578	7,891	7,452	0	0	0
Other claims	0	0	84	328	2,160	1,438
<i>Other liabilities</i>	48,230	56,276	30,304	42,774	38,628	9,324
<i>Capital and reserves</i>	98,100	89,807	75,027	78,760	44,067	22,202

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

<i>Month-end 2018</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>
748,312	742,615	726,704	707,625	726,131	729,326	719,613	731,738	753,163	807,382	790,767	755,189
671,302	667,707	651,824	660,017	678,410	682,452	670,903	684,907	703,863	761,671	769,696	736,589
8,673	8,572	8,413	8,536	8,808	8,540	8,193	8,295	8,433	9,492	9,623	9,576
16,425	16,425	16,044	16,321	16,747	16,829	16,550	16,889	17,453	18,908	19,112	18,249
10,235	10,224	9,986	10,158	10,413	10,462	10,288	10,487	10,836	11,740	11,852	11,314
106,388	127,008	129,059	134,781	139,200	127,163	123,014	125,499	125,247	141,359	144,681	119,095
527,962	503,861	487,079	489,296	502,301	518,469	511,911	522,774	540,923	579,141	583,385	577,285
767	772	808	490	506	548	510	521	521	570	590	606
852	844	436	435	436	441	437	442	450	462	453	464
77,010	74,908	74,880	47,608	47,721	46,874	48,710	46,831	49,300	45,710	21,071	18,600
78	79	73	73	77	73	1,572	75	3,072	78	79	0
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	1,500	0	3,000	0	0	0
78	79	73	73	77	73	72	75	72	78	79	0
6,177	6,036	6,092	5,981	5,949	5,885	5,969	5,888	5,930	5,911	5,963	5,996
6,177	6,036	6,092	5,981	5,949	5,885	5,969	5,888	5,930	5,911	5,963	5,996
55,470	53,453	53,526	26,205	26,355	25,633	25,801	25,559	25,518	24,811	0	0
55,470	53,453	53,526	26,205	26,355	25,633	25,801	25,559	25,518	24,811	0	0
0	0	0	0	0	0	0	0	0	0	0	0
9,074	9,123	8,988	9,082	9,065	9,033	9,113	9,048	8,542	8,669	8,783	5,478
245	294	159	254	237	205	284	219	163	290	404	470
8,829	8,829	8,829	8,829	8,829	8,829	8,829	8,829	8,379	8,379	8,379	5,007
0	0	0	0	0	0	0	0	0	0	0	0
5,441	5,441	5,424	5,424	5,424	5,408	5,408	5,408	5,391	5,391	5,391	6,260
771	776	777	842	850	843	848	854	846	850	854	866
748,312	742,615	726,704	707,625	726,131	729,326	719,613	731,738	753,163	807,382	790,767	755,189
40,292	41,559	41,239	41,108	41,525	41,473	41,202	43,838	44,742	46,297	46,491	45,581
886	982	1,107	692	691	708	705	3,058	3,389	3,060	3,095	3,038
22,958	24,145	24,081	24,088	24,098	23,948	23,958	23,925	23,935	24,365	24,347	24,357
16,449	16,432	16,050	16,328	16,736	16,817	16,538	16,855	17,418	18,872	19,050	18,186
703,216	699,280	698,802	672,255	674,005	674,792	676,415	675,067	679,358	682,031	658,491	651,274
65,981	65,404	66,075	65,242	65,702	67,715	67,633	67,736	67,522	67,990	68,382	72,773
398,773	382,971	360,169	352,581	338,554	350,006	329,946	312,310	310,942	320,618	292,901	285,633
77,120	69,188	52,067	63,278	55,378	54,709	49,831	68,145	62,680	37,484	35,048	72,454
307,650	300,885	295,838	276,949	270,902	282,819	267,661	231,729	235,795	270,432	245,230	200,789
13,462	12,366	11,744	11,833	11,745	11,948	11,927	11,900	11,913	12,111	12,025	11,818
0	0	0	0	0	0	0	0	0	0	0	0
540	533	520	521	528	531	526	537	554	591	599	573
94,443	77,854	81,128	85,670	89,540	80,899	89,061	88,368	86,382	87,755	98,231	95,467
79,120	70,811	71,464	69,293	78,952	73,759	67,720	76,254	76,821	76,848	87,622	77,131
15,292	7,011	9,633	16,345	10,556	7,111	21,311	12,084	9,531	10,878	10,580	18,307
32	32	32	32	32	29	29	29	30	30	30	30
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
134,722	162,602	182,471	161,298	171,672	168,037	181,591	198,613	208,381	199,400	191,990	194,975
47,624	77,092	91,115	66,946	84,255	65,393	69,045	92,483	95,227	88,961	97,945	104,833
1,203	874	1,256	1,614	1,697	1,823	1,987	1,210	1,375	1,711	1,778	1,077
81,282	80,312	78,881	79,321	79,801	80,450	79,799	81,165	83,636	89,490	90,594	86,583
513	385	409	411	413	335	369	384	411	440	445	532
0	0	0	0	0	0	0	0	0	0	0	0
4,099	3,939	10,810	13,007	5,506	20,035	30,390	23,371	27,731	18,798	1,227	1,950
9,297	10,448	8,959	7,464	8,538	8,134	8,185	8,040	6,131	6,268	6,987	2,425
4,804	1,776	-13,337	-5,738	10,601	13,061	1,996	12,833	29,063	79,053	85,784	58,335