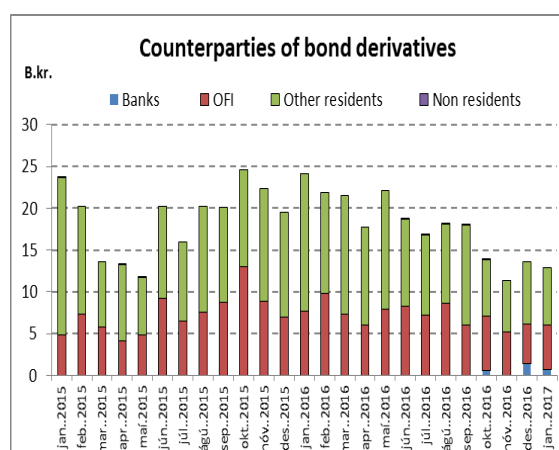
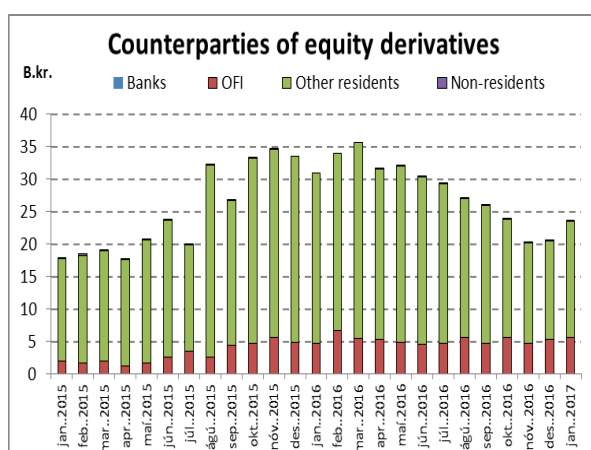
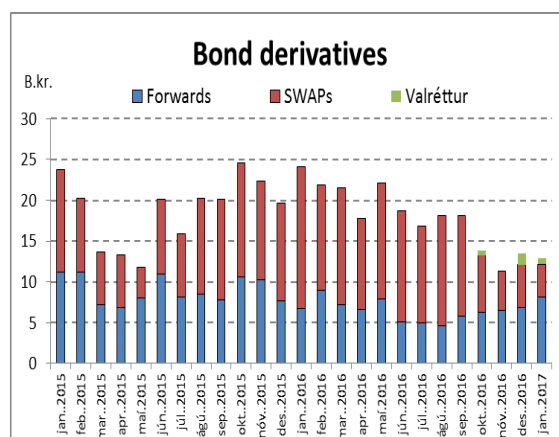
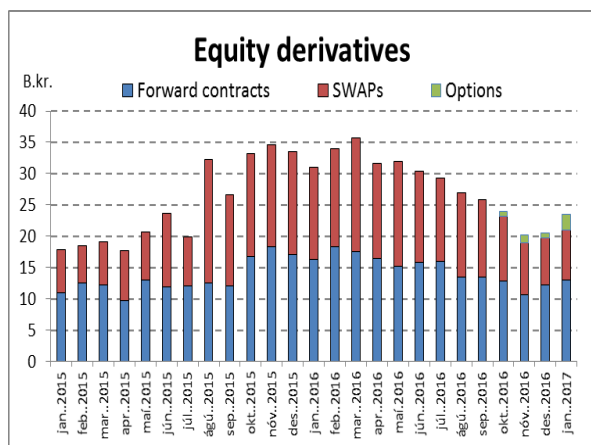


Securities derivative

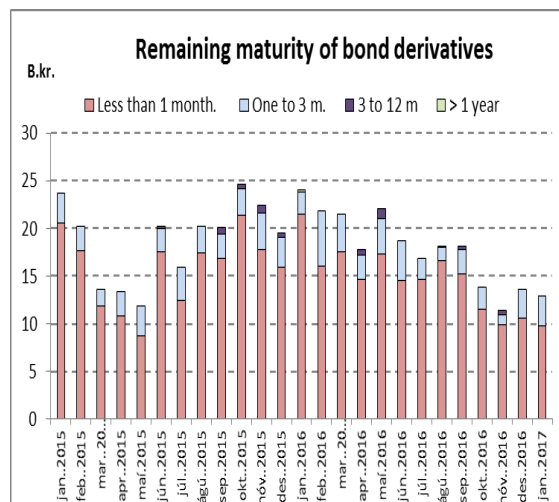
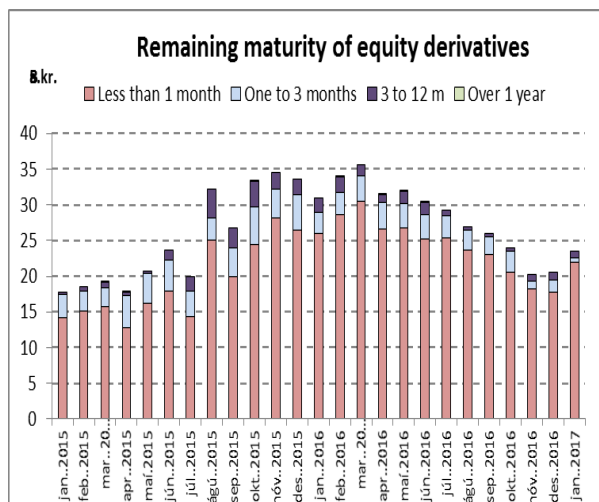
The CBI has collected data on equity and bond derivatives issued by the financial institutions. Table showing the position of security derivatives at end of the months is published in the statistics section of our website (www.sedlabanki.is). Firstly, the sum of purchase and sale contracts are classified according to the nature of the derivatives, counterparties and maturity valued at contract prices. This overview shows the size and structure of the bond derivatives issued by financial institutions but does not assess their risk or impact on the securities market.

Securities derivatives are presented as equity derivatives and bond derivatives with regard to the separation on the market. Equity derivatives decreased in 2016. Currently, they stand at 23 billion ISK. Bonds derivatives contracted also in 2016 and amount now to 13.5 billion kronur. The derivatives are mostly simple forward contracts and to a small extent swaps but only few options was contracted at the end of 2016.

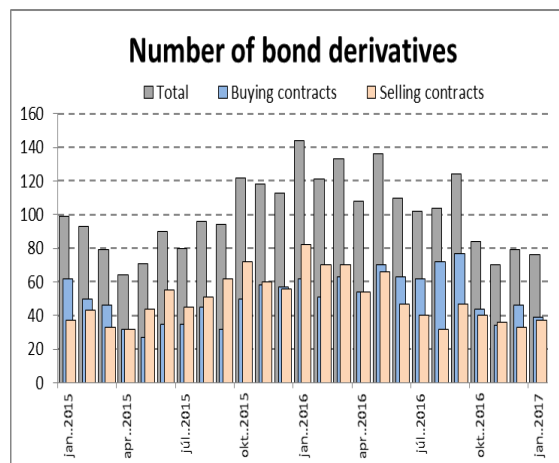
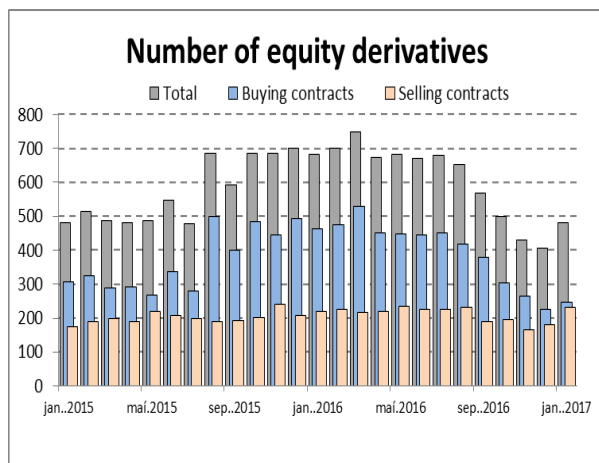


Counterparties of derivatives contracts are domestic entities, companies and individuals, and other financial institutions than banks. Foreign investors held small share of the derivatives at this time.

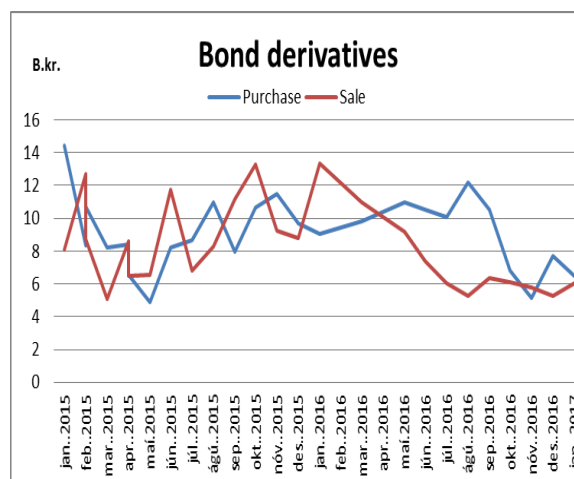
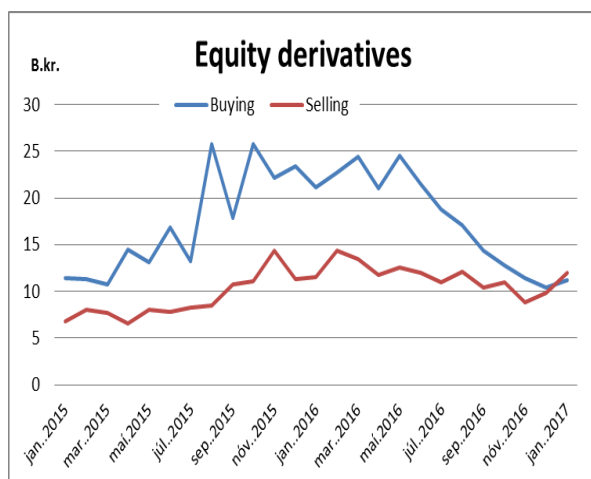
Derivative contracts are generally short-term or one to three months, as shown in the following figure of the remaining maturity structure.



Number of derivatives fluctuate from month to month. Equity derivatives increased in line with new listings of companies on the stock exchange but they have decreased again in 2016. Purchase agreements have always been more than sale agreements. The average amount of the equity derivative contract is now 47 million. Bond derivatives decreased steadily to the end of 2016 from the high peak in 2012 and 2013. They are now around 80 and the average amount of bond derivative contract is currently 170 millions krona.



The underlying equities of derivative contracts are listed on the securities market and their market values determine the contract value and settlement at maturity. The second part of the statistical summary shows the purchase and sale contracts at market values of the underlying debt securities at the end of months.



Settlement of derivatives does not necessarily lead to transactions of the underlying securities but may as well be settled in cash according to price development in the market. Market risk is determined more by the net balance of buy and sell agreements as the issuers seek to minimize their potential risk of short position in underlying securities with corresponding purchases on the market. This risk was fully hedged by the financial institutions as they hold market securities in their books many times greater than their liabilities in derivatives with counterparties options. The largest part of equity derivative contracts is in listed companies on a stock exchange (OMXI) but they have also been issued to unlisted companies and mutual funds.

