



Annual Report 2014

ANNUAL REPORT 2014

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The Supervisory Board and senior officers of the Central Bank who regularly attend Board meetings. Photo taken before the meeting of 19 February 2015. Standing, from left: Már Gudmundsson, Governor; Águst Ólafur Ágústsson; Ingvi Hrafn Óskarsson; Ragnar Árnason; Audur Hermannsdóttir; Arnór Sighvatsson, Deputy Governor; and Jón Th. Sigurgeirsson, Director of International Relations and General Secretariat. Sitting, from left: Ingibjörg Ingvadóttir; Jón Helgi Egilsson, Chairman of the Board; and Hildur Traustadóttir.

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I Objectives and policy

The principal objective of the Central Bank of Iceland is to promote price stability. The Central Bank of Iceland shall also promote financial stability. By agreement with the Minister of Finance and Economic Affairs, the Bank is authorised to declare a numerical inflation target. The inflation target is defined in a joint declaration issued by the Icelandic Government and the Central Bank of Iceland on 27 March 2001 as a 2½% rise in the price of goods and services over the previous twelve months.¹ The Act of the Central Bank of Iceland, no. 36/2001, provides the Bank with full independence in the implementation of monetary policy so as to achieve the target. The Act also states that the Bank shall promote the implementation of the Government's economic policy as long as it does not regard this policy to be inconsistent with its main objective of price stability. The Central Bank Act states as well that the Bank is obliged to invest Iceland's foreign exchange reserves and to promote a safe and effective financial system, including domestic and cross-border payment systems. Further provisions require that the Bank report publicly on monetary policy and on the Bank's activities in general.²

Monetary policy

A five-member Monetary Policy Committee (MPC) takes decisions on the application of the Bank's monetary policy instruments. These monetary policy instruments are its interest rate decisions, transactions with credit institutions other than loans of last resort, decisions on reserve requirements, and foreign exchange market transactions aimed at affecting the exchange rate of the króna. The Committee has adopted rules of procedure that have been approved by the Bank's Supervisory Board.³ The Governor is the chair of the Monetary Policy Committee. Other members are the Deputy Governor, a senior Central Bank executive in the field of monetary policy formation, and two other economic and monetary experts appointed by the Minister of Finance and Economic Affairs. There were a total of eight interest rate decision dates in 2014. In addition, the Committee held a workgroup meeting in the Sudurnes community in order to acquaint itself with local municipal and private business economy. It was the Committee's first meeting outside the Central Bank.

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

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

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

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

Financial stability

The Central Bank of Iceland shall promote financial stability. This was emphasised in the amendments made to the Central Bank Act in 2013. The Bank attempts to maintain a constant, clear overview of the position of credit institutions and financial markets, and in its twice-yearly *Financial Stability* report, it publishes a detailed analysis of factors relating to financial stability. In addition, the Central Bank promotes an efficient and secure financial system by operating systemically important financial infrastructure and by ensuring that systemically important Icelandic payment and settlement systems operate in line with internationally recognised standards, and it publishes its *Financial Infrastructure* report to that end.

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

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

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

Because of the extraordinary circumstances that developed after the banks' collapse in autumn 2008, exchange rate stability (achieved in part through restrictions on capital outflows) became one of the key elements of monetary policy. Work was done during the year to prepare for liberalisation of the capital controls.

The Central Bank of Iceland's role has expanded in recent years, partly due to the collapse of the banks. Among its new tasks are surveillance and monitoring of the capital controls, projects related to payment intermediation, and administration of assets and claims following the banks' failure. Companies owned by the Bank are entrusted with the last two of these.

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 is further described in the joint declaration issued by the Bank and the Icelandic Government on 27 March 2001 as an inflation target of 2½%. Other monetary policy tasks involve contributing to financial and overall economic stability.

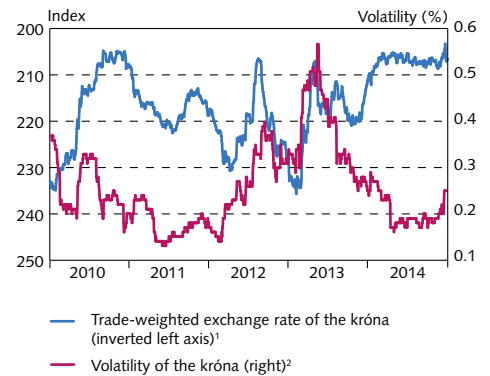
Developments in interest rates, the exchange rate, and inflation in 2014

The Central Bank has been active in the domestic foreign exchange market in the recent term, buying significant amounts of foreign currency in regular and *ad hoc* transactions.¹ In this way, the Bank has leaned against the appreciation of the króna and mitigated exchange rate volatility. The króna therefore remained relatively stable in 2014, both in trade-weighted terms and against the euro. In trade-weighted terms, it appreciated by just under 2% over the year, as opposed to 11% in 2013. The Bank's net foreign currency purchases in the interbank foreign exchange market amounted to roughly 5½% of estimated year-2014 GDP, the largest amount of currency the Bank has purchased in a single year.

Inflation fell to target early in 2014 and remained at or below it for the rest of the year. Inflation averaged 2% for the year, down from 3.9% in 2013 and 5.2% in 2012. In December 2014, twelve-month inflation measured 0.8%, therefore falling below 1%, the lower deviation threshold of the target, for the first time. It is now at its lowest point since year-end 1994. It has been driven primarily by the rise in the housing component of the CPI, and if housing is excluded, the price level fell by 0.4% between December 2013 and December 2014. Underlying inflation also declined in 2014. Twelve-month inflation in terms of core index 3 (which excludes the effects of indirect taxes, volatile food items, petrol, public services, and real mortgage interest expense) measured 1.4% in December 2014, as opposed to 4.5% at the beginning of the year. Falling imported goods and services prices have reduced inflation markedly in the recent term, with the twelve-month decline in import prices measuring 2.8% in December. The slowing of measured inflation in 2014 therefore appears to be rather broadly based, and underlying inflation is low.

The Central Bank's Monetary Policy Committee (MPC) kept the Bank's interest rates unchanged until November 2014, when it lowered them by 0.25 percentage points. Then, in December, interest rates were lowered by an additional 0.5 percentage points. At the end of 2014, the Bank's key interest rate – that is, the seven-day

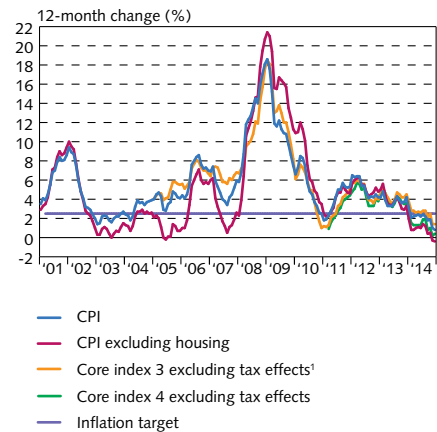
Chart II-1
Exchange rate and volatility of the króna
Daily data 4 January 2010 - 31 December 2014



1. Price of foreign currency in terms of 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-2
Various inflation measurements
January 2001 - December 2014



1. Core index 3 is the CPI excluding prices of agricultural products, petrol, public services and the cost of real mortgage interest. Core index 4 excludes the market price of housing as well.

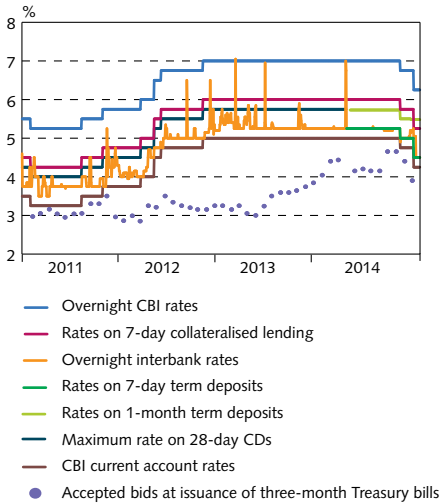
Sources: Statistics Iceland, Central Bank of Iceland.

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

Chart II-3

Central Bank of Iceland interest rates and short-term market rates

Daily data 1 January 2011 - 31 December 2014

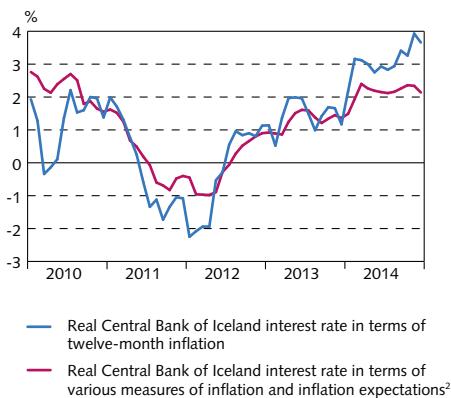


Source: Central Bank of Iceland.

Chart II-4

Real Central Bank of Iceland interest rates¹

January 2010 - December 2014



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

term deposit rate – was 4.5%. In spite of the reduction in the Bank's nominal interest rates, the monetary stance did not ease, as the Bank's real rate, as measured in terms of the average of various measures of inflation and inflation expectations, was 2.2% at the end of December 2014, nearly a percentage point higher than at the beginning of the year. In terms of past twelve-month inflation, the Bank's real rate rose by 2½ percentage points over the course of the year, to 3.7%, but it is difficult to estimate the effects of this development on demand because of the dramatic decline in oil prices in the second half of the year, and the duration of the oil price drop is uncertain.

The joint declaration on the inflation target, issued by the Government and the Central Bank in 2001, states that if twelve-month inflation deviates more than 1½ percentage points from the 2½% target the Bank is obliged to send the Government a report stating what it considers the main reasons for the deviation, how it intends to respond, and how long the Bank anticipates that it will take to bring inflation back to target. In December, inflation fell below 1%, the lower deviation threshold of the inflation target, and the resulting report sent by the Bank to the Government stated that inflation had fallen below target mainly because of declining import prices, which in turn stemmed from price developments abroad and a rather stable ISK exchange rate. The report also mentioned that a protracted deflation episode was highly unlikely, as nominal demand growth was still considerable, the spare capacity in the economy was close to disappearing, and wages had risen more than was consistent with the inflation target in the long run. It was pointed out that the MPC had already responded to the recent disinflation and reduction in inflation expectations by lowering interest rates. However, there was unrest in the labour market which could trigger an abrupt rise in inflation. Therefore, the scope for a further reduction in the Bank's interest rates would remain unclear until the uncertainty in the labour market had subsided.

Monetary policy decisions and the rationale behind them

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

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

To pursue forward-looking monetary policy, a central bank needs models for assessing the economic outlook, especially inflation. The Bank is constantly developing models for use in assessing the economic outlook and analysing the impact of monetary policy. One

means of enhancing transparency is to make the Bank's main forecasting model and its database accessible on the Central Bank website.

The Monetary Policy Committee and its decisions

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

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

Interest rate decisions 2014

The Central Bank Act requires that the MPC meet at least eight times each year. In addition to its eight regular meetings, the Committee held an extraordinary meeting at the beginning of October in the Sudurnes community. The Committee's interest rate decisions were as follows:

12 February: The Governor proposed that the Bank's interest rates be held unchanged. Arnór Sighvatsson, Gylfi Zoega, and Katrín Ólafsdóttir voted in favour of the Governor's proposal, while Thórarinn G. Pétursson voted against it, voting instead in favour of a rate increase of 0.25 percentage points.

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

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

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

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

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

5 November: The Governor proposed that the Bank's interest rates be lowered by 0.25 percentage points. Arnór Sighvatsson, Gylfi Zoega, and Katrín Ólafsdóttir voted in favour of the Governor's proposal. Arnór Sighvatsson would have preferred to keep interest rates unchanged but was of the opinion that the difference was small enough that he was willing to vote in favour of the Governor's proposal. Thórarinn G. Pétursson voted against it, voting instead to keep rates unchanged.

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



The Monetary Policy Committee as it was during 2014. From left to right: Chief Economist Thórarinn G. Pétursson, Assistant Professor Katrín Ólafsdóttir of Reykjavík University, Governor Már Gudmundsson, Chairman, Deputy Governor Arnór Sighvatsson and Professor Gylfi Zoega of the University of Iceland.

III The financial system

The Central Bank of Iceland is required by law 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.

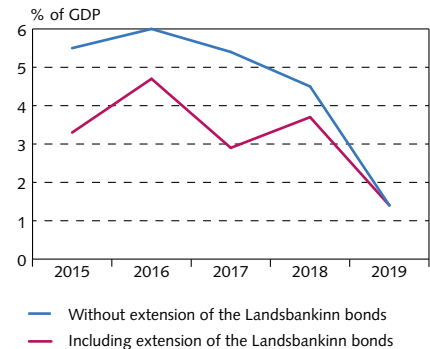
Emphases in financial stability

The Bank's main tasks in the area of financial stability are to analyse risks that could jeopardise the stability of the financial system, to conduct relevant research and draft rules on credit institutions' liquidity and foreign exchange balance, and to conduct monitoring on the basis of these rules. This also entails participating in setting policy on the structure and development of the financial system and formulating further prudential rules for it, as well as interacting with other institutions, particularly the Financial Supervisory Authority and the Ministry of Finance and Economic Affairs, and participating actively in international cooperation. To this end, the Bank attempts to have a clear overview of the position of credit institutions, financial markets, households, and businesses. In the recent term, increased emphasis has been placed on analysing businesses' and households' financial position. Developments in assets and liabilities are monitored and placed into the context of other economic variables. Under the capital controls, it is also necessary to monitor the international investment position and the repayment profile for foreign debt, as well as capital flows and domestic borrowers' refinancing risk in foreign credit markets. The Bank presents an in-depth analysis of issues related to financial stability in its yearly *Financial Stability* report, published each spring and updated each autumn.

Developments in financial stability

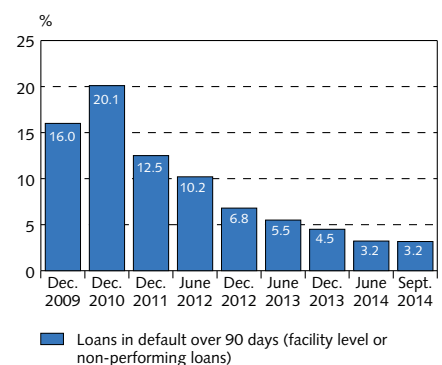
The capital controls, the risks attached to them, and their liberalisation were issues of importance in 2014, as was foreign refinancing risk irrespective of the capital controls. During the year, financial system risk subsided, particularly because the Landsbankinn-LBI bonds were lengthened and financial institutions gained resilience. The large commercial banks' combined capital ratio was 28.5% at the end of the year, non-performing loan ratios are on the decline, and the banks' liquidity is strong, particularly in foreign currency. The large commercial banks' annual financial statements showed strong profits for the year. Returns on total assets were 2.7%, which is high in international context. Various estimated and irregular items affected the earnings reports, however. The most important measures of households' financial position indicate that recent developments have been favourable, and the outlook is good. Purchasing power has grown significantly, and net household wealth is at its highest since the turn of the century, excluding the peak upswing years of 2005-2007. Individual bor-

Chart III-1
Estimated payments by parties other than the Treasury and CBI on foreign loans and foreign-denominated loans to the failed banks¹



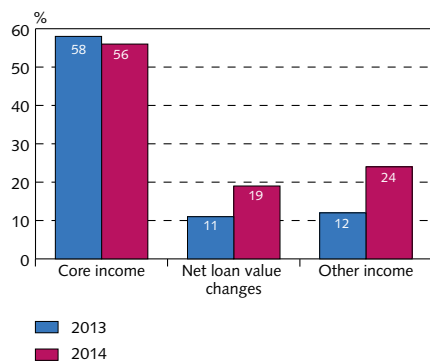
1. Based on exchange rates of 27 August 2014.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart III-2
Default ratios of the three largest commercial banks¹



1. Parent companies, book value.
Source: Financial Supervisory Authority.

Chart III-3
Three largest banks' income¹



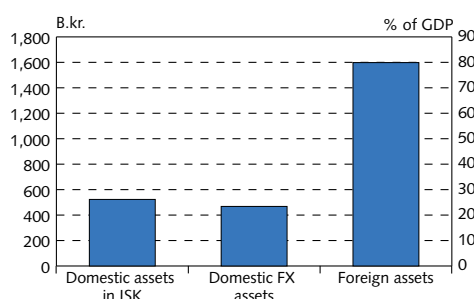
1. Consolidated accounts, income in 2013 adjusted for Landsbankinn's 4.7 b.kr. due to receipt of shares.
Sources: Commercial banks' financial statements.

rowers' debt problems have diminished, although the situation is still difficult for many young people. In the past two years, house prices in Iceland have risen in line with income growth and declining unemployment. In 2014, however, they rose somewhat more rapidly in the greater Reykjavík area, or by about 8.6% in real terms. The Central Bank will continue to track developments in house prices, including the potential effects of the capital controls on asset prices.

In many ways, the economic outlook is better in Iceland than in major trading partner countries. Output growth has been stronger, inflation is close to target, the Treasury is operating at a surplus, and there is an established surplus on external trade. The sovereign has demonstrated yet again that it can access foreign credit markets on acceptable terms, and the market is opening up to other domestic borrowers as well. In addition to this, the spread between the official ISK exchange rate and the offshore rate has narrowed, and the interest rate differential with major trading partners is significant. Therefore, it appears that current economic conditions are conducive to successful liberalisation of the capital controls.

One of the main risks to financial stability in recent years has been the heavy foreign debt service burden borne by resident entities with exemptions from the capital controls. The lengthening of the repayment profile on the Landsbankinn-LBI bonds in 2014 significantly reduced this burden, as well as reducing Iceland's foreign refinancing need and supporting the exchange rate of the króna. Given the longer maturity, it is likely that the trade surplus will suffice to cover resident entities' unfunded debt service burden in foreign credit markets in coming years if external conditions remain unchanged. The settlement of the failed banks' estates and the interaction between the settlement and the liberalisation of the capital controls is the most important risk to financial stability at present. Among other risks are króna-denominated assets owned by non-resident investors and sequestered behind the capital controls. In order for the capital controls to be lifted without substantial instability, a solution must be found to the balance of payments problem stemming from payouts of domestic ISK-denominated assets to creditors.

Chart III-4
Assets DMBs in winding-up proceedings
Book value 30.06.2014



Sources: Financial informations Glitnir, Kaupthing and LBI; Central Bank of Iceland.

Financial Stability Council and Systemic Risk Committee

New legislation on a Financial Stability Council entered into force in June 2014. The Financial Stability Council is chaired by the Minister of Finance and Economic Affairs. Other members are the Governor of the Central Bank and the Director General of the Financial Supervisory Authority. The Financial Stability Council is a forum for consultation, exchange of information, and policy formulation with respect to financial stability. Among its functions is to coordinate public entities' preparedness measures in response to financial crises. The purpose of the Council is to promote and preserve financial stability in the public interest, enhance the resilience of the financial system, and counteract the accumulation of systemic risk. If analysis carried out by the Financial Stability Council indicates that financial stability is under threat, the Council is to issue instructions for appropriate actions, other than the application of the Central Bank of Iceland's monetary

policy instruments, to the competent authorities. The Council also approves the definitions of systemically important infrastructure, markets, and supervised entities whose activities could affect financial stability. The Financial Stability Council met twice in 2014 and issued an official financial stability policy and formulated its own rules of procedure. Administrative matters related to the Financial Stability Council and preparation of its meetings shall be in the hands of the Ministry of Finance and Economic Affairs.

The Systemic Risk Committee works for the Financial Stability Council. The Systemic Risk Committee comprises five members: the Governor of the Central Bank, who acts as chairman; the Director General of the Financial Supervisory Authority, who acts as deputy chairman; the Deputy Governor of the Central Bank; the Deputy Director General of the Financial Supervisory Authority; and one expert in the field of financial markets or economics who is appointed by the Minister of Finance and Economic Affairs without nomination for a term of five years. The Permanent Secretary of the Ministry or an appointed Ministry official also participates in Committee meetings as a non-voting member with the right to address the meeting and present proposals. 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 performing this task, the Committee uses analysis carried out by the Central Bank of Iceland and the Financial Supervisory Authority according to cooperation agreement between the two institutions, as well as analysis carried out by other domestic and foreign parties, as applicable. The Committee examines the interaction of the application of the Central Bank and Financial Supervisory Authority's policy instruments affecting financial stability, with the exception of the Central Bank's monetary policy instruments, and makes recommendations to the Financial Stability Council as provided for by law and the Committee's Rules of Procedure. Administrative matters relating to the Committee are in the hands of the Central Bank of Iceland, which handles recordkeeping and documentation. Last year the Systemic Risk Committee met twice and compiled a wide range of materials for the Financial Stability Council's meetings.

Cooperation agreement with the Financial Supervisory Authority renewed

In December 2014, the Central Bank of Iceland and the Financial Supervisory Authority renewed their cooperation agreement, as well as signing an agreement on the execution of liquidity monitoring for credit institutions. The objectives of the cooperation agreement are to formalise the cooperation and exchange of information between the two institutions and to coordinate the Financial Stability Council's responses to systemic risk. According to the agreement, in order to achieve these objectives, it is necessary that the cooperative efforts of the two institutions, including those of the Systemic Risk Committee and the Financial Stability Council, aim at analysing and assessing systemic risk. Furthermore, the analysis of financial stability should generate an accurate view of the strengths and weaknesses of the financial system, and the analysis of important entities' position in the

financial market should generate a clear view of their resilience. In order to assess the current situation and the outlook for the financial system and systemic risk, the contracting institutions have established five joint risk assessment groups that operate year-round: a credit risk group, a market risk group, a liquidity and funding risk group, a financial infrastructure risk group, and a micro/macro risk group.

Rules on funding ratios

In December 2014, the Central Bank adopted new rules on commercial banks' foreign currency funding ratios. The funding ratio is based on the Basel Committee on Banking Supervision (BCBS) rules on the net stable funding ratio (NSFR). The NSFR is intended to ensure a minimum level of stable one-year funding in foreign currencies and therefore restrict the degree to which the commercial banks can rely on unstable short-term funding to finance long-term foreign-denominated lending. The NSFR rules reduce maturity mismatches, which is particularly important in the prelude to capital account liberalisation.

Financial infrastructure

The Central Bank's main tasks related to financial infrastructure are analysis and assessment of security, efficiency, and efficacy of systemically important financial infrastructure. The Bank focuses primarily on the macroeconomic environment of the financial system and on the system as a whole, including its strengths and weaknesses.

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

The Bank's oversight role vis-à-vis systemically important financial infrastructure primarily entails the following:

- Monitoring the development, effectiveness, and operational security of such infrastructure by gathering information and communicating with system administrators who are legally responsible for system operations; for example, as regards deviations and incidents.
- Conducting regular appraisals of the security and effectiveness of systemically important infrastructure elements on the basis of internationally recognised guidelines for best practice; i.e., the Core Principles for Financial Market Infrastructures (PFMI) issued by Bank for International Settlements' Committee on Payments and Market Infrastructures (BIS/CPMI) and the International Organization of Securities Commissions (IOSCO). The Core Principles are to be applied in a harmonised manner to various types of systemically important financial infrastructure.
- Recommending modifications to infrastructure and the infrastructure framework (including regulatory instruments) if necessary.

The Central Bank's annual *Financial Infrastructure* report examines systemically important financial infrastructure, covering the above-listed factors as they relate to individual infrastructure elements, as applicable.

The Bank conducts regular reassessments of which infrastructure elements are considered systemically important, using the above-described criteria as a guideline.¹

By law, the Central Bank of Iceland and the Financial Supervisory Authority cooperate in matters related to financial stability and potential systemic risk, including in the field of electronic payment intermediation.² The Central Bank also has direct and indirect involvement with the operation of two of Iceland's most important infrastructure elements: the real-time gross settlement (RTGS) system and the Retail netting system. The role of financial infrastructure is to recognise, monitor, and manage the risk that can develop in the operations of principal participants, other infrastructure elements, and service providers. Part of this entails recording and following up on all incidents and deviations in execution and operation of the RTGS system and the Retail netting system.

The Bank also formulates policy on system development, drafts prudential rules for the administrators of systemically important financial systems, communicates with the Financial Supervisory Authority and with Government ministries, and participates in international cooperation, as appropriate.

System operations – systemically important financial infrastructure

In the main, the operation of systemically important financial infrastructure was smooth and successful in 2014. The software is aging and no longer fulfils the requirements made in international standards for such systems, including the BIS Core Principles and the PFMI issued by IOSCO. It is therefore clear that both RTGS and Retail netting systems need to be updated. In most of Iceland's comparison countries, including the Nordic countries, RTGS system renewal is either complete or underway. Furthermore, the renewal of the technical infrastructure at the Icelandic Banks' Data Centre (RB), which handles the technical operation of the systems, calls for changes.

Last year the Central Bank began formally preparing to upgrade the RTGS and Retail netting systems to a new generation of systems that both fall into the category of systemically important financial infrastructure, with reference to Act no. 90/1999. The current systems will be profoundly affected by the changes in RB's infrastructure, as they are part of RB's larger mainframe environment. For reasons relating to security, efficacy, system age, programming issues, rising operating expense, and new provisions in the Core Principles, it is no longer possible to avoid upgrading the software for the RTGS and Retail netting systems. The renewal of RB's basic infrastructure makes it important to expedite the upgrade.

1. One of the tasks of the Financial Stability Council according to Act no. 66/2014 is to approve the definitions of systemically important financial infrastructure that could affect financial stability.

2. See Article 35 of Act no. 36/2001, Article 15 of Act no. 87/1998, and the current cooperation agreement between the institutions. The institutions have cooperated, for instance, in carrying out an appraisal of the ISD securities settlement system vis-à-vis international guidelines on security of securities settlement.

It is estimated that this large, multifaceted project will be completed in 2017. During the upgrade process, emphasis will be placed, among other things, on maintaining the real-time payment intermediation that has been in effect in Iceland for over a decade.

Self-evaluation of architecture and operation of systemically important financial infrastructure

In 2012, the Central Bank decided to adopt the new BIS Core Principles and the IOSCO PMFI. As part of this, the administrators of financial infrastructure elements must assess how well the architecture and operation of the RTGS and Retail netting systems meet the requirements of the Core Principles. The role of financial infrastructure administrators is to create a reliable foundation for risk management with systems, policies, and monitoring appropriate for identifying, tracking, and managing operational risk.

The self-evaluation of the RTGS and Retail netting systems began in mid-2014 and concluded before the year-end. The results of the Central Bank's oversight of administrators' self-evaluation will be forthcoming in the first quarter of 2015. A number of other tasks were begun in 2014, including the renewal of contractual agreements with operators and service providers for the systems, renewal of participation agreements, preparation for amendments to the rules on the RTGS and Retail netting systems, administrative structure, and other points covered by the Core Principles. Most of these projects are now complete, and the remainder will be finalised in the first half of 2015.

RTGS system and Retail netting system

The Central Bank of Iceland's real-time gross settlement system (RTGS) is used for real-time processing of payments between financial institutions and their customers, subject to a minimum of 10 m.kr. per payment. The Retail netting system is used for real-time payments in amounts under 10 m.kr., and the netted amounts are sent to the RTGS system for final settlement. Final monetary settlement of securities transactions from the Icelandic Securities Depository's (ISD) securities settlement is carried out in the Bank's RTGS system.

In mid-2014, Euroclear Bank SA/NV became a participant in the RTGS system. As of year-end 2014, participants in the RTGS system were the following: Arion Bank hf., Clearstream Banking s.a., Euroclear Bank s.a., the Housing Financing Fund, Íslandsbanki hf., MP Bank hf., Landsbankinn hf., the Central Bank of Iceland, and Straumur Investment Bank hf. The ISD also uses the system for settlement of securities transactions but is not considered a regular system participant. There were no significant interruptions in RTGS system operation during the year. Total turnover in the RTGS system rose by 8% year-on-year in 2014, to 13,915 b.kr. The number of payment orders decreased by 3.3%, to just over 89,000.

There was no change in the group of Retail netting system participants in 2014. At the end of the year, direct participants were Arion Bank hf., the Housing Financing Fund, Íslandsbanki hf., MP Bank hf., Landsbankinn hf., and the Central Bank of Iceland. Total system turnover increased by 2.3% year-on-year in 2014, to 3,141

b.kr. The number of transactions rose 3.3% year-on-year, to just over 76 million.

The system up-time ratio for both RTGS system and Retail netting system was 100% during the year. There were no interruptions to regular system operations, although there were five incidents classified as serious, including violations of system rules and system errors attributable to system architecture and age. All of these incidents were resolved.

Cash in circulation

Cash in circulation outside deposit institutions and the Central Bank totalled 44 b.kr. as of year-end 2014. The increase during the year was 2.4 b.kr., or 5.8%, as opposed to 1.8% in 2013. At the end of the year, 10,000 kr. banknotes in circulation outside the Central Bank amounted to 13.2 b.kr. and accounted for 28% of the total face value of all circulating banknotes. In 2014, the note processing department received 11.5 million banknotes from commercial banks and savings banks. A total of 5.6 million notes were destroyed.

IV Foreign reserves

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

Size of the foreign exchange reserves

The size of the reserves is determined with reference to the scope of external trade, the exchange rate and monetary regime, rules on capital movements and foreign exchange transactions, and Iceland's foreign liabilities. At any given time, the necessary size of the reserves is determined by the balance of payments outlook. International obligations and cooperation, such as that with the International Monetary Fund (IMF), may also affect the minimum size of the reserves. Decisions on the size of the reserves are taken by the Governor.

On 31 December 2014, the Central Bank's foreign exchange reserves amounted to 530 b.kr., or 4.2 billion US dollars, roughly 28% of Iceland's year-2013 GDP. They cover eight months of goods and services imports¹ and are equivalent to 32% of M3.

Important changes in the reserves

The foreign exchange reserves grew by about 42.5 b.kr. in 2014, from 488 b.kr. at the end of December 2013 to 530 b.kr. at the end of December 2014.

The main transactions that depleted the reserves during the period were the prepayment of loans from the Nordic countries in the amount of 114 b.kr., a 51 b.kr. prepayment to the International Monetary Fund (IMF), and the payment of a loan taken by the Treasury in the amount of 200 million US dollars, or approximately 22 b.kr.

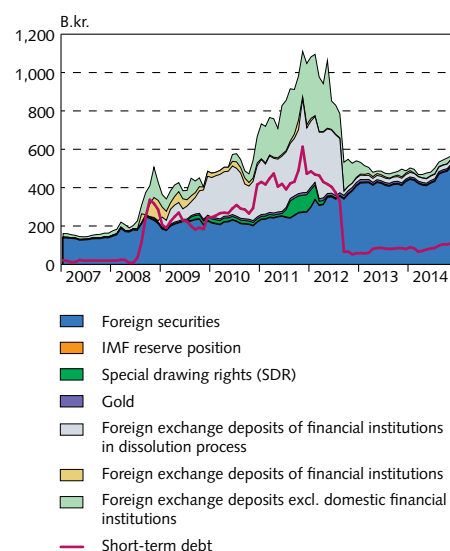
The main additions to the reserves during the period were the issuance of a Treasury eurobond in the amount of 116 b.kr. and foreign currency purchases in the interbank market in the net amount of 111 b.kr.

In 2014, the Central Bank held four foreign currency auctions as part of the first phase of the capital account liberalisation strategy of 25 March 2011. The auctions had a negligible impact on the reserves, increasing them by 0.2 b.kr. during the year.

Investment of foreign exchange reserves

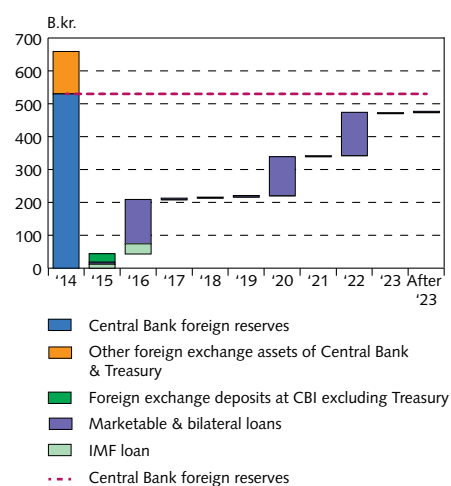
Rules of procedure on the management of the reserves are set by the Governor and approved by the Supervisory Board. The rules

Chart IV-1
Distribution of reserves
January 2007 - December 2014



Source: Central Bank of Iceland.

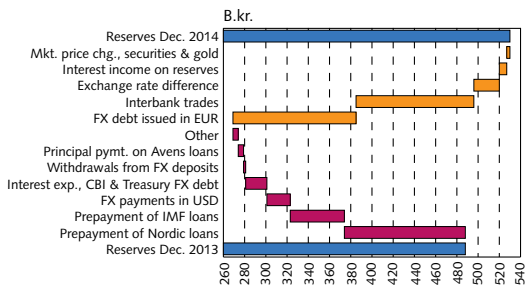
Chart IV-2
Repayment profile to Central Bank
and Treasury foreign exchange debt
Position at the end of December 2014



Source: Central Bank of Iceland.

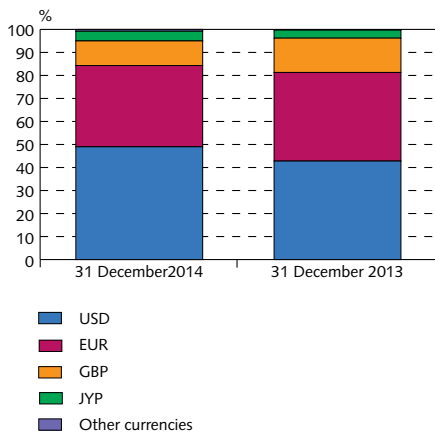
1. Average of five-year monthly imports of goods and services.

Chart IV-3
Changes in reserves 2014



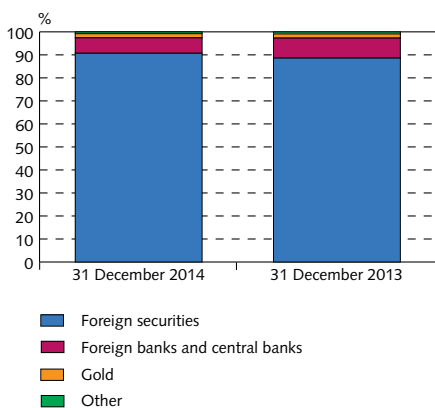
Source: Central Bank of Iceland.

Chart IV-4
Currency composition of foreign exchange balance



Source: Central Bank of Iceland.

Chart IV-5
Assets distribution of reserves



Source: Central Bank of Iceland.

define outside limits for acceptable financial risk due to the foreign exchange reserves.² They also contain stipulations on responsibility and division of tasks related to the investment of the reserves and set forth the principles governing financial risk and how it is measured, identified, and managed. The Central Bank's investment committee meets monthly and formulates overall policy on reserve management by setting an investment policy within the framework of the rules of procedure for the foreign exchange reserves.

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

To the extent possible, reserve assets must be in the same currency and the same amounts as the Bank's foreign liabilities. The foreign exchange balance³ in specified currencies is kept within the limits set forth in the investment policy. The Bank uses derivatives, among other instruments, to manage its foreign exchange balance. Chart 4 shows the currency distribution of the foreign exchange balance at year-end 2014 as compared with year-end 2013.

The Bank attempts to ensure that the reserves are maintained and invested in a secure manner. The vast majority of the Bank's foreign exchange reserves are invested in foreign securities and deposits with foreign central banks and the Bank for International Settlements (BIS). At the end of 2014, about 90.7% of assets were in foreign securities, an increase of 2% over the course of the year.

The majority of the Central Bank's foreign securities portfolio is denominated in US dollars and euros. Chart 8 illustrates developments in the yields on 10-year German and US Treasury bonds since 2011.

According to the rules of procedure on reserve maintenance, highly liquid assets include bonds denominated in US dollars, euros, or pounds sterling and issued by the state in the state's own currency, and deposits with the central banks in these countries/regions or the Bank for International Settlements. Issuers of eurobonds must have a minimum credit rating of AA in order for the bonds to be classified as highly liquid assets. Highly liquid assets accounted for 43% of the Central Bank's foreign exchange reserves at the end of 2014.

Table 1 shows the end-2014 balance of bonds in each currency and the return on bonds in each currency in 2014.

Charts 5, 6, and 7 show the end-2014 division of the reserves in comparison with year-end 2013, as well as their geographical distribution and the credit ratings of reserve assets.

2. Further discussion of the management of the Bank's financial risk can be found in the notes to the financial statements.
3. The foreign exchange balance is the Bank's net foreign currency assets; i.e., assets net of liabilities in foreign currencies.

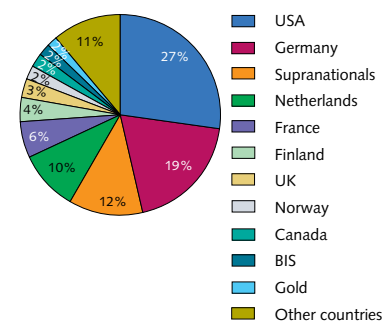
Table IV-1 Yields on bonds in the foreign exchange reserves 2014

	GBP	USD	EUR	PLN
Bond portfolio balance at end-December (USD millions)	104	2,127	1,498	64
Bond portfolio distribution in %	2.5	56	40	1.5
Bond yields, %	1.4	1.4	2.9	10.2
Yield curve, %	0.06	0.03	2.15	7.11
Interest premium, change in interest premium, remainder, %	0.70	0.96	0.57	1.14
Interest income, %	0.65	0.43	0.16	1.90
Returns in excess of reference, %	0.8	-2.8	1.8	-
Yield curve, %	0.12	-1.97	1.25	-
Interest premium, change in interest premium, remainder, %	0.55	-0.38	0.47	-
Interest income, %	0.10	-0.44	0.08	-
	<i>Bond portfolio</i>	<i>Benchmark</i>	<i>Difference</i>	
Returns on CB bond portfolio and reference, %	2.16	2.99	-0.83	

Chart IV-6

Geographical distribution of reserves

Year-end 2014

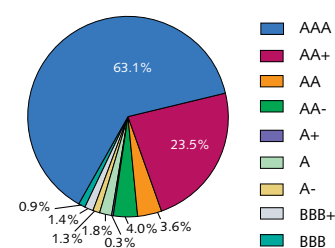


Source: Central Bank of Iceland.

Chart IV-7

Credit ratings of securities assets in reserves

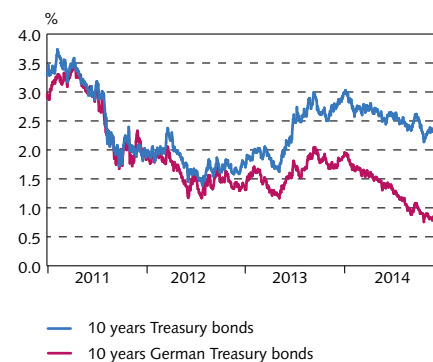
Year-end 2014



Source: Central Bank of Iceland.

Chart IV-8

Development to 10 year German and US Treasury yields



Source: Central Bank of Iceland.



The Systemic Risk Committee. From left: Harpa Jónsdóttir, Deputy Director of the Financial Stability Department, Central Bank of Iceland (Committee secretary); Jón Thór Sturluson, Deputy Director General, Financial Supervisory Authority; Sigríður Benediksdóttir, Director of the Financial Stability Department and expert representative from the Central Bank of Iceland; Már Gudmundsson, Governor of the Central Bank of Iceland (chairman), Unnur Gunnarsdóttir, Director General of the Financial Supervisory Authority (deputy chairman); Arnór Sighvatsson, Deputy Governor of the Central Bank of Iceland; Gudmundur Árnason, Permanent Secretary at the Ministry of Finance and Economic Affairs; Björn Rúnar Gudmundsson, expert representative appointed by the Minister without nomination; and Lilja Rut Kristófersdóttir, Director of Oversight and expert representative from the Financial Supervisory Authority.

V Treasury debt management

Agreement on Treasury debt management

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

Domestic debt management

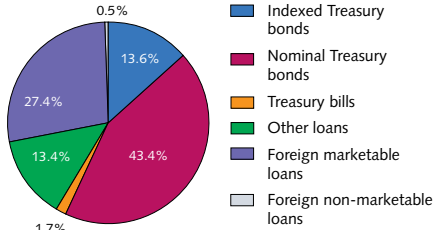
At the end of December 2013, the Central Bank, on behalf of the Treasury, published its Government Debt Management *Prospect* for 2014. According to the *Prospect*, Treasury bonds were to be issued for a total of 50 b.kr. in 2014 in order to fund the debt maturing during the year. In 2014, Treasury bond series RIKB 14 0314 matured in the amount of 25 b.kr. Net Treasury bond issuance was therefore estimated at 25 b.kr. A further aim was for the outstanding stock of Treasury bills to equal roughly 30 b.kr. by the year-end.

According to the *Prospect*, a new nominal Treasury bond maturing in 2020 is to be issued. It will be built up as a five-year benchmark bond and later as a two-year bond. It was also announced that RIKB 16 1013 would take over from RIKB 15 0408 as a new two-year series.

Treasury bond issuance was successful in 2014, totalling 55 b.kr. market value, including 50 b.kr. in regular auctions and 5 b.kr. in foreign currency auctions held by the Bank. The Bank continued to issue indexed RIKS 33 0321 bonds in connection with capital account liberalisation. Treasury bill sales were a little weaker than anticipated, however, totalling 25 b.kr. It should be noted, however, that it was announced in the quarterly issues of the Government Debt Management *Prospect* that issuance of Treasury bonds and bills would take account of sales in Central Bank foreign currency auctions. When the 5 b.kr. sold in foreign currency auctions is deducted from the target of 30 b.kr., it can be said that issuance plans for 2014 materialised.

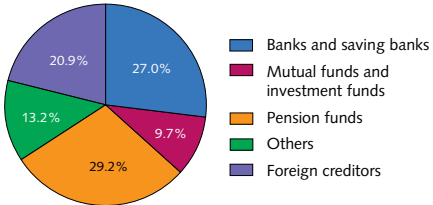
At the autumn 2014 legislative session, Parliament approved amendments to the Act on the Central Bank of Iceland, which

Chart V-1
Breakdown of Government debt
Year-end 2014



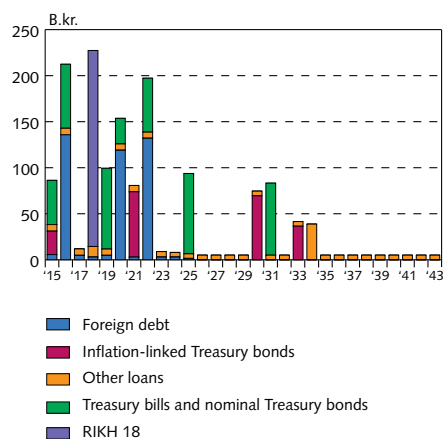
Source: Central Bank of Iceland.

Chart V-2
Redemption profile of Government debt
Year-end 2014



Source: Central Bank of Iceland.

Chart V-3
Redemption profile of Government debt



Source: Central Bank of Iceland.

authorised a reduction of the Treasury's initial capital in the Bank in the amount of 26 b.kr. Based on an estimation of the capital equity requirement of the Central Bank this authorisation was used in full by reducing the balance of the bond issued by the Treasury in 2008 to recapitalise the Central Bank from 171 b.kr. to 145 b.kr. The terms of the bond were amended as well. The bond will be repaid with equal annual instalments over the next 29 years, beginning on 15 December 2015. The bond is non-indexed and bears interest equal to the deposit rates on the Bank's current accounts as these are at any given time. According to the terms of the bond, it is permissible to pay it down ahead of schedule.

The Medium-Term Debt Management Strategy for 2014-2017 was published by the Ministry of Finance and Economic Affairs at mid-year. Its principal objectives are to ensure that the Treasury's medium-to long-term financing needs and financial obligations are met at the lowest possible cost that is consistent with a prudent degree of risk. Another objective is to promote the further development of efficient primary and secondary markets for domestic government securities.

Foreign debt management

The Treasury's foreign debt totalled 415 b.kr. at year-end 2014. It can be divided into two categories: bilateral loans and market loans.

The market loans are five in number, including the 750 million euro bond issued by the Treasury in July, its first European issue since 2006. The bond bears 2.5% fixed interest and is issued for six years at a yield of 2.56%. It matures on 15 July 2020. The Government and the Central Bank used the proceeds from the issue to prepay loans granted from its Nordic neighbours in connection with the Government's IMF-supported economic programme from 2008. The repayment totalled 735 million euros and was used to pay loans originally maturing in 2019, 2020, and 2021. The bilateral Nordic loans have now been paid in full.

The effect of the bond issue and loan prepayment was to increase total Treasury debt, as the now-retired loan from the Norges Bank, with an outstanding balance of 199 million euros, was recognised in Central Bank accounts.

In connection with the Treasury's issuance of a 750 million euro bond, the Central Bank of Iceland concluded an interest swap agreement on behalf of the Treasury in the amount of 250 million euros, with the aim of reducing the Treasury's interest expense and interest rate risk. The Treasury will pay six-month EURIBOR rates twice a year and will receive 0.791% fixed interest annually. The term of the agreement is the same as the term of the bond, which matures on 15 July 2020. The agreement is consistent with Treasury debt management objectives, which include minimising long-term interest expense in line with a cautious risk management policy. In addition, the agreement further strengthens resident borrowers' access to foreign markets and shows that confidence in the Icelandic economy is on the rise.

A foreign loan originally taken by the Treasury in 2004, in the amount of 200 million US dollars, matured during the year.

Euro Medium-Term Note Programme (EMTN) and issuance in the US

The framework agreement establishing the Euro Medium-Term Note (EMTN) Programme was first signed in 2001. It was most recently renewed in 2014, and the ceiling now amounts to 5 billion US dollars. Currently outstanding on the basis of the agreement are three bond issues in the total amount of 2.1 billion US dollars, or 274 b.kr.

Government guarantees and relending

The Treasury may not undertake a guarantee unless authorised by law, as is provided for in Act no. 121/1997. Because of the risk to the Treasury, collateral must be provided that is deemed satisfactory by the State Guarantee Fund, which is authorised by law to supervise Government guarantees, keep track of the operations of entities that have received Government guarantees, and maintain a register of obligations backed by Government guarantees. The bulk of Government guarantees are due to the Treasury's holdings in the Housing Financing Fund and Landsvirkjun. Parties that enjoy Government guarantees due to Government ownership are required to obtain the Central Bank's approval of the terms and conditions for loans they intend to take abroad. Treasury guarantees totalled 1,213 b.kr. at the end of 2014, as opposed to 1,264 b.kr. at year-end 2013.

Sovereign credit rating of the Republic of Iceland

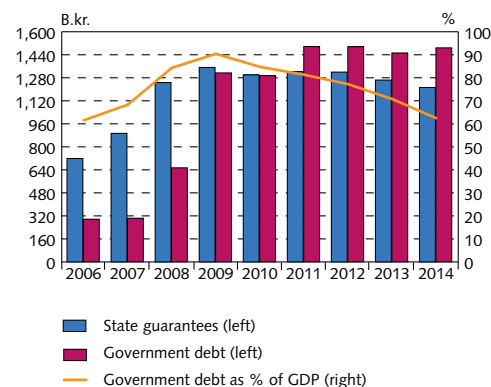
The main agencies that assign the Treasury a credit rating are Standard & Poor's, Moody's Investors Service, and Fitch Ratings. The Central Bank of Iceland communicates regularly with these agencies on behalf of the Government. Credit ratings have significant influence on lending terms in the global credit markets and function and indicate the terms the sovereign will enjoy as a borrower. All of Iceland's sovereign credit ratings are investment-grade.

At year-end 2014, Moody's rating was Baa3 for long-term foreign and domestic obligations, and P-3 for short-term obligations. The outlook was stable at the end of the year and had been since February 2013. The economy's strength, sound governance, natural resources, and human capital support the rating, while high debt levels and uncertainty about the liberalisation of capital controls stand in the way of an upgrade.

Standard & Poor's ratings for Iceland's foreign and local long- and short-term obligations were BBB- and A-3. The outlook on the rating was changed from negative to stable in January 2014 and stable to positive in July of the same year. Strong output growth and an improving fiscal position were cited as the reasons for the change. External debt and the risks attached to capital account liberalisation prevent further improvement in the rating.

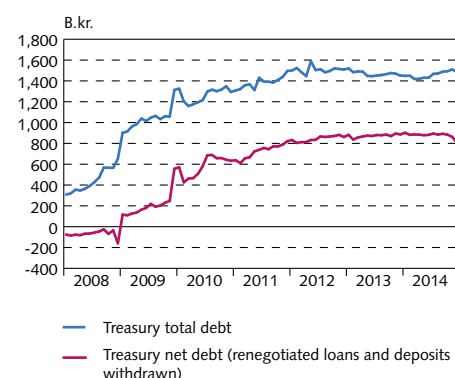
Fitch's ratings for Iceland's long-term obligations in foreign currency were unchanged at BBB. The ratings for short-term foreign currency obligations and long-term local currency obligations were also unchanged at F3 and BBB+, respectively. The outlook was stable. As grounds for its decision, Fitch cited Iceland's high per-capita income, strong output growth in 2013, and strong, broad-based political con-

Chart V-4
Government debt and state guarantees
2006-2014



Source: Central Bank of Iceland.

Chart V-5
Treasury debt development



Source: Central Bank of Iceland.

sensus for the long-term goal of reducing public debt; however, the lingering after-effects of the financial crisis and uncertainty about the removal of capital controls stood in the way of an upgrade.

Table V-1 Gross Treasury debt at year-end 2014

<i>M.kr.</i>	<i>Nominal price with accrued interest</i>
Nominal debt	815,070
Indexed debt	256,722
Foreign debt	415,421
Total	1,487,213



VI International cooperation

The Central Bank of Iceland shall communicate and conduct transactions with international institutions in its field or in accordance with its statutory role.

International Monetary Fund

The Central Bank represents Iceland at the International Monetary Fund (IMF). Staff members from the IMF came to Iceland twice during the year. In May, a mission came to consult with the authorities in connection with the fourth Post-Program Monitoring visit. In December a regular Article IV consultation and the fifth round of Post-Program Monitoring discussions were held. All reports in connection with regular and post-programme monitoring by the IMF are published on the websites of the Central Bank and the Fund. The Icelandic authorities also received technical assistance from the IMF during the year, in connection with value-added tax and the Basel Core Principles on Effective Banking Supervision.

In 2008, the Icelandic authorities received a loan of SDR 1.4 billion, or 277 b.kr. at the year-end exchange rate, from the IMF in connection with the Stand-By Arrangement. In addition, they received loans from the Nordic countries, the Faeroe Islands, and Poland, also in connection with the IMF Stand-By Arrangement, in the total amount of 1,970 million euros, or 304 b.kr. At the end of 2014, the balance with the IMF was SDR 236.9 million, or 43.5 b.kr. at the year-end exchange rate. The loan matures in 2015 and 2016. The Nordic loans were prepaid in full in July 2014, and the majority of the IMF loan maturing in 2015 was prepaid in December 2014.

Iceland collaborates with the Nordic and Baltic countries at the IMF and forms a Constituency with them. These countries jointly elect one representative to the Fund's 24-member Executive Board. In 2014, the Constituency's permanent representative on the IMF Executive Board in Washington was Audun Grønn from Norway. Twice a year, the Nordic-Baltic office publishes a summary of the salient issues on the agenda of the Fund and the Executive Board, including the Constituency's views on them.

The spring meeting of the International Monetary and Financial Committee (IMFC) was held on 11-13 April, and the Annual Meetings of the Fund and the autumn meeting of the IMFC were held in Washington, DC, on 10-12 October. Már Gudmundsson, Governor of the Central Bank of Iceland and Iceland's representative to the Board of Governors of the IMF, attended the meetings on behalf of the Bank.

The Bank for International Settlements (BIS)

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

Organisation for Economic Co-operation and Development (OECD)

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

Co-operation with other central banks and financial supervisors

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

Other financial institutions

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



VII Special projects

Central Bank of Iceland Holding Company ehf. (ESÍ)

The Central Bank of Iceland acquired a large number of claims against domestic financial undertakings in the wake of the financial crisis. 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.

At the end of 2009, these assets were transferred to a separate company owned by the Central Bank, the Central Bank of Iceland Holding Company ehf. (ESÍ). Another company owned by the Bank, Central Bank of Iceland Asset Management ehf. (Sölvhóll) merged with ESÍ at the beginning of 2013, whereupon ESÍ took over its role. Sölvhóll was an operating company whose role was to maximise the value of ESÍ assets and divest them when market conditions permitted. This arrangement has proven an effective means of separating the operations and assets related to the crash from the Bank's conventional activities. ESÍ has one subsidiary, Hilda ehf., which it took over in mid-2011.

At the beginning of 2014, Hilda took over certain aspects of Drómi hf.'s operations. Hilda's principal assets are corporate loans and real estate. It employs a staff of 14 and maintains offices in Lágmúli in Reykjavík.

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

At year-end 2014, ESÍ's balance sheet totalled 208 b.kr., and its assets had declined by 87 b.kr. since year-end 2013, primarily due to asset sales and reduction of debt to the Central Bank. The consolidated after-tax profit amounted to 3.1 b.kr.

Capital Controls Surveillance Unit

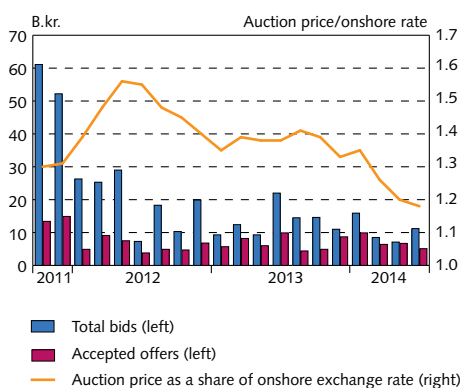
The Central Bank of Iceland's Capital Controls Surveillance Unit (CCSU) consists of three ancillary units: Exemptions, Surveillance, and Investigations.

The Exemption Unit's main tasks in 2014 were to process and take decisions on applications for exemptions from the Foreign Exchange Act and to provide general information and instructions to individuals and legal entities.

The main tasks of the Surveillance Unit were to carry out general monitoring of the Foreign Exchange Act and conduct initial pre-investigation analyses of possible violations of the Act. Other projects undertaken by the Surveillance Unit include processing of requests for confirmation, administration of new investments, supervision of the Bank's Investment Programme, follow-up on conditional exemptions, and assistance with analysis of information from other CCSU units.

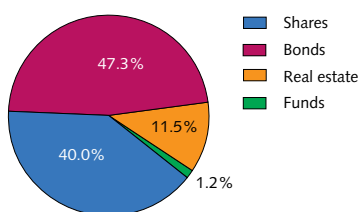
The main function of the Investigations Unit is to investigate alleged violations of the Foreign Exchange Act and Rules on Foreign Exchange. In 2014, a total of 124 new cases involving alleged viola-

Chart VII-1
Central Bank of Iceland foreign currency auctions
Purchase of krónur in exchange for euros



Source: Central Bank of Iceland.

Chart VII-2
Distribution by investment 2014



Source: Central Bank of Iceland.

tions of the Act and the Rules were recorded by the Investigations Unit. Of that total, 27 were referred by the Surveillance Unit and 68 were referred by the Exemption Unit. During the year, 95 investigations were concluded at the administrative level, by settlement levy of fines, or dismissal of the case.

The CCSU received 1044 requests for exemptions from the Foreign Exchange Act, no. 87/1992, in 2014. During the year, 922 requests were processed: 617 were approved, 41 approved in part, 95 rejected, and 169 withdrawn, concluded through issuance of guidelines, or resolved in another manner.

During the year, the Central Bank received 170 notifications of new investment (cf. Article 13(m) of the Foreign Exchange Act) in the total amount of 13.9 b.kr.

Foreign currency auctions

Treasury bond option and Investment Programme

In 2014, the Bank continued to hold foreign currency auctions according to its Investment Programme, in which it purchased foreign currency in exchange for Icelandic krónur for long-term investment in Iceland. Also held during the year were foreign exchange auctions according to the so-called Treasury bond option, in which foreign currency was purchased in exchange for Treasury bonds. These auctions are part of the capital account liberalisation strategy introduced in 2011. The table shows the highlights of the auctions:

Table VII-1 Purchase of foreign currency

Highlights	Total 2014	Treasury bond option	Investment programme
Number of auctions	10	5	5
Number of bids	498	115	383
Total amount of bids (EUR millions)	204.6	35.0	169.6
Accepted bids (EUR millions)	145.6	25.6	120.0

Total investment under the Investment Programme, both through auctions and directly amounted to 240 million euros, or nearly 42 b.kr., the equivalent of 2.1% of year-2014 GDP. Resident investors accounted for 34% of the amount that changed hands in Investment Programme auctions in 2014, and non-residents accounted for 66%. Foreign companies under domestic ownership are considered resident investors in this sense.

Purchase of krónur in exchange for euros

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

Table VII-2 Purchases of krónur

Highlights	2014
Number of auctions	5
Number of bids	116
Total amount of bids (ISK billions)	58.9
Accepted bids (ISK billions)	28.1

Jóhannes Nordal cultural heritage grants

The third allocation of the cultural heritage grant in the name of former Central Bank Governor Jóhannes Nordal took place on 15 May 2014. A total of 27 applications were received in 2014, and Árni Kristjánsson and Helga Rut Gudmundsdóttir were selected to receive grants of 1 million krónur each.

Árni Kristjánsson received a grant to write a play called *Völvur*, based on the poem *Völuspá* and adapted for young audiences. The author's plan is to take the play on tour to schools and theatres in order to introduce young people to the poem.

Helga Rut Gudmundsdóttir's project *Vísnaugull – Vísur og thulur fyrir börn í fangi* [*Pearls of Verse – poems and stanzas for young children*], is an illustrated compilation of Icelandic poetic heritage and children's culture passed down orally from generation to generation.





VIII Accounts and organisation

Operating results and balance sheet

According to its profit and loss account, the Central Bank of Iceland recorded a net profit of 11,220 m.kr. in 2014, compared with a loss of 8,293 m.kr. in the previous year. Excluding exchange rate differences and income tax, the Bank's operations generated a profit of 7,742 m.kr. in 2014, as opposed to a profit of 15,895 m.kr. in 2013. The Central Bank of Iceland is exempt from income tax, but companies owned by it are not. The table illustrates the changes in the principal items of the Bank's profit and loss account. Exchange rate gains totalled 6,185 m.kr., due to the appreciation of the US dollar during the year, as opposed to an exchange rate loss of 12,250 m.kr. in the previous year.

The Bank's operating performance improved by 19,512 m.kr. between 2013 and 2014. Net interest income declined by 9,015 m.kr. year-on-year. This change is due primarily to reduction of bond principal and retirement of debt. Other operating income declined by 6,898 m.kr. year-on-year, due to the revaluation of domestic bonds held by the Central Bank of Iceland Holding Company ehf. (ESÍ). The revaluation of foreign securities amounted to 2,747 m.kr. in 2014, and the market value of the Bank's holdings in gold declined by 120 m.kr. Impairment of claims amounted to 258 m.kr. in 2014, as opposed to 8,036 m.kr. in 2013. Service expenses rose by 204 m.kr. between years. The Bank's operating expenses declined by 7,761 m.kr. between years, owing mainly to reduced impairment of claims. Salaries and related expenses rose between years, primarily because of contractual pay increases and increased staffing levels. The Bank's assets totalled 953,598 m.kr. at year-end 2014, as opposed to 1,002,185 m.kr. at the end of 2013. Foreign assets declined by 41 b.kr. during the year, owing to the prepayment of the loan from Norges Bank and accelerated repayment of the loans from the International Monetary Fund (IMF). The Bank's equity totalled 75,026 m.kr. at year-end 2014, and its equity ratio is 7.9%.

At year-end 2014, the Bank's foreign assets constituted 55% of its total assets, as opposed to 48% at the previous year-end. The Central Bank's accounts are presented later in this report, together with detailed explanatory notes on individual items.

Changes in assets at year-end 2014

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

Table VIII-1 Profit and loss account highlights

(Figures in ISK millions)	2014	2013	Change
Performance for the year	11,220	-8,293	19,512
<i>Changes specify as follows:</i>			
Net interest income	6,220	15,236	-9,016
Other revenues	5,564	12,462	-6,898
Operating expenses	-3,784	-3,766	-18
Loan impairment	-258	-8,037	7,779
Contrib. to the Treasury	0	-6,517	6,517
Exchange rate difference	6,185	-12,250	18,435
Income tax	-2,708	-5,421	2,713

Table VIII-2 Balance sheet highlights

(Figures in ISK millions)	2014	2013	Change
Equity:	75,027	89,807	-14,780
<i>Changes specify as follows:</i>			
<i>Assets:</i>			
Gold	9,598	8,817	781
Foreign assets	518,020	476,544	41,476
FX balance with the IMF	3,447	3,326	121
Domestic financial assets	401,763	473,368	-71,605
Fixed and liquid assets	4,745	4,852	-107
Other assets	16,025	35,278	-19,253
<i>Liabilities:</i>			
Banknotes and coin	49,955	47,016	2,940
Foreign debt	45,678	123,016	-77,338
Counterpart to IMF	20,621	19,898	723
Deposits of financial institutions	69,016	77,168	-8,152
Other deposits	578,337	473,766	104,572
Domestic financial liabilities	113,198	141,078	-27,881
Other liabilities	1,765	23,919	-22,154
Unpaid contribution to Treasury	0	6,517	-6,517
Equity	75,027	89,807	-14,780

assets according to the Bank's call-ins in this respect, provided that the Bank considers this necessary in order to fulfil its minimum requirements for paid-in capital. If the Bank's assessment of its financial position reveals that the conditions for a call-in exist, it is permitted to call in the equity at any time during the calendar year. The call-in must be presented in writing, and the Treasury must respond within 14 business days. The amount of the callable equity changes in line with developments in the consumer price index.

Concurrent with the contribution of 52 b.kr. in callable equity to the Central Bank, the Bank and the Treasury agreed to amend the terms of the bond issued by the Treasury in early 2009, in connection with the Treasury's takeover of a portion of the Bank's collateralised and overnight loans. Based on the authorisation contained in Article 4 of Act no. 122/2014 Amending the Act on the Central Bank of Iceland, no. 36/2001, the Bank's initial capital was reduced by 26 b.kr. and the reduction used to reduce the principal of the bond, which then stood at 145 b.kr. as of 31 December 2014. The bond will be repaid in annual instalments amounting to 5 b.kr. of the principal. According to the agreement, if the Bank's profit reverts to the Treasury, the Treasury will simultaneously pay that amount towards the bond principal, and this amount will be deducted from the annual instalment payment under the terms of the bond.

Disposition of profit for 2014

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

According to the Central Bank Act, the Bank shall have the financial strength needed to enable it to carry out its legally mandated role. In order to ensure that this goal is met, the remainder of the Bank's profit, after allocations have been made to the reserve fund, is distributed to the Treasury, to the extent that it is not used to strengthen the Bank's capital. To this end, the Bank defines for itself capital adequacy criteria that reflect its need for equity and interest-bearing assets. The capital adequacy criteria are based on the Bank's operating expenses and the risks and uncertainties facing it at any given time.

The Bank has decided that it fulfils its capital adequacy criteria for 2015, and the Supervisory Board has confirmed that decision. The capital adequacy criterion was set at 70 b.kr. When the decision was taken, a three-year analysis was conducted of the Bank's operations and balance sheet, as well as an assessment of the risks facing the Bank and a scenario analysis. In view of the size of the Bank's balance

sheet, its position in the international markets, and the tasks that lie ahead in its operations, it is clear that the capital adequacy criteria are sensitive to developments in various elements. It could be that the Bank will allocate profit towards strengthening its equity or will call in new initial capital if developments are such that the Bank considers itself not strong enough to fulfil its legal mandate.

Based on the above, it has been decided, cf. Article 34, Paragraph 2 of the Central Bank Act, to distribute the Bank's profit for the fiscal year 2014 – 11.2 b.kr. – as follows:

- An amount equivalent to unrealised income – 9,314 m.kr. – is allocated to the reserve fund.
- The Bank's profit in excess of the allocation to the reserve fund amounts to 1,905 m.kr. This amount is allocated to the Treasury and is due for payment on 30 April 2015.

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. A Supervisory Board was elected by Parliament on 5 July 2013. At the beginning of 2014, the Board was chaired by Ólöf Nordal. Other members were Jón Helgi Egilsson, Ingibjörg Ingvadóttir, Ragnar Árnason, Ágúst Ólafur Ágústsson, Björn Valur Gíslason, and Audur Hermannsdóttir. Ólöf Nordal resigned from the Board on 8 December 2014, after having been appointed Minister of the Interior. Deputy Chairman Jón Helgi Egilsson then took over as Chairman, and Ingvi Hrafn Óskarsson joined the Supervisory Board in his place.

Governor and Deputy Governor

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

Central Bank organisation

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

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

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

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

The CCSU's function is to ensure compliance with regulatory instruments on foreign exchange. The unit also participates in amending rules, publishing guidelines, and interpretation of such instruments. In addition, the CCSU processes requests for exemptions to the Foreign Exchange Act and is authorised to open preliminary investigations of alleged violations of the Foreign Exchange Act and the Rules on Foreign Exchange. By law, the Bank must refer suspected major violations to the police.

Statistics handle 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. Statistics is divided into three units: Financial Institutions, Balance of Payments, and Financial Markets.

The Financial Stability Department analyses financial system risks and participates in formulating prudential rules for the financial system. The department has also placed increased emphasis on analysing the position of households and businesses. The Financial Stability Department publishes the Bank's *Financial Stability* reports.

The Financial Market Infrastructures Department oversees and supervises systemically important financial market infrastructure, with a particular eye to enhancing security and efficiency. The Financial Market Infrastructures Department also handles the issuance and administration of banknotes and coin and operates the Bank's vaults, as well as overseeing the publication of the *Financial Market Infrastructure* report. It also administers the Central Bank-owned company Greidsluveitan ehf., which operates the financial market infrastructure elements owned by the Bank. Four Bank employees were members of the Greidsluveitan Board of Directors in 2014: Gudmundur Kr. Tómasson, Chairman; Tómas Örn Kristinsson, Gerdur Ísberg, and Páll Kolka Ísberg. Also sitting on the Board as an independent member was Hlín Hákonardóttir.

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

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

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

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

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

Human resources issues

The Bank's staff numbered 168 at the beginning of 2014, in addition to the Governor and Deputy Governor and nine part-time custodial employees, bringing the total to 179. At the end of the year, there were 169 employees, in addition to the Governor and Deputy Governor and nine part-time custodial employees, bringing the total to 177. During the year, 12 employees were hired and 14 left the Bank. Twelve summer staff members were employed by the Bank in 2014.

As of year-end 2014, 17 employees worked for companies owned by the Bank, including 15 employed by Greidsluveitan ehf. and two by the Central Bank of Iceland Holding Company ehf. Both of these companies are located on the Central Bank's main premises at Kalkofnsvegur 1.

The gender ratio shifted slightly in favour of women during the year. At the beginning of the year, the Bank employed 90 men and

89 women, and at the end of the year there were 87 men and 90 women. The gender ratio among directors remained unchanged at five men and five women.

Further efforts were made to promote employees' health and well-being during the year, and emphasis was placed on cultural activities as well. At the Bank's Culture Week, held in late November, authors read from their newly published works, musicians played music and an Icelandic course was held in connection with Icelandic Language Day.

Central Bank of Iceland 31 December 2014

Supervisory Board

Principal members

Jón Helgi Egilsson, Chairman
 Ágúst Ólafur Ágústsson
 Ingibjörg Ingvadóttir
 Ragnar Árnason
 Björn Valur Gíslason
 Audur Hermannsdóttir
 Ingvi Hrafn Óskarsson

Alternates

Sigrún Elsa Smáradóttir
 Linda Björk Bentsdóttir
 Heidrún Lind Marteinsdóttir
 Hildur Traustadóttir
 Leó Löve
 Sunna Jóhannsdóttir

Governor

Már Gudmundsson

Deputy Governor

Arnór Sighvatsson

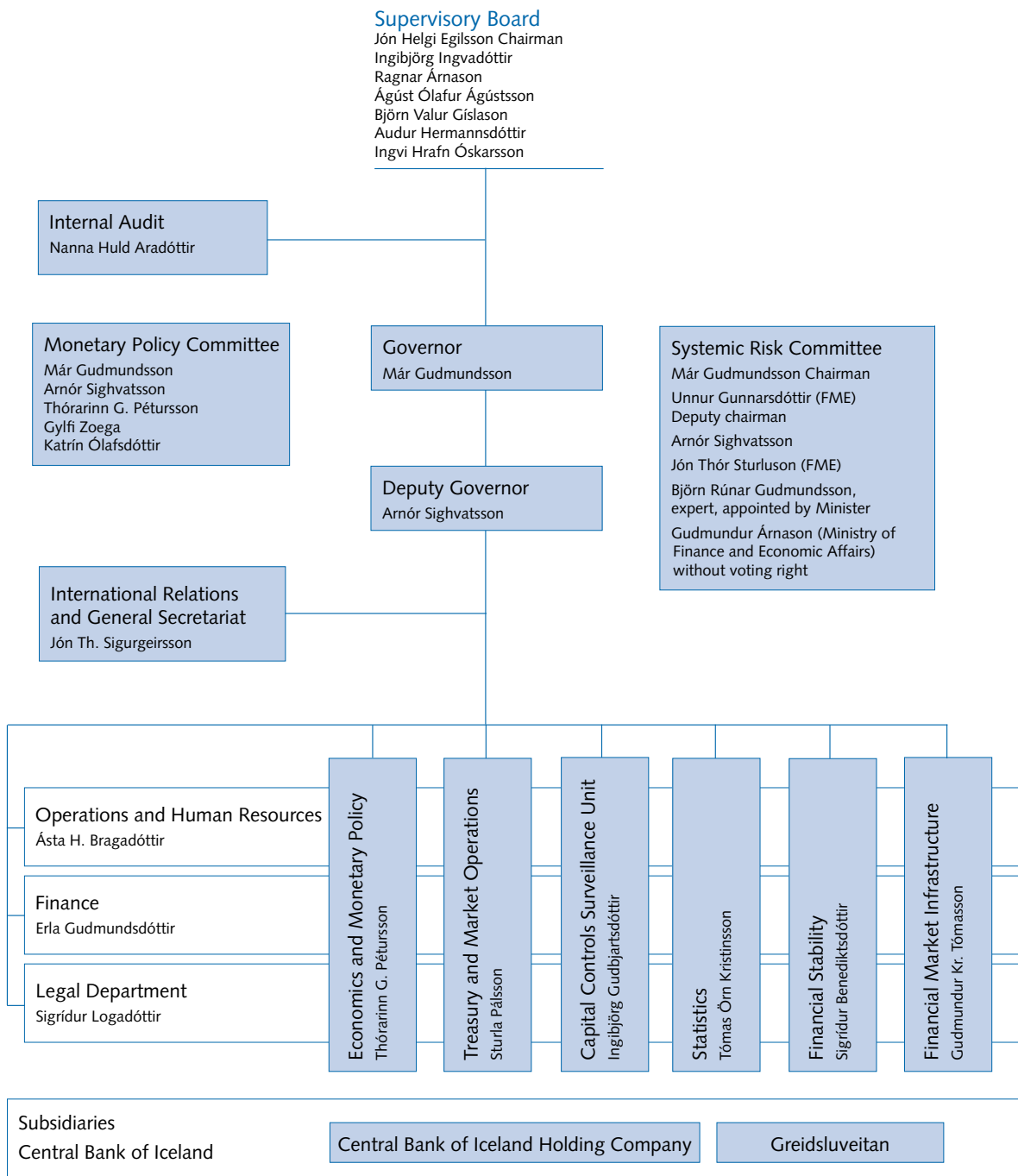
Principal Officers

International Relations and General Secretariat:	Jón Th. Sigurgeirsson, Director
Finance:	Erla Gudmundsdóttir, Director
Financial Market Infrastructure:	Gudmundur Kr. Tómasson, Director
Financial Stability:	Sigríður Benediktsdóttir, Director
Statistics:	Tómas Örn Kristinsson, Director
Capital Controls Surveillance Unit:	Ingibjörg Guðbjartsdóttir, Director
Economics and Monetary Policy:	Thórarinn G. Pétursson, Chief Economist
Legal Department:	Sigríður Logadóttir, General Counsel
Treasury and Market Operations:	Sturla Pálsson, Director
Operations and Human Resources:	Ásta H. Bragadóttir, Director
Internal Auditor:	Nanna Huld Aradóttir

Companies owned by the Central Bank of Iceland

Central Bank of Iceland Holding Company ehf. (ESÍ):	Haukur C. Benediktsson, Director
Greidsluveitan ehf.:	Logi Ragnarsson, Director

The organisational chart of the Central Bank of Iceland





CONSOLIDATED ANNUAL ACCOUNTS 2014

Independent Auditor's Report

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

We have audited the accompanying consolidated annual accounts of the Central Bank of Iceland for the year 2014. The consolidated annual accounts include confirmation by the senior management of the Central Bank of Iceland, a profit and loss account, a balance sheet, a statement of cash flows, a statement of changes in equity, information on accounting principles, and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

It is our opinion that the consolidated annual accounts give a true and fair view of the results of operations of the Central Bank of Iceland for the year 2014, the financial position as at 31 December 2014, and cash flows for the year then ended, in accordance with the Annual Accounts Act, the Act on Financial Undertakings, and the Rules on the Central Bank of Iceland's Accounting and Annual Accounts.

Kópavogur, 26 March 2015

Deloitte ehf.

Benóní Torfi Eggertsson
Auditor

Jón Rafn Ragnarsson
Auditor

Confirmation by the management of the Central Bank of Iceland

The Supervisory Board and Governor of the Central Bank of Iceland hereby confirm the Bank's annual financial statements for the year 2014 with their signatures.

Reykjavík, 19 March 2015

Confirmation by the Supervisory Board

*Ragnar Árnason
Ágúst Ólafur Ágústsson
Ingibjörg Ingvadóttir*

*Jón Helgi Egilsson
Chairman*

*Audur Hermannsdóttir
Björn Valur Gíslason
Ingvi Hrafn Óskarsson*

Confirmation by the Governor

Már Gudmundsson

Confirmation by the Minister of Finance and Economic Affairs

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

Reykjavík, 26 March 2015

Bjarni Benediktsson

Profit and Loss Account for the year 2014

	Notes	2014	2013
Interest income			
From domestic assets		19,388,923	29,119,062
From foreign assets		6,838,704	6,495,539
	1	<u>26,227,628</u>	<u>35,614,602</u>
Interest expense			
From domestic liabilities		(17,301,028)	(17,110,835)
From foreign liabilities		(2,706,684)	(3,268,051)
	2	<u>(20,007,712)</u>	<u>(20,378,886)</u>
		Net interest income	15,235,715
Operating revenues			
Service revenues	3	1,474,846	1,280,427
Service expenses	4	(1,121,958)	(917,610)
Withdrawn banknotes		(196)	0
Revenues from shareholdings	5	40,195	65,663
Value adjustments in domestic bond prices		1,599,049	20,876,141
Value adjustments of appropriated assets		613,075	0
Value adjustments of foreign securities	6	2,746,937	(6,186,528)
Value adjustments of gold	7	(120,397)	(3,672,694)
Exchange rate gains on foreign exchange transactions ..	8	332,693	887,584
System sales		0	129,400
		<u>5,564,244</u>	<u>12,462,383</u>
		Net operating revenues	27,698,098
Operating expenses			
Salaries and related expenses	9	(2,335,860)	(2,065,222)
Other operating expenses	10	(1,210,785)	(1,180,266)
Expense due to banknotes and coin	11	(68,389)	(313,795)
Depreciation of property and equipment	26	(169,188)	(207,082)
Impairment of claims	12	(257,512)	(8,036,762)
		<u>(4,041,734)</u>	<u>(11,803,126)</u>
		Profit for the year before taxes	15,894,972
Income tax	14	(2,707,876)	(5,420,761)
Profit w/o exch. rate differences and transfer to Treasury		5,034,550	10,474,211
Transfer to Treasury		0	(6,516,660)
Exchange rate difference	13	6,185,091	(12,250,192)
		<u>11,219,641</u>	<u>(8,292,641)</u>
		Profit (loss) for the year	

Amounts are in ISK thousands.

Balance Sheet 31 December 2014

Assets	Notes	2014	2013
Gold	16	9,597,822	8,816,672
Foreign assets	17-20	518,019,660	476,543,770
FX balance with the IMF	21	3,447,240	3,326,298
Domestic financial assets	22-25	401,763,108	473,368,092
Fixed operational assets	26	4,745,108	4,852,419
Appropriated assets and real estate held for sale	28	9,725,128	11,488,826
Other assets	29	5,034,936	20,046,700
Deferred tax assets	27	1,264,992	3,742,341
Assets		953,597,993	1,002,185,117
Equity and liabilities			
Capital		83,501,000	57,501,000
Uncalled capital	38	(52,000,000)	0
Value adjustment reserve	15	9,313,826	0
Real estate revaluation		4,348,056	4,397,000
Other equity		29,863,773	27,909,014
Equity	39	75,026,655	89,807,014
Banknotes and coin	31	49,955,315	47,015,508
Foreign debt	32	45,678,267	123,016,341
Counterpart to IMF	21	20,621,220	19,898,237
Deposits of financial institutions	33	69,016,442	77,168,373
Other deposits	34	578,337,314	473,765,713
Domestic financial liabilities	35	113,197,784	141,078,441
Deferred tax liabilities	27	20,010	36,523
Pension obligations	36	255,427	316,448
Other liabilities	37	1,489,560	23,565,861
Unpaid transfer to Treasury		0	6,516,660
Liabilities		878,571,339	912,378,104
Equity and liabilities		953,597,993	1,002,185,117

Statement of Cash Flows 2014

	2014	2013
Operating activities		
Collected interest income	25,648,397	24,456,830
Paid interest expense	(21,561,282)	(23,338,838)
Net collected interest income	4,087,115	1,117,992
Collected service revenues	1,476,944	1,339,243
Paid-out service expense	(1,125,656)	(846,444)
Paid-in dividends on shareholdings and system sales	40,195	192,151
Collected net operating revenues	4,478,598	1,802,942
Paid operating expense	(3,568,714)	(3,522,451)
Cash and equiv. from operat. (to operat.) w/o taxes and transf. to Treasury	909,884	(1,719,509)
Paid income tax	(2,154,539)	(2,231,839)
Paid transfer to Treasury	(6,516,660)	(2,185,769)
Net cash to operating activities	(7,761,315)	(6,137,117)
Investment activities		
Collateralised loans and overnight loans, decrease	0	12,350,000
Purchased property and equipment	(61,877)	(152,943)
Appropriated assets, sales net of supplements	3,562,583	0
Sold (purchased) equity securities	173,430	(47,850)
Treasury bonds sold	10,183	6,773,214
Securities purchased	(10,935,339)	0
Securities sold	34,577,393	292,716
Instalments on securities, etc.	23,415,088	19,538,024
Gold purchased	(6,569)	0
Securities purchased in foreign reserves	(191,778,158)	(168,562,897)
Securities sold in foreign reserves	167,922,480	97,266,219
Subsidiaries capital income tax, decrease (increase)	54,842	(148,625)
Swap agreements, decrease	0	1,662,999
Special Drawing Rights (SDR) with the International Monetary Fund	(7,681)	629,895
	26,926,376	(30,399,248)
Financing activities		
Banknotes and coin in circulation, increase	2,939,807	1,873,460
Loan from IMF (instalments)	(50,402,017)	0
Loans from Nordic central banks (instalments)	(30,845,000)	0
Certificates of deposit, (decrease) increase	(132,750,000)	27,600,000
Term deposits, increase	106,913,214	0
Foreign-denominated deposits, increase (decrease)	28,043,636	(2,983,899)
Credit institutions deposits, (decrease)	(20,270,413)	(1,571,293)
Increase (decrease) in deposits, other	12,548,722	45,927
Increase (decrease) in deposits, central government	55,744,996	(51,873,541)
Swap agreements	(242,321)	0
	(28,319,376)	(26,909,346)
Changes in cash position		
Foreign bank deposits, decrease	(9,154,315)	(63,445,710)
Exchange rate difference on bank deposits	1,951,299	(7,217,530)
Foreign deposit balance at beginning of year	42,578,316	113,241,556
Foreign cash balance at year-end	35,375,300	42,578,316

Amounts are in ISK thousands.

Statement of changes in equity 2014

	<i>Capital</i>	<i>Uncalled capital</i>	<i>Value adjustment reserve</i>	<i>Real estate revaluation</i>	<i>Other equity</i>	<i>Total equity</i>
Equity 1 January 2013.....	57,501,000			4,449,711	36,148,944	98,099,655
Loss for the year 2013.....					(8,292,641)	(8,292,641)
Depreciation of revalued assets 2013				(52,711)	52,711	0
Equity 31 December 2013	<u>57,501,000</u>			<u>4,397,000</u>	<u>27,909,014</u>	<u>89,807,014</u>
Equity 1 January 2014	57,501,000			4,397,000	27,909,014	89,807,014
Reduction of capital	(26,000,000)					(26,000,000)
Callable equity	52,000,000	(52,000,000)				0
Profit for the year			9,313,826		1,905,815	11,219,641
Depreciation of revalued assets 2014				(48,944)	48,944	0
Equity 31 December 2014	<u>83,501,000</u>	<u>(52,000,000)</u>	<u>9,313,826</u>	<u>4,348,056</u>	<u>29,863,773</u>	<u>75,026,655</u>

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 estimates 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 estimates are recognised in the period in which they take place.
- The consolidated accounts include the annual financial statements of the Central Bank of Iceland and companies owned by it ("subsidiaries" according to financial reporting rules).

Among the objectives of consolidated financial reporting is to report only income, expenses, assets, and liabilities vis-à-vis external parties; therefore, internal transactions are eliminated 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 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 company has guaranteed or undertaken obligations on their behalf.
- Assets and liabilities in foreign currency are presented in Icelandic currency using the mid-exchange rate as of year-end 2014. Revenues and expenses in foreign currency are converted using the exchange rate on the transaction date.

Basis for accounting methods

Estimates and decisions

Group

Shares in subsidiaries

Foreign currencies

	<i>Average exchange rate for the year</i>		<i>Year-end exchange rate</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
Euro (EUR).....	154.86	162.38	154.27	158.50
US dollar (USD).....	116.75	122.23	126.90	115.03
Pound sterling (GBP).....	192.17	191.22	197.66	190.21
Canadian dollar (CAD).....	105.71	118.72	109.59	108.07
Danish krone (DKK).....	20.77	21.77	20.72	21.25

	<i>Average exchange rate for the year</i>		<i>Year-end exchange rate</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
Norwegian krone (NOK)	154.86	162.38	154.27	158.50
Swedish krona (SEK)	116.75	122.23	126.90	115.03
Swiss franc (CHF)	192.17	191.22	197.66	190.21
Japanese yen (JPY)	105.71	118.72	109.59	108.07
Polish zloty (PLN)	20.77	21.77	20.72	21.25

Indexed assets and liabilities

- Indexed assets and liabilities are entered with accrued indexation as of year-end 2014, using the index value of January 2015, which reflects year-end 2014 price levels. Indexation is recognised in the profit and loss account, with interest.

Securities

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

Entry of revenues and expenses

- Revenues are recognised when earned, irrespective of whether collection has taken place. Expenses are also entered when incurred, irrespective of whether they have been paid. Furthermore, valuation changes in securities are entered in the profit and loss account, irrespective of whether the securities have been redeemed.

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. The amount is obtained by deducting the value of banknotes and coin received by the Central Bank of Iceland from manufacturers, both the value of notes and coin in the vaults and the value of notes and coins the Bank has destroyed. The change is expensed in the profit and loss account.

Taxation

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

Fixed operational assets

- Assets are listed among fixed operational assets when it is likely that the economic benefits of the asset concerned will be useful to

the group and when it is possible to estimate the cost due to the asset in a reliable manner. Fixed operational assets are recognised using either the cost-price method or the revaluation method. According to the cost-price method, fixed operational assets are entered at original cost price less accumulated depreciation and impairment. The cost price of fixed operational assets consists of the purchase price and all direct costs relating to putting the asset into revenue-generating condition. The revaluation method uses fair value on the date the fixed operational assets are revalued, less depreciation and impairment. The revaluation method uses fair value on the date the fixed operational assets are revalued, less depreciation and impairment.

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

Gold

Obligations

Explanatory notes to the consolidated financial statements

Interest income

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

	2014	2013
<i>Interest income on domestic assets:</i>		
Interest income on overnight loans	7,397	2,494
Interest income on collateralised loans	1,384	14,205
Interest income on marketable securities	1,077,134	832,125
Interest income on indexed securities	1,773,193	20,894,297
Interest income on other domestic assets	16,529,816	7,375,941
	<u>19,388,923</u>	<u>29,119,062</u>
<i>Interest income on foreign assets:</i>		
Interest income on gold	7,292	0
Interest income on bank accounts	42,964	58,151
Interest income on securities	6,701,974	6,435,677
Interest income on other foreign assets	86,474	1,711
	<u>6,838,704</u>	<u>6,495,539</u>

- Interest income on domestic assets declined by 9.7 b.kr. from the year 2013, or by 33.4%, owing mainly to reductions of bond principal and prepayment of loans.
- Interest income on overnight loans rose by 4.9 m.kr. between years, from 2.5 m.kr. in 2013 to 7.4 m.kr. in 2014. In 2014, 20 overnight loans were granted, in the amount of 26 b.kr. In 2013, 13 overnight loans were granted, in the amount of 13 b.kr. The average interest rate on overnight loans in 2014 was 6.9%, as opposed to 7% in 2013.
- Interest income on collateralised loans declined by 90.3% during the year because only one loan was granted. No collateralised loans were outstanding at year-end 2014. The average interest rate in 2014 was 5.9%, as compared with 6% in 2013.
- Interest income on marketable securities increased by 245 m.kr., or 29%, between years.
- Interest income on indexed securities declined by 19.1 b.kr. between years, while interest income on other domestic assets rose by 9.1 b.kr. over the same period. These changes are due to the agreement between the Treasury and the Central Bank from 30 December 2013, which provided for amended bond terms. In addition, the interest terms were changed, and indexation was no longer applied. The bond bears non-indexed interest based on the rate applied to financial institutions' current accounts with the Central Bank. Indexation due to indexed securities is recognised as interest income. The Consumer Price Index rose by 0.8% in 2014, as compared with 3.1% in 2013.

- Interest income on gold totalled 7.3 m.kr. during the year. The Bank resumed lending gold for investment purposes in June 2014.
- Interest income on foreign bank accounts declined by 26%, or by 15 b.kr., due mainly to low foreign interest rates.
- Interest income on foreign securities rose by 266 m.kr. between years. Foreign securities holdings increased by 48.7 b.kr. in 2014.

Interest expense

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

	2014	2013
<i>Interest expense on domestic liabilities:</i>		
Interest expense on certificates of deposit	3,948,812	7,084,365
Interest expense on term deposits	5,118,509	0
Interest expense on current accounts	4,026,722	3,570,733
Interest expense on Treasury current accounts	3,843,769	5,617,609
Interest expense on foreign-currency accounts	93,516	207,102
Interest expense on other domestic liabilities	269,700	631,026
	<u>17,301,028</u>	<u>17,110,835</u>
<i>Interest expense on foreign liabilities:</i>		
Interest expense on balance with IMF	1,737,800	1,846,257
Interest expense on foreign borrowings	968,885	1,421,794
	<u>2,706,684</u>	<u>3,268,051</u>

- Interest expense on domestic liabilities rose by 190 m.kr., or 1.1%.
- Interest expense on certificates of deposit totalled 3.9 b.kr.; however, in May 2014, the Bank's monetary policy instruments were modified, and auctions of 28-day certificates of deposit were discontinued.
- Interest expense on term deposits totalled 5.1 b.kr. in 2014. Term deposits took the place of certificates of deposit. The Bank offered term deposits with two different maturities: seven-day deposits bearing fixed interest, and one-month term deposits.
- Interest expense on current accounts rose by 456 m.kr., or 12.8%. The average interest rate on current accounts was 4.9% in 2014, as opposed to 5% in 2013. The Bank's current account rate had been unchanged since November 2012 but was lowered from 5% to 4.25% in the fourth quarter of 2014.
- Interest expense on Treasury current accounts declined by 1.8 m.kr., or 31.6%. The average interest rate on current accounts was 4.9% in 2014, as opposed to 5% in 2013.
- Interest expense on foreign debt declined by 561 m.kr., or 17.2%, due to the prepayment of the loan from Norges Bank in July 2014.

Service revenues

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

	2014	2013
Revenues from payment intermediation	1,036,794	1,080,689
Revenues from market transactions	134,915	135,387
Rent from appropriated assets	279,362	32,433
Other service revenues	23,775	31,918
	<u>1,474,846</u>	<u>1,280,427</u>

- The large increase in rental income is due to Hilda's operations.

Service expenses

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

	2014	2013
Expenses from payment intermediation	616,505	473,362
Expenses due to foreign currency auctions	49,937	82,648
Borrowing expense	21,658	25,798
Expenses due to securities transactions	66,061	78,086
Asset management expense	48,547	121,299
Operating expense for appropriated assets	249,577	126,796
Other service expenses	69,673	9,620
	<u>1,121,958</u>	<u>917,610</u>

Revenues from shareholdings

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

	2014	2013
Dividends from BIS	40,122	62,751
Other dividends	73	2,912
	<u>40,195</u>	<u>65,663</u>

Value adjustment of foreign securities and funds

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

	2014	2013
Foreign securities, change in fair value	2,697,894	(6,186,528)
Foreign securities funds, change in fair value	49,043	0
	<u>2,746,937</u>	<u>(6,186,528)</u>

<i>Nominal value of foreign securities and funds, by currency:</i>	2014	2013
EUR	1,115,000,000	1,035,000,000
GBP	81,000,012	94,000,012
PLN	204,129,000	204,129,000
USD	2,136,500,000	2,022,000,000
CNY	61,555	0

Value adjustment of gold

7. The decrease in the Bank's gold reserves, at constant exchange rates, totalled 120 m.kr. in 2014, as opposed to a decrease of 3.7 b.kr. in 2013. The market price of gold was 1,184.37 US dollars per ounce at year-end 2014, as compared with 1,201.64 US dollars per ounce at the beginning of the year, a decline of 1.4% year-on-year.

Exchange rate gains on foreign exchange transactions

8. Exchange rate gains on foreign exchange transactions totalled 332.7 m.kr. in 2014, as opposed to 887.6 m.kr. in 2013.
- This is due primarily to realised gains on foreign currency auctions and derivatives transactions.
 - Exchange rate gains from foreign exchange transactions in which the Bank sold foreign currency and bought it back are recognised as profit.

	2014	2013
Exchange rate gains on FX transactions (ISK thousands)	332,693	887,584
	<u>332,693</u>	<u>887,584</u>

Salaries and related expenses

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

	2014	2013
Wages and salaries	1,884,390	1,639,902
Pension fund	271,892	228,318
Salary-related expenses	190,757	150,211
Contribution to pension obligations	(11,179)	46,792
	<u>2,335,860</u>	<u>2,065,222</u>
Number of full-time position equivalents at year-end	208	197

- In 2014, total remuneration to the Governor and the Supervisory Board amounted to 54.6 m.kr. The Governor is not remunerated for participation in boards and committees jointly operated by institutions in the financial market or to which the Central Bank of Iceland appoints a representative by law. Total remuneration to the Governor and the Supervisory Board in 2014 specify as follows (in ISK millions):

	2014	2013
<i>Governor</i>		
Már Gudmundsson	20.3	20.0
<i>Deputy Governor</i>		
Arnór Sighvatsson	21.4	18.1
<i>Supervisory Board</i>		
Lára V. Júlíusdóttir	0.0	1.6
Ólöf Nordal	2.6	1.4
Other Supervisory Board members and alternates	10.3	9.9
	<u>54.6</u>	<u>51.0</u>

Other operating expense

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

	2014	2013
Outsourced services	815,202	762,840
Operation of property and liquid assets	219,526	248,285
Sundry operational items	176,057	169,140
	<u>1,210,785</u>	<u>1,180,266</u>

Expense due to banknotes and coin

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

	2014	2013
Banknote printing	62,155	299,329
Distribution costs	0	129
Equipment	6,234	14,337
	<u>68,389</u>	<u>313,795</u>

- A new 10,000 kr. banknote was put into circulation in October 2013.

Impairment of claims

12. Expensed claim impairment amounted to 257.5 m.kr. in 2014, as opposed to 8 b.kr. in the prior year. The Bank maintains a claim impairment account for the claims it considers likely to be lost, but this is not a final write-off.

Exchange rate difference

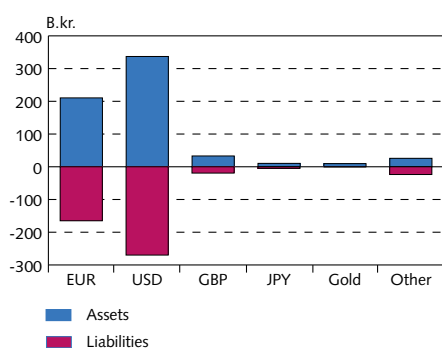
13. Exchange rate difference specifies as follows (in ISK thousands):

	2014	2013
Gold	890,848	(1,268,093)
International Monetary Fund	(550,433)	1,745,690
Foreign bank deposits	1,951,299	(7,217,530)
Foreign securities	21,153,864	(40,258,273)
Foreign current liabilities	(3,184,487)	10,735,414
Foreign loans, FX accounts	(18,637,477)	33,579,105
Derivatives	3,851,303	(5,509,740)
Other	710,173	(4,056,764)
	<u>6,185,091</u>	<u>(12,250,192)</u>

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

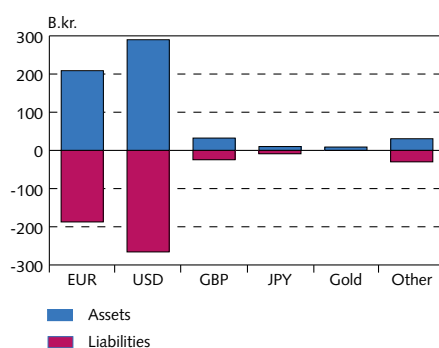
	2014	2013
USD	10.32	-10.65
EUR	-2.67	-6.65
GBP	3.92	-8.62
NOK	-9.39	-17.90
DKK	-2.48	-6.64
SEK	-8.39	-9.16
JPY	-3.05	-26.73
CAD	1.41	-16.46
XDR	3.64	-10.43

Total assets and liabilities in foreign currency 2014



Source: Central Bank of Iceland.

Total assets and liabilities in foreign currency 2013



Source: Central Bank of Iceland.

Income tax

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

	2014	2013
Central Bank of Iceland Holding Company ehf. (EÍ)	(2,686,546)	(5,374,563)
Greidsluveitan ehf.	(21,330)	(46,198)
	<u>(2,707,876)</u>	<u>(5,420,761)</u>

- Income tax pay in 2015 amounts to 225.7 m.kr.

Effective inc. taxes specify as follows (ISK thous.):

	2014		2013	
	Amount	%	Amount	%
Profit of companies owned by the Bank	7,525,739		20,096,575	
Tax rates	(1,505,148)	-20	(4,019,315)	-20
Non-deductible expenses	(27,993)	0	(8)	0
Share in earnings of companies owned by the Bank not entered as income tax credit	153,786	2,0	446,668	2,2
Taxable income from bond collection		0,0	(1,869,453)	-9,3
Change in write-down of income tax	(1,307,187)	-17,4		0,0
Change in tax base for the year	(21,334)	-0,3	21,347	0,1
Income tax according to profit and loss	<u>(2,707,876)</u>	<u>-36,0</u>	<u>(5,420,761)</u>	<u>-27,0</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 Adjustment Reserve. Unrealised losses in excess of previously entered unrealised gains are used to reduce the profit available for distribution. This presentation, which is part of cautious central bank financial reporting, aims to ensure that profits are distributed at the time they are created.
- The revaluation shall consist of updated market prices and currency exchange rate movements, and it shall extend to financial assets and liabilities, derivatives, and gold. Financial instruments denominated in domestic and foreign currencies shall each be appraised individually.
- Both realised and unrealised gains are recognised in the profit and loss account. Contributions to the Adjustment Reserve consist of the difference between cost price and recorded market price. With the changes taking effect in 2014, the cost price shall be designated as the market price as of 31 December 2013.

Operating results specify as follows (in ISK thousands):

	2014	2013
Net interest income	6,219,916	15,235,715
Value adjustment, realised and unrealised	4,581,152	2,980,157
Exchange rate difference, realised and unrealised	6,517,785	(11,362,608)
Income from shareholdings	40,195	65,663
Other income	1,474,846	1,377,394
Operating expenses	(4,906,377)	(4,651,542)
Income tax	(2,707,876)	(5,420,761)
Profit (loss) for the year	<u>11,219,641</u>	<u>(1,775,982)</u>
Distributed as follows:		
To the Adjustment Reserve	9,313,826	
To the Treasury	1,905,815	

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

	2014
Foreign securities	3,249,131
Exchange rate difference	6,185,091
Gold	(120,397)
Year-end balance 2014	<u>9,313,826</u>

- The profit for the year according to the annual accounts is 11.2 b.kr. Of that total, 9.3 b.kr. represent unrealised gains that are distributed to the Value Adjustment Reserve. The transfer to the Treasury is therefore 1.9 b.kr. and is payable on 30 April 2015.

Gold

16. The Bank's holdings in gold amounted to 63,831.46 ounces at year-end 2014. Holdings in gold, entered at fair value as of year-end 2014, were valued at 1,184.37 US dollars, or 150,297 kr., per ounce. Thus the Bank's holdings in gold were valued at 9.6 b.kr. as of year-end 2014.

Development of gold holdings



Source: Central Bank of Iceland.

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

	2014	2013
Balance at beginning of year	8,816,672	13,757,459
Purchases during the year	6,525	0
Value adjustment	(120,397)	(3,672,694)
Exchange rate difference	890,848	(1,268,093)
Accrued interest	4,174	0
Balance at year-end	<u>9,597,822</u>	<u>8,816,672</u>

Foreign assets

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

	2014	2013
Foreign bank deposits	35,375,300	42,578,316
Foreign securities	479,195,656	431,765,493
Foreign securities funds	1,318,043	0
Special drawing rights with the IMF	1,013,801	953,074
Foreign derivatives	103,534	0
Foreign assets not held in reserves	1,013,326	1,246,886
	<u>518,019,660</u>	<u>476,543,770</u>

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

	2014	2013
Balance in foreign central banks	17,800,255	21,007,210
Deposits with the IMF	10,004,213	12,832,260
Balance in other foreign banks	7,570,832	8,738,847
	<u>35,375,300</u>	<u>42,578,316</u>
Deposits available for disbursement	25,384,094	33,304,234
Term deposits, available within 3 months	9,991,206	9,274,082
	<u>35,375,300</u>	<u>42,578,316</u>

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

	2014	2013
Balance at beginning of year	431,765,493	407,285,698
Purchases during the year.....	191,779,189	164,995,614
Sold and collected during the year.....	(166,931,784)	(94,071,018)
Value adjustment	2,746,937	(6,186,528)
Exchange rate difference.....	21,153,864	(40,258,273)
	<u>480,513,699</u>	<u>431,765,493</u>

20. Foreign assets not held in reserves:

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

	2014	2013
Shareholdings in the Bank for International Settlements .	184,486	184,486
Other assets not held in reserves.....	828,840	1,062,400
	<u>1,013,326</u>	<u>1,246,886</u>

International Monetary Fund (IMF)

21. Iceland's quota with the International Monetary Fund (IMF) totalled SDR 117.6 million at year-end 2014. One-fourth (¼) of the quota was originally paid for with gold and the rest with Icelandic krónur. The Bank's foreign exchange balance with the Fund totalled SDR 18.8 million, which is the difference between the quota and the Fund's ISK deposits with the Bank; cf. the table below. The Bank's borrowings in the form of Fund allocations in SDR totalled SDR 112.2 million. The Bank's other debt to the Fund amounts to SDR 238.2 m.

Assets:	SDR	ISK
Central Bank of Iceland quota.....	117,600	21,614,880
IMF deposit with Central Bank of Iceland	(98,846)	(18,167,829)
Central Bank's FX balance with IMF	18,755	3,447,240
Central Bank's deposit balance with IMF	5,516	1,013,801
	<u>24,271</u>	<u>4,461,041</u>
<i>Liabilities:</i>		
Counterpart to IMF allocations.....	112,194	20,621,220
IMF current account with Central Bank of Iceland	7	1,247
Loan from IMF	238,224	43,785,622
	<u>350,425</u>	<u>64,408,089</u>

Domestic financial assets

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

	2014	2013
Financial institutions	175,799,490	201,370,791
Treasury	155,357,252	181,508,210
Financial institutions in winding-up proceedings	58,321,812	57,128,898
Other entities	12,284,555	33,360,194
	<u>401,763,108</u>	<u>473,368,092</u>

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

	2014	2013
Derivatives	2,108,931	356,644
Deposits	338,301	3,028,799
Housing Financing Fund bonds	7,289,012	8,100,831
Housing Authority bonds	0	47,696
Municipal bonds	94,362	105,265
Loans	165,968,884	189,731,554
	<u>175,799,490</u>	<u>201,370,791</u>

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

	2014	2013
Bonds	145,622,896	172,034,789
Treasury bonds	9,368,361	9,169,167
Foreign-denominated Government bonds	365,995	304,253
	<u>155,357,252</u>	<u>181,508,210</u>

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

	2014	2013	2012	2011	2010
Balance at beginning of year	172,034,789	170,865,296	173,073,569	164,388,389	161,141,868
Principal	170,949,651	139,283,206	146,651,654	146,651,654	146,651,654
Reduction of principal	(26,000,000)				
Indexation		36,429,875	31,475,711	25,358,795	16,726,965
Accrued interest	673,245	1,085,139	106,379	1,063,120	1,009,770
Payment		(4,763,431)	(7,368,448)		
Balance at year-end	<u>145,622,896</u>	<u>172,034,789</u>	<u>170,865,296</u>	<u>173,073,569</u>	<u>164,388,389</u>

- On 30 December 2014, the Bank's capital was reduced by 26 b.kr. and the reduction used to reduce the principal of the bond with the Treasury, and the Act on the Central Bank of Iceland was amended at the same time. The terms of the bond were also amended

in accordance with the agreement that took effect between the Treasury and the Bank on 1 January 2015.

25. Due and payable loans owned by ESÍ amounted to 58.3 b.kr. at year-end 2014, as compared with 57.1 b.kr. at year-end 2013.

Collateralised loans due and payable specify as follows (in ISK thousands):

	2014	2013	2012	2011
Balance at beginning of year	57,128,898	56,472,249	53,682,450	101,951,118
Takeover of past-due collateralised loans during the year	1,192,913	86,829	2,935,149	
Appropriation of assets				(34,497,885)
Value adjustments		569,820	(145,349)	(3,515,636)
Instalments and exchange rate differential				(10,255,147)
Balance at year-end	<u>58,321,812</u>	<u>57,128,898</u>	<u>56,472,249</u>	<u>53,682,450</u>

Fixed operational assets

26. Fixed operational assets were capitalised in 2005 based on the appraised value at the end of that year. Assets are listed among fixed operational assets when it is likely that the economic benefits of the asset concerned will be useful to the group and when it is possible to estimate the cost due to the asset in a reliable manner. Fixed operational assets are recognised using either the cost-price method or the revaluation method. According to the cost-price method, fixed operational assets are entered at original cost price less accumulated depreciation and impairment. The cost price of fixed operational assets consists of the purchase price and all direct costs relating to putting the asset into revenue-generating condition. The revaluation method uses fair value on the date the fixed operational assets are revalued, less depreciation and impairment.

- Fixed operational assets as of year-end 2014 specify as follows (in ISK thousands):

	Country	Real estate	Liquid assets	Libraries and collection	Total
<i>Cost price and valuation</i>					
Cost price at beginning of year 2013 ...		90,976	704,137	8,126	803,239
Valuation at beginning of year 2013 ...	24,000	4,575,331	32,726	237,000	4,869,057
Total at beginning of year 2013	24,000	4,666,307	736,863	245,126	5,672,296
Capitalised during the year		5,877	92,093		97,970
Sold (cost price)			(3,123)		(3,123)
Sales and disposals during the year (valuation)			(2,500)		(2,500)
Cost price at beginning of year 2014 ...		96,853	793,107	8,126	898,086
Valuation at beginning of year 2014 ...	24,000	4,575,331	30,226	237,000	4,866,557
Total at beginning of year 2014	24,000	4,672,184	823,333	245,126	5,764,642
Capitalised during the year		2,048	59,829		61,877
Sales and disposals during the year (cost price)			(195,244)		(195,244)
Cost price at year-end 2014		98,901	657,692	8,126	764,719
Valuation at year-end 2014	24,000	4,575,331	30,266	237,000	4,866,557
Total at year-end 2014	24,000	4,674,232	687,918	245,126	5,631,275

	Country	Real estate	Liquid assets	Libraries and collection	Total
<i>Depreciation</i>					
Cost price at beginning of year 2013 ...		5,426	284,993		290,419
Valuation at beginning of year 2013 ...		390,387	28,959		419,346
Total at beginning of year 2013	0	395,812	313,952	0	709,764
Depreciation for the year at cost price		1,041	154,330		155,371
Depr. for the year at valuation price ...		48,944	2,767		51,711
Sales and disp. dur. the year (cost price)			(3,123)		(3,123)
Sold (cost price)			(1,500)		(1,500)
Cost price at beginning of year 2014 ...		6,466	436,200		442,667
Valuation at beginning of year 2014 ...		439,331	30,266		469,556
Total at beginning of year 2014	0	445,797	466,426	0	912,223
Depreciation for the year at cost price		1,167	119,077		120,244
Depr. for the year at valuation price ...		48,944			48,944
Sales and disp. dur. the year (cost price)			(195,244)		(195,244)
Cost price at year-end 2014		7,364	360,033		367,666
Valuation at year-end 2014		488,275	30,226		518,501
Total at year-end 2014	0	495,909	390,258	0	886,167
<i>Book value</i>					
Book value at beginning of year 2013	24,000	4,270,495	422,910	245,126	4,962,531
Book value at beginning of year 2014	24,000	4,226,387	356,907	245,126	4,852,419
Book value at end of year 2014	24,000	4,178,323	297,659	245,126	4,745,108
Annual depreciation rates	0%	1-3%	10-33%	0%	

Deferred tax

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

	Asset	Liability	Total
Balance as of 1 January 2013	7,034,895	(20,174)	7,014,721
Calculated income tax for year 2013	(5,374,563)	(46,198)	(5,420,761)
Corrected tax base for prior year	(21,347)		(21,347)
Income tax for payment in 2013	2,103,356	29,849	2,133,205
Balance as of 31 December 2013	3,742,341	(36,523)	3,705,818
Calculated income tax for year 2014	(2,685,080)	(22,796)	(2,707,876)
Corrected tax base for prior year	21,334		21,334
Income tax for payment in 2015	186,396	39,309	225,706
Balance as of 31 December 2014	1,264,992	(20,010)	1,244,982

Appropriated assets and real estate held for sale

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

	2014	2013
Balance at beginning of year	11,488,826	1,748,836
Correction from prior year ¹	1,302,694	
Appropriated during the year		515,285
Taken over during the year	570,169	10,162,590
Capitalised renovations	668,338	
Sold during the year	(4,917,973)	(1,180,097)
Valuation changes and gain on sales	613,075	242,212
Year-end balance	<u>9,725,128</u>	<u>11,488,826</u>

1. Correction of takeover in the prior year in connection with the agreement between ESÍ, Drómi, and Arion Bank.

- At the end of 2013, the Central Bank of Iceland Holding Company (ESÍ), Hilda (an ESÍ subsidiary), Drómi, and Arion Bank reached an agreement concerning ESÍ/Hilda's takeover of specified Drómi assets and liabilities and the settlement of Arion Bank's claim against Drómi. The settlement is to be paid with household loans, and Hilda will acquire Drómi's corporate loans and appropriated assets.

Other assets

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

	2014	2013
Equities	292,256	624,742
Capital income tax withheld	2,526,499	2,104,623
Other assets	<u>2,216,180</u>	<u>17,317,335</u>
	<u>5,034,936</u>	<u>20,046,700</u>

30. Companies owned by the Bank

<i>Companies owned by the Bank</i>	<i>Location</i>	<i>Ownership share</i>	<i>Nominal value</i>	<i>Primary activities</i>
Greidsluveitan ehf.....	Iceland	100%	20,000,000	Payment system operations
CBI holding Company ehf. (ESÍ).....	Iceland	100%	1,001,000	Holding company
<i>Company owned by ESÍ</i>				
Hilda ehf.	Iceland	100%	4,000,000,000	Holding company

- The following companies are owned by Hilda ehf.: F25 ehf., D fasteignafélag ehf., F fasteignafélag ehf., Steinsnes ehf., and Fasteignafélagid Hlídar ehf. Companies owned by Fasteignafélagid Hlídar ehf. are Ork ehf., Leiguhlíð ehf., and Kistuhlíð ehf.
- At the end of 2013, ESÍ acquired shares in subsidiaries upon the takeover of Drómi's assets and liabilities. One group of subsidiaries is excluded from the Central Bank of Iceland's consolidated annual accounts, in accordance with Article 70, Item 3 of the Annual Accounts Act.

Banknotes and coin

31. Banknotes and coin in circulation (in ISK thousands):

<i>Banknotes:</i>	2014	2013
10,000 krónur	13,197,500	5,535,000
5,000 krónur	28,156,000	33,311,000
2,000 krónur	260,000	294,000
1,000 krónur	4,216,500	3,927,000
500 krónur	1,210,750	1,178,750
Total	47,040,750	44,245,750
<i>Coin:</i>		
100 krónur	1,730,600	1,624,600
50 krónur	494,940	482,890
10 krónur	471,850	450,120
5 krónur	110,149	107,434
1 króna	107,026	104,714
Total	2,914,565	2,769,758
Total in circulation	49,955,315	47,015,508

- A new 10,000 kr. banknote was put into circulation on 24 October 2013. The new note accounted for 28% of the value of banknotes in circulation in 2014. The purpose of the issue was to facilitate and streamline payment intermediation in Iceland, in part by reducing the number of banknotes in circulation.

Foreign debt

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

	2014	2013
Loan from IMF	43,785,622	91,064,553
Loan from Norges Bank	0	31,544,167
Other liabilities	1,892,644	407,621
	45,678,267	123,016,341

- Disbursements from the IMF in connection with the Stand-By Arrangement were eight in number: the first tranche totalled SDR 560 million, the next four tranches were SDR 105 million each; and the last three tranches were SDR 140 million each. The total IMF loan facility in connection with the Stand-By Arrangement amounted to SDR 1,400 m. At year-end 2011, the loan facility had been drawn for the full amount of SDR 1,400 million. In 2012, payments were made on the loan in the amount of SDR 888 million. At the end of 2014, payment was made in the amount of SDR 275 million. As a result, payments that were scheduled to begin in January 2015 begin in October 2015.
- On 22 July 2014, the Republic of Iceland and the Central Bank of Iceland prepaid loans granted from its Nordic neighbours in connection with the Government's IMF-supported economic programme

from 2008. On 21 December 2009, the first tranche of the loan from the Nordic countries was disbursed to Iceland in connection with the Stand-By Arrangement. The second tranche was disbursed on 28 June 2010 and the third on 30 December 2011. By year-end 2011, the Central Bank of Iceland had borrowed 480 million euros (76.2 b.kr. at the end-2011 exchange rate) from Norges Bank. In 2012, payments were made in the amount of 281 million euros. In 2014, payments were made in the amount of 199 million euros and the loan thereby repaid in full.

- An agreement was reached in 2014 between the Bank and insurance company Allianz, according to which the company will import to Iceland foreign currency to offset over half of future insurance premium payments to be expatriated. The purpose of this is to mitigate the negative effects on Iceland's balance of payments. The offsetting contribution is entered in the Bank's balance sheet as a term deposit denominated in euros.
- Instalments on long-term foreign debt are itemised as follows (in ISK thousands):

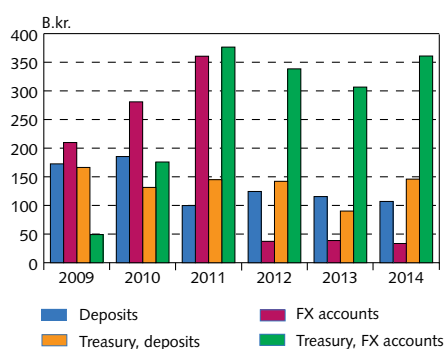
	<i>Total</i>
Instalments 2015.....	12,424,747
Instalments 2016.....	31,360,875
Total.....	<u>43,785,622</u>

Deposits of financial institutions

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

	2014	2013
Current accounts of deposit money banks	31,372,443	51,642,653
Current accounts of other financial institutions.....	36,072,427	18,272,781
Foreign exchange accounts	1,571,571	7,252,939
	<u>69,016,442</u>	<u>77,168,373</u>

Development in deposits 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. If a participant has an overdraft authorisation, it must submit as collateral securities that the Central Bank deems eligible at that time. The amount of the collateral corresponds to the intraday overdraft of the participant concerned.
- At year-end 2014, RTGS system collateral had a total market value of 17.7 b.kr.

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

	2014	2013
Treasury	143,214,772	88,022,275
Government institutions	2,735,410	2,156,661
Treasury, FX accounts	360,885,101	306,635,669
Non-residents with domestic deposits	22,766,119	29,438,619
Term FX deposits of financial institutions in winding-up proceedings	10,029,718	9,193,712
FX accounts of financial institutions in winding-up proceedings	13,908,653	14,132,840
Domestic deposits of other parties	24,797,542	24,185,937
	<u>578,337,314</u>	<u>473,765,713</u>

- Deposits held at the Bank by other parties increased by 22%, to 578.2 b.kr. at year-end 2014, as opposed to 473.8 b.kr. at year-end 2013. The increase is due primarily to an increase in the Treasury's current accounts, which in turn is due to dividends paid by Landsbankinn and to the special bank tax. The increase due to foreign exchange deposits is in connection with the Treasury's bond issue in the European market.

Domestic financial liabilities

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

	2014	2013
Certificates of deposit	0	133,109,736
Term deposits	105,661,364	0
Foreign-denominated Treasury bonds	7,451,999	7,891,275
Derivatives agreement with the Treasury	84,421	0
Swap agreement	0	77,430
	<u>113,197,784</u>	<u>141,078,441</u>

- At its 20 May 2014 meeting, the Monetary Policy Committee approved the Governor's proposal for modifications to the Bank's monetary policy instruments. Weekly auctions of 28-day certificates of deposit were discontinued, and financial institutions that engage in transactions with the Central Bank were offered two types of term deposits that are eligible as collateral for Central Bank facilities.

Pension obligations

36. According to actuarial assessments, the Central Bank of Iceland's obligations due to pension payments to former governors and their spouses and the director of the National Economic Institute, of which the Bank bore half the operational expense, totalled 255.4 m.kr. as of year-end 2014. Payments related to these obligations totalled 49.8 m.kr. in 2014 and reduce the previously entered obligation. Decreases in the Bank's obligations, after adjusting for payments, totalled 11.1 m.kr. in 2014 and are expensed.

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

	2014	2013
Pension obligations at beginning of year	316,448	318,117
Paid due to retirement	(49,842)	(48,461)
Change during the year	(11,179)	46,792
Pension obligations at year-end	<u>255,427</u>	<u>316,448</u>

Other liabilities

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

	2014	2013
Treasury share in foreign exchange transactions	162,444	1,093,413
Unpaid taxes	225,706	2,133,205
Other liabilities	1,101,410	20,339,242
	<u>1,489,560</u>	<u>23,565,861</u>

Callable equity

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

Developments in the Bank's capital ratio

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

	2014	2013	2012	2011	2010
Equity at beginning of year (excl. revaluation)	70,679	85,409	93,650	79,275	64,825
Revaluation	4,348	4,450	4,502	4,555	4,607
Equity at year-end	<u>75,027</u>	<u>89,807</u>	<u>98,100</u>	<u>83,778</u>	<u>69,379</u>

	2014	2013	2012	2011	2010
<i>Stock figures/ratios at year-end (in ISK millions):</i>					
Total assets	953,598	1,002,200	1,068,100	1,580,700	1,277,600
Equity (w/o asset revaluation)	70,679	85,409	93,650	79,275	64,825
Equity ratio	7.9%	9.0%	9.2%	5.3%	5.4%

Treasury

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

	2014	2013
Interest income on bond	8,591,538	4,356,883
Indexation on bond	0	6,189,581
Interest income on Treasury bonds	650,781	501,942
Interest income on foreign securities	107,296	93,218
	<u>9,349,615</u>	<u>11,141,624</u>
Interest expense on current accounts	3,843,769	5,618,609
Interest expense on foreign-currency accounts	84,541	196,914
Interest expense on term bond in foreign currency	427,040	443,908
Interest expense on derivatives contracts	84,421	0
	<u>4,439,771</u>	<u>6,259,432</u>
Net interest income	<u>4,909,844</u>	<u>4,882,193</u>

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

	2014	2013
Bonds	145,622,896	172,034,789
Treasury bonds	9,368,361	9,169,167
Foreign-denominated Government bonds	365,995	304,253
	<u>155,357,252</u>	<u>181,508,210</u>
Treasury	143,214,772	88,022,275
Government institutions	2,735,410	2,156,661
Treasury, FX accounts	360,885,101	306,635,669
Foreign-denominated term Treasury bonds	7,451,999	7,891,275
Derivatives	84,421	0
	<u>514,371,703</u>	<u>404,705,881</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 upon request. 25% of the subscription have already been paid. The 75% share could be due for payment and totals 785 m.kr.

- At year-end 2014, the Bank had access to loan facilities from the BIS in the form of repurchase agreements amounting to 400 million US dollars, or 51 b.kr. The Bank did not use these facilities in 2014.

- A judicial settlement has been signed in the legal action initiated by Kortathjónustan against Greidsluveitan, Valitor, and Borgun, thereby concluding the case.
- The winding-up board of Saga Capital hf. has filed suit because of the refinancing of Saga Capital's debt to the Central Bank and the financial restructuring of Saga Capital in 2010. The amount of the claim is 14,294 m.kr., and management is of the opinion that the suit will not lead to capital outflows.

Derivatives

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

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

Risk management

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 other financial institutions, although the same terminology is used. The Central Bank of Iceland's financial risk entails claims risk, liquidity risk, and market risk. Claims risk is the risk of loss due to counterparties' or issuers' inability to fulfil their financial obligations at the designated time. Claims risk comprises issuer risk, counterparty risk, and settlement risk. Liquidity risk is the risk that the Central Bank will be unable to fulfil its tasks and commitments due to insufficient assets, inability to sell assets in time, or inability to sell assets except at significant discounts. Market risk is defined as the risk of loss or reduction of financial assets due to changes in market value. Market risk comprises exchange rate risk, interest rate risk, claims risk, and gold price risk. In addition, the Bank operates under operational risk, which is the risk of human error or the failure of internal processes and systems. Operational risk is managed by the Bank's employees on a day-to-day basis, and

every effort is made to implement monitoring and procedures that minimise this risk.

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

Foreign exchange reserves

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

Claims risk

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

<i>Type of issuer and counterparty in reserves</i>	<i>2014</i>	<i>2013</i>
Treasuries	47.6%	49.9%
Government institutions	26.2%	25.3%
International institutions	12.0%	8.9%
Federal states	1.6%	2.1%
Covered bonds	0.7%	1.0%
Financial institutions	2.5%	1.8%
Money market funds	0.0%	0.0%
Deposits with central banks and BIS	5.1%	6.9%
Deposits with IMF	0.9%	0.9%
Deposits with financial institutions	1.5%	1.5%
Gold	1.8%	1.8%

Distribution of securities in the foreign exchange reserves, by credit rating (issuer risk, 88.6% of reserves):

<i>Credit rating</i>	<i>2014</i>	<i>2013</i>
AAA	63.1%	83.4%
AA+	23.5%	8.5%
AA	3.6%	1.2%
AA-	4.0%	2.1%
A+	0.3%	0.0%
A	1.8%	0.0%
A-	1.3%	2.0%
BBB+	1.4%	2.1%
BBB	0.9%	0.0%
BBB-	0.0%	0.8%

- Deposits with central banks and the Bank for International Settlements in the foreign exchange reserves comprise 5.1% of the

reserves. In general, central banks are not assigned credit ratings, but deposits with these parties should be equivalent to the highest possible counterparty credit rating (counterparty risk).

- Deposits with commercial banks in the foreign exchange reserves comprise about 1.5% of the reserves and are in various currencies at various banks. The Bank attempts to keep these deposits at a minimum (counterparty risk).

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

Country	Credit rating	2014	2013
United States	AAA	27.45%	24.71%
Germany	AAA	19.10%	21.33%
International institutions ¹	AAA	11.94%	8.85%
Netherlands	AAA	9.68%	10.81%
France	AA+	5.87%	6.66%
Finland	AAA	3.77%	3.41%
United Kingdom	AA+	3.05%	4.00%
Norway	AAA	2.39%	2.24%
Canada	AAA	2.13%	2.40%
Bank for International Settlements (BIS) ²	AAA	1.84%	2.64%
Luxembourg	AAA	1.65%	0.0%
Austria	AAA	1.55%	1.04%
Poland	A-	1.58%	1.75%
Italy	BBB+	1.28%	1.49%
Sweden	AAA	1.26%	2.80%
Denmark	AAA	1.02%	1.75%
Spain	BBB	0.88%	0.68%
Ireland	BBB+	0.30%	0.36%
China	A+	0.24%	0.0%
Japan	A+	0.15%	0.12%
Australia	AAA	0.12%	0.24%
Switzerland	AAA	0.02%	0.03%
Belgium	AA	0.02%	0.0%

1. All of the international institutions in which investments are made have AAA ratings. 2. Gold constituted 1.8% of the foreign exchange reserves in 2014 and 1.8% in 2013. The FX balance with the IMF was 0.9% in 2014 and 0.9% in 2013.

Settlement risk

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

Liquidity risk

- Liquidity risk is the risk that the Central Bank will be unable to fulfil its tasks and commitments due to insufficient assets, inability to

sell assets in time, or inability to sell assets except at significant discounts. The vast majority of the Bank's foreign exchange reserves are invested in highly liquid securities, deposits in central banks, and deposits with the Bank for International Settlements.

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

Outstanding balances of assets and liabilities in domestic and foreign currency 2013:

<i>M.ISK.</i>	<i>Payable</i>	<i>Less than</i>	<i>3-12</i>		<i>Over</i>		
	<i>Matured on demand</i>	<i>3 mo.</i>	<i>mo.</i>	<i>1-5 yr.</i>	<i>5 yr.</i>	<i>Total</i>	
<i>Foreign-denominated assets</i>							
Gold	23	8,793				8,817	
Foreign assets	466,208	9,274		1,062		476,544	
FX balance with the IMF	3,326					3,326	
Domestic financial assets	3,029			69,562		72,590	
Other assets	2					2	
<i>ISK-denominated assets</i>							
Domestic financial assets	57,129		181,508	128,780	33,360	400,778	
Fixed assets	4,852					4,852	
Other assets	29,429		2,105	3,742		35,276	
	<u>57,129</u>	<u>506,869</u>	<u>18,067</u>	<u>183,613</u>	<u>203,146</u>	<u>33,360</u>	<u>1,002,185</u>
<i>Foreign-denominated liabilities</i>							
Foreign liabilities		408		91,065	31,544	123,016	
Counterpart to IMF	19,898					19,898	
Deposits of financial institutions	7,253					7,253	
Other deposits	359,401					359,401	
Domestic financial liabilities					7,969	7,969	
Other liabilities	127					127	
<i>ISK-denominated liabilities</i>							
Banknotes and coin	47,016					47,016	
Deposits of financial institutions	69,915					69,915	
Other deposits	114,365					114,365	
Domestic financial liabilities		133,110				133,110	
Deferred tax liabilities				37		37	
Pension obligations			40	48	229	316	
Other liabilities		21,306	8,650			29,956	
	<u>0</u>	<u>617,975</u>	<u>154,823</u>	<u>8,690</u>	<u>91,149</u>	<u>39,741</u>	<u>912,378</u>
Foreign maturity gap	<u>0</u>	<u>85,909</u>	<u>17,660</u>	<u>0</u>	<u>(20,441)</u>	<u>(39,513)</u>	<u>43,615</u>
Domestic maturity gap	<u>57,129</u>	<u>(197,014)</u>	<u>(154,415)</u>	<u>174,923</u>	<u>132,438</u>	<u>33,132</u>	<u>46,192</u>
Total balance	<u>57,129</u>	<u>(111,105)</u>	<u>(136,756)</u>	<u>174,923</u>	<u>111,997</u>	<u>(6,381)</u>	<u>89,807</u>

Outstanding balances of assets and liabilities in domestic and foreign currency 2014:

<i>M.ISK.</i>	<i>Payable</i> <i>Matured on demand</i>	<i>Less than</i> <i>3 mo.</i>	<i>3-12</i> <i>mo.</i>	<i>1-5 yr.</i>	<i>Over</i> <i>5 yr.</i>	<i>Total</i>
<i>Foreign-denominated assets</i>						
Gold	29	9,569				9,598
Foreign assets	507,096	9,991	104	829		518,020
FX balance with the IMF	3,447					3,447
Domestic financial assets	338			69,561		69,899
Other assets	2					2
<i>ISK-denominated assets</i>						
Domestic financial assets	58,322		155,357	105,900	12,285	331,864
Fixed assets and liquid assets	4,745					4,745
Other assets	12,232		2,526	175		14,933
	<u>58,322</u>	<u>527,889</u>	<u>19,560</u>	<u>157,987</u>	<u>177,555</u>	<u>953,598</u>
<i>Foreign-denominated liabilities</i>						
Foreign debt			1,893	43,786		45,678
Counterpart to IMF	20,621					20,621
Deposits of financial institutions	1,572					1,572
Other deposits	407,590					407,590
Domestic financial liabilities					7,452	7,452
Other liabilities	127					127
<i>ISK-denominated liabilities</i>						
Banknotes and coin	49,955					49,955
Deposits of financial institutions	67,445					67,445
Other deposits	170,748					170,748
Domestic financial liabilities		105,661			84	105,746
Deferred tax liabilities				20		20
Pension obligations			37	148	70	255
Other liabilities		1,137	226			1,363
	<u>0</u>	<u>718,057</u>	<u>106,798</u>	<u>2,155</u>	<u>43,954</u>	<u>878,571</u>
Foreign maturity gap	<u>0</u>	<u>81,003</u>	<u>19,560</u>	<u>(1,789)</u>	<u>26,604</u>	<u>(7,452)</u>
Domestic maturity gap	<u>58,322</u>	<u>(271,171)</u>	<u>(106,798)</u>	<u>157,621</u>	<u>106,997</u>	<u>(42,899)</u>
Total balance	<u>58,322</u>	<u>(190,168)</u>	<u>(87,238)</u>	<u>155,832</u>	<u>133,601</u>	<u>75,027</u>

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. These are the consolidated accounts of the Central Bank and ESI. The exchange rate risk exposure of the Bank's net foreign exchange assets (foreign exchange balance) is then kept in a given currency composi-

tion. The Bank uses derivatives to manage its exchange rate risk. The Central Bank's foreign exchange balance was as follows at year-end 2013 and 2014:

<i>Currencies in financial assets and liabilities 2013 (M.ISK.):</i>							
	<i>Euro</i>	<i>US dollar</i>	<i>Pound sterling</i>	<i>Yen</i>	<i>Other currencies</i>	<i>Gold</i>	<i>Total</i>
Assets:							
Gold						8,817	8,817
Foreign assets	207,198	250,695	24,908	2,288	10,585		495,673
FX balance with the IMF	1,258	1,424	396	249			3,326
Domestic financial assets	377	37,774	7,015	7,564	20,036		72,765
Other assets	2						2
	<u>208,832</u>	<u>289,892</u>	<u>32,320</u>	<u>10,100</u>	<u>30,620</u>	<u>8,817</u>	<u>580,584</u>
Liabilities:							
Foreign liabilities	66,587	39,709	10,842	6,807	19,767		143,712
Counterpart to IMF	7,523	8,519	2,369	1,487			19,899
Deposits of financial institut. . .	4,971	731	375	255	922		7,253
Other deposits	108,294	216,943	10,806	308	1,421		337,772
Domestic financial liabilities					7,891		7,891
Other liabilities			127				127
	<u>187,376</u>	<u>265,902</u>	<u>24,519</u>	<u>8,857</u>	<u>30,001</u>	<u>0</u>	<u>516,654</u>
Net ISK assets	<u>21,456</u>	<u>23,990</u>	<u>7,800</u>	<u>1,244</u>	<u>620</u>	<u>8,817</u>	<u>63,929</u>

<i>Currencies in financial assets and liabilities 2014 (M.ISK.):</i>							
	<i>Euro</i>	<i>US dollar</i>	<i>Pound sterling</i>	<i>Yen</i>	<i>Other currencies</i>	<i>Gold</i>	<i>Total</i>
Assets:							
Gold						9,598	9,598
Foreign assets	208,895	288,133	23,435	898	10,957		532,318
FX balance with the IMF	1,224	1,571	412	241			3,447
Domestic financial assets	365	47,277	9,177	9,234	14,862		80,915
Other assets	2						2
	<u>210,483</u>	<u>336,981</u>	<u>33,024</u>	<u>10,373</u>	<u>25,819</u>	<u>9,598</u>	<u>626,279</u>
Liabilities:							
Foreign debt	17,696	19,953	5,228	3,061	14,544		60,482
Counterpart to IMF	7,321	9,398	2,462	1,442			20,622
Deposits of financial institut. . .	1	897	175	80	419		1,572
Other deposits	140,010	239,624	11,450	298	1,304		392,687
Domestic financial liabilities					7,452		7,452
Other liabilities	21	1	41				63
	<u>165,049</u>	<u>269,874</u>	<u>19,356</u>	<u>4,880</u>	<u>23,719</u>	<u>0</u>	<u>482,878</u>
Net ISK assets	<u>45,434</u>	<u>67,108</u>	<u>13,667</u>	<u>5,492</u>	<u>2,100</u>	<u>9,598</u>	<u>143,401</u>

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 1.8% of the total foreign exchange reserves. The Bank loaned gold to foreign financial institutions during the year.

Market transactions

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

Central Bank of Iceland Holding Company ehf.

- Claims risk: ESI has claims against operating financial institutions, financial institutions in winding-up proceedings, the Treasury, companies with a Treasury guarantee, and other companies, including the subsidiary Hilda ehf. The said claims were acquired by ESI following the financial crisis of 2008, and they originate in transactions between the Central Bank of Iceland and financial institutions in the prelude to the collapse. Hilda ehf.'s assets consist primarily of real estate and real estate-backed corporate loans. ESI's claims risk derives mainly from the risk of loss due to a debt instrument issuer's inability to fulfil the relevant financial obligation, in whole or in part, at the designated time. ESI's claims against operating financial institutions are largely backed by collateral, through collateralised loan agreements, mortgage bonds, or covered bonds. In all, about 2/3 of ESI's assets were collateralised, directly or indirectly. About 26% of ESI's assets are unsecured claims, the majority of them against financial institutions in

winding-up proceedings. Other assets are cash and cash equivalents, claims against the Treasury, or claims against issuers with a Treasury guarantee.

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

Appendices to the Consolidated Annual Accounts

Central Bank of Iceland

Profit and Loss Account for the year 2014

	2014	2013
Interest income		
From domestic assets	14,271,848	17,867,108
From foreign assets	6,838,704	6,495,539
	<u>21,110,553</u>	<u>24,362,648</u>
Interest expense		
From domestic liabilities	(17,742,382)	(17,667,123)
From foreign liabilities	(2,706,684)	(3,268,051)
	<u>(20,449,066)</u>	<u>(20,935,174)</u>
Net interest income	661,487	3,427,473
Operating revenues		
Service revenues	330,262	400,698
Service expenses	(209,517)	(181,781)
Withdrawn banknotes	(196)	0
Revenues from shareholdings	40,122	62,751
Revaluation of foreign securities	2,746,937	(6,186,528)
Revaluation of gold	(120,397)	(3,672,694)
Exchange rate gains on foreign exchange transactions	332,693	887,584
	<u>3,119,905</u>	<u>(8,689,970)</u>
Net operating revenues/expenses	3,781,391	(5,262,497)
Operating expenses		
Salaries and related expenses	(1,942,005)	(1,832,733)
Other operating expenses	(789,140)	(819,136)
Expense due to banknotes and coin	(68,389)	(312,405)
Depreciation of property and equipment	(83,585)	(86,805)
Collateralised loans written off	0	(558)
	<u>(2,883,119)</u>	<u>(3,051,637)</u>
Share in earnings of subsidiaries	4,846,451	14,731,581
Profit w/o exchange rate differences and transfer to Treasury	5,745,030	6,417,447
Exchange rate difference	5,474,918	(8,193,428)
Profit (loss) w/o transfer to Treasury	11,219,641	(1,775,981)
Transfer to the Treasury	0	(6,516,660)
Profit (loss) for the year	<u>11,219,641</u>	<u>(8,292,641)</u>

Balance Sheet 31 December 2014

	2014	2013
Assets		
Gold	9,597,822	8,816,672
Foreign assets	517,190,820	475,481,370
FX balance with the IMF	3,447,240	3,326,298
Domestic financial assets	392,315,525	486,184,754
Fixed operational assets	4,560,503	4,599,982
Other assets	30,173,904	25,367,781
	<u>957,285,815</u>	<u>1,003,776,855</u>
Equity and liabilities		
Capital	83,501,000	57,501,000
Uncalled capital	(52,000,000)	0
Value adjustment reserve	9,313,826	0
Real estate revaluation	4,348,056	4,397,000
Other equity	29,863,773	27,909,014
Equity	<u>75,026,655</u>	<u>89,807,014</u>
Banknotes and coin	49,955,315	47,015,508
Foreign debt	45,678,267	123,016,341
Counterpart to IMF	20,621,220	19,898,237
Deposits of financial institutions	69,016,442	77,168,373
Other deposits	582,536,925	495,643,424
Domestic financial liabilities	113,197,784	141,078,441
Pension obligations	255,427	316,448
Other liabilities	997,780	3,316,410
Unpaid transfer to Treasury	0	6,516,660
Liabilities	<u>882,259,160</u>	<u>913,842,633</u>
Equity and liabilities	<u>957,285,815</u>	<u>1,003,776,855</u>

Amounts are in ISK thousands.

Central Bank of Iceland Holding Company ehf. (ESÍ)

Profit and Loss Account for the year 2014

	2014	2013
Interest income	8,865,391	18,284,165
Interest expense	(3,338,112)	(6,501,047)
Net interest income	5,527,279	11,783,118
Service revenues	279,362	182
Salaries and related expenses	(215,041)	(72,439)
Revenues from shareholdings	73	2,912
Value adjustment in securities	2,212,116	20,876,141
Other operating expenses	(371,190)	(271,201)
Impairment of claims	(253,466)	(8,036,204)
Service expenses	(469,020)	(360,175)
	1,182,834	12,139,217
Profit w/o exchange rate difference	6,710,113	23,922,335
Exchange rate difference	710,193	(4,056,731)
Profit before tax	7,420,306	19,865,604
Income tax	(2,686,546)	(5,374,563)
Profit for the year	4,733,760	14,491,042

Balance Sheet 31 December 2014

	2014	2013
Assets		
Fixed assets		
Equity shareholdings	292,256	624,742
Bond holdings and other long-term claims	123,729,569	171,058,889
Collateralised claims against financial institutions in winding-up proceedings	24,199,333	23,006,419
General claims against financial institutions in winding-up proceedings	34,122,479	34,122,479
Appropriated assets	9,725,128	11,488,826
Deferred tax assets	1,264,992	3,742,341
	<u>193,333,756</u>	<u>244,043,696</u>
Current assets		
Marketable securities	7,310,100	7,449,060
Other current receivables	4,649,372	19,300,773
Bank deposits	3,725,409	24,177,746
	<u>15,684,881</u>	<u>50,927,579</u>
Assets	<u>209,018,637</u>	<u>294,971,275</u>
Equity and liabilities		
Equity		
Share capital	1,001	1,001
Statutory reserves	250	250
Retained earnings	29,064,126	24,330,366
	<u>29,065,377</u>	<u>24,331,617</u>
Long-term liabilities		
Debt to related parties	179,537,390	250,497,662
Deferred tax liabilities	1,466	0
	<u>179,538,856</u>	<u>250,497,662</u>
Current liabilities		
Unpaid tax	186,396	2,103,356
Other liabilities	228,007	18,038,640
	<u>414,403</u>	<u>20,141,996</u>
Liabilities	<u>179,953,260</u>	<u>270,639,658</u>
Equity and liabilities	<u>209,018,637</u>	<u>294,971,275</u>

Amounts are in ISK thousands.

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Profit and Loss Account for the year 2014

	2014	2013
Operating revenues	915,063	909,974
System operation	(490,498)	(448,252)
Salaries and related expenses	(170,957)	(153,209)
Other operating expenses	(64,801)	(55,716)
Depreciation	(114,192)	(150,376)
Profit before financial expenses	74,615	102,420
Financial income	35,940	34,064
Financial expenses	(5,123)	(9,246)
Capital gain on sales	0	103,732
Profit before tax	105,432	230,971
Income tax	(21,330)	(46,198)
Profit for the year	<u>84,102</u>	<u>184,773</u>

Balance Sheet 31 December 2014

	2014	2013
Assets		
Fixed assets		
Fixed operational assets	213,194	309,615
	<u>213,194</u>	<u>309,615</u>
Current assets		
Accounts receivable	120,253	105,749
Other current receivables	32,711	31,182
Cash and cash equivalents	812,503	728,764
	<u>965,467</u>	<u>865,696</u>
Assets	<u><u>1,178,661</u></u>	<u><u>1,175,311</u></u>
Equity and liabilities		
Share capital	20,000	20,000
Additional paid-in capital	108,240	108,240
Statutory reserves	5,000	5,000
Development account	602,749	450,000
Retained earnings	280,448	349,094
Equity	<u>1,016,436</u>	<u>932,334</u>
Long-term liabilities and obligations		
Debt to financial institutions	0	25,600
Debt to related parties	0	21,400
Deferred tax liabilities	18,543	36,523
	<u>18,543</u>	<u>83,523</u>
Current liabilities		
Accounts payable	18,474	49,827
Next year's instalments on long-term debt	47,000	47,000
Unpaid tax	39,309	29,849
Other current liabilities	38,898	32,778
	<u>143,682</u>	<u>159,454</u>
Liabilities	<u>162,225</u>	<u>242,977</u>
Equity and liabilities	<u><u>1,178,661</u></u>	<u><u>1,175,311</u></u>

Amounts are in ISK thousands.

APPENDICES

Press releases from the Central Bank of Iceland 2014

No. 1	14 January 2014	Domestic foreign exchange market and foreign exchange reserves 2013
– 2	4 February 2014	Results of foreign currency auction
– 3	5 February 2014	Central Bank of Iceland to hold foreign currency auction
– 4	12 February 2014	Statement of the Monetary Policy Committee 12 February 2014
– 5	3 March 2014	Underlying external position of the economy at the end of the fourth quarter of 2013
– 6	3 March 2014	Balance of payments in the fourth quarter of 2013 and the external position
– 7	18 March 2014	Results of foreign currency auctions
– 8	19 March 2014	Statement of the Monetary Policy Committee 19 March 2014
– 9	19 March 2014	Significant risk attached to use of virtual currency
– 10	19 March 2014	Public warning concerning virtual currency
– 11	31 March 2014	Central Bank of Iceland to hold foreign currency auction
– 12	14 May 2014	Results of foreign currency auctions
– 13	15 May 2014	Central Bank of Iceland to hold foreign currency auction
– 14	21 May 2014	Modifications to monetary policy instruments
– 15	21 May 2014	Statement of the Monetary Policy Committee 21 May 2014
– 16	3 June 2014	Balance of payments first quarter 2014 and external position
– 17	3 June 2014	The underlying external position at the end of the first quarter of 2014
– 18	11 June 2014	Central Bank resumes regular foreign currency purchases
– 19	11 June 2014	Statement of the Monetary Policy Committee 11 June 2014
– 20	17 June 2014	Rules on Foreign Exchange amended to mitigate the effects of halting unauthorised saving abroad
– 21	20 June 2014	Listing and sale of ESI assets postponed
– 22	24 June 2014	Results of foreign currency auctions
– 23	11 July 2014	Central Bank increases regular foreign currency purchases
– 24	15 July 2014	Central Bank of Iceland to hold foreign currency auction
– 25	15 August 2014	Már Gudmundsson re-appointed Governor of the Central Bank
– 26	20 August 2014	Statement of the Monetary Policy Committee 20 August 2014
– 27	26 August 2014	New international standards for economic statistics
– 28	28 August 2014	EFTA Court advisory opinion published
– 29	2 September 2014	Balance of payments in the second quarter of 2014 and the external position
– 30	2 September 2014	The underlying external position of the economy at the end of the second quarter of 2014
– 31	2 September 2014	Results of foreign currency auctions
– 32	11 September 2014	Agreement on insurance contracts providing for saving abroad; cf. the Rules on Foreign Exchange, no. 565/2014
– 33	1 October 2014	Statement of the Monetary Policy Committee 1 October 2014
– 34	3 October 2014	First meeting of Systemic Risk Committee
– 35	7 October 2014	New agreement on insurance contracts providing for saving abroad
– 36	5 November 2014	Statement of the Monetary Policy Committee 5 November 2014
– 37	24 November 2014	EFTA Court advisory opinion delivered
– 38	2 December 2014	Balance of payments in the third quarter of 2014 and the international investment position
– 39	2 December 2014	The underlying external position of the economy at the end of the third quarter of 2014
– 40	4 December 2014	New rules on commercial banks' foreign currency funding ratios
– 41	4 December 2014	Central Bank grants LBI hf. an exemption for payments to priority creditors following agreement amending Landsbankinn-LBI bond
– 42	5 December 2014	Financial Supervisory Authority and Central Bank of Iceland renew cooperation agreements

- No. 43 9 December 2014 Central Bank of Iceland to hold foreign currency auction
- 44 10 December 2014 Statement of the Monetary Policy Committee 10 December 2014
 - 45 19 December 2014 Prepayment of IMF loan
 - 46 19 December 2014 Amended Terms of Auction for the purchase of Icelandic krónur by the Central Bank of Iceland in exchange for foreign currency

Publications by the Central Bank of Iceland 2014

In Icelandic:

Ársskýrsla 2013.

Fjármálastöðugleiki 2014, two issues.

Peningamál 2014, four issues.

Fjármálainnviðir 2014.

Hagvísar 2014, five issues.

Upplýsingarit 4: Könnun á verðbréfaeign í árslok 2013, August 2014.

Upplýsingarit 5: Nýir staðlar greiðslujafnaðar og erlendrar stöðu þjóðarbúsins, September 2014.

In English:

Annual Report 2013.

Financial Stability 2014, two issues.

Monetary Bulletin 2014, four issues.

Economic Indicators 2014, five issues.

Economy of Iceland 2014.

Informational report 5: New standards for statistics on the balance of payments and international investment position, September 2014.

Central Bank of Iceland Working Papers No. 65, Should Icelandic pensions funds hedge currency risk in their foreign investments?, by Ásgeir Danielsson (August 2014).

Central Bank of Iceland Working Papers No. 66, Icelandic boom and bust: Immigration and the housing market, by Lúdvík Elíasson (November 2014).

Central Bank of Iceland Working Papers No. 67, A Dynamic Factor Model for Icelandic Core Inflation, by Bjarni G. Einarsson (November 2014).

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

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Table 1 Central Bank interest rates¹

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

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

Table 2 Exchange rate indices

	Narrow trade index ¹	Average exchange rate index ²			Real exchange rate ³			
		Average	Import weights	Export weights	Relative prices		Relative unit labour cost	
					Index	% change	Index	% change
2000	101,5	96,1	96,3	95,7	100,0	3,9	100,0	1,7
2001	121,4	115,4	115,1	115,3	87,3	-12,7	86,4	-13,6
2002	118,5	112,0	111,7	112,0	91,8	5,1	89,5	3,6
2003	113,4	105,3	104,8	105,4	96,0	4,6	94,8	6,0
2004	112,1	103,1	102,4	103,5	98,1	2,2	90,5	-4,5
2005	100,8	92,6	91,9	93,0	111,4	13,5	104,4	15,3
2006	112,7	103,4	102,6	104,0	104,2	-6,5	102,0	-2,3
2007	110,9	100,9	99,9	101,5	108,6	4,2	106,1	4,0
2008	157,3	141,9	140,9	142,4	85,5	-21,3	79,4	-25,2
2009	210,6	190,9	189,9	191,3	69,9	-18,2	57,1	-28,0
2010	204,0	185,0	184,4	185,0	74,5	6,5	64,2	12,3
2011	204,5	183,5	183,0	183,3	75,2	1,0	66,0	2,8
2012	209,1	189,0	188,6	188,8	75,9	0,8	67,9	2,9
2013	206,5	186,3	185,9	186,1	78,8	3,9	71,1	4,7
2014	195,1	177,2	176,2	177,5	84,2	6,9	79,6	12,0

1. The index shows the average exchange rate of foreign currencies against the Icelandic króna. 31 December 1991 = 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.

Table 3 Banknotes and coin in circulation by denomination

	2010		2011		2012		2013		2014	
	ISK thousands	%	ISK thousands	%	ISK thousands	%	ISK thousands	%	ISK thousands	%
<i>Notes:</i>										
10,000 kr.	.	.	.	.	.	.	5,535,000	12.5	13,197,500	28.1
5,000 kr.	31,402,500	87.4	35,558,500	87.3	37,138,500	87.3	33,311,000	75.3	28,156,000	59.9
2,000 kr.	618,000	1.7	699,000	1.7	389,000	0.9	294,000	0.7	260,000	0.6
1,000 kr.	2,896,500	8.1	3,366,500	8.3	3,826,000	9.0	3,927,000	8.9	4,216,500	9.0
500 kr.	994,500	2.8	1,095,500	2.7	1,180,250	2.8	1,178,750	2.7	1,210,750	2.6
Total	35,911,500	100.0	40,719,500	100.0	42,533,750	100.0	44,245,750	100.0	47,040,750	100.0
<i>Coin:</i>										
100 kr.	1,359,600	57.7	1,435,600	57.8	1,519,600	58.3	1,624,600	58.7	1,730,600	59.4
50 kr.	412,390	17.5	436,390	17.6	453,890	17.4	482,890	17.4	494,940	17.0
10 kr.	392,920	16.7	413,720	16.6	429,320	16.5	450,120	16.3	471,850	16.2
5 kr.	97,934	4.2	100,934	4.1	103,434	4.0	107,434	3.9	110,149	3.8
1 kr.	95,134	4.0	98,502	4.0	102,054	3.9	104,714	3.8	107,026	3.7
Total	2,357,978	100.0	2,485,146	100.0	2,608,298	100.0	2,769,758	100.0	2,914,565	100.0

Table 4 Summary of the accounts of deposit money banks¹

<i>M.kr. at year-end</i>	2008	2009	2010	2011	2012	2013	2014
<i>Assets:</i>							
Domestic assets, total	3,555,280	2,671,044	2,481,279	2,579,487	2,585,136	2,624,987	2,625,207
Cash and cash balances with Central Bank	206,586	132,705	117,766	121,303	159,955	184,106	139,048
Receivables on domestic institutions	286,587	170,178	80,811	27,385	20,002	14,817	25,832
Domestic credit	2,194,381	2,100,844	2,068,280	2,174,111	2,181,084	2,203,029	2,296,493
Lending ²	1,964,101	1,679,011	1,704,285	1,792,326	1,811,979	1,893,551	1,959,681
Redeemed liabilities	894	2,090	2,016	531	270	176	233
Overdrafts	139,331	145,122	149,462	152,939	164,152	175,938	173,987
Bills	35,973	1,772	840	386	186	116	63
Nominal bonds	198,815	250,696	331,278	547,619	573,398	644,576	714,586
Indexed bonds	534,939	511,864	531,305	701,849	754,446	791,582	750,678
Foreign currency-linked bonds	1,302,065	974,854	866,281	466,220	404,830	326,455	343,487
Foreign currency-linked overdrafts	59,169	31,684	31,909	26,209	19,023	19,550	20,828
Provisions	-337,458	-265,360	-236,442	-133,816	-140,795	-103,565	-83,107
Leasing contracts	30,374	26,291	27,637	30,388	36,471	38,723	38,926
Debt instruments	187,816	410,690	353,616	345,054	333,885	266,856	272,976
Treasury bills	42,464	11,142	10,379	36,731	35,219	42,623	63,836
Equities	90,461	14,078	1,508	1,245	1,066	2,390	2,150
Derivatives	11,487	12,868	8,324	14,575	13,817	24,200	9,462
Share in associates	213,816	106,606	92,566	118,830	124,419	112,318	92,231
Share in affiliated undertakings	551,962	133,766	112,024	122,038	84,793	84,126	59,991
Other assets	630,592	287,161	284,134	358,326	376,612	450,366	392,888
Foreign assets, total ³	399,904	136,662	133,893	183,755	191,714	266,851	244,829
Foreign credit and equities	329,293	92,502	87,229	98,849	103,051	102,346	109,688
Foreign lending	28,786	40,134	43,350	81,593	83,331	163,054	133,415
Marketable bonds and bills	41,825	4,026	3,314	3,313	5,332	1,451	1,726
Equities	25,131	68,730	87,921	102,800	73,231	94,099	51,360
Foreign receivables	1,524	962	23	315	1,227	864	883
Derivatives	0	0	1,367	0	3,945	0	0
Share in associates	138,744	25,523	2,528	1,726	1,914	1,320	1,051
Share in affiliated undertakings	65,289	55,285	58,401	69,729	104,580	87,232	94,765
Assets, total	4,185,871	2,958,205	2,765,413	2,937,813	2,961,748	3,075,353	3,018,095
<i>Liabilities:</i>							
Domestic liabilities, total	3,085,262	2,336,998	2,142,689	2,339,553	2,331,681	2,380,694	2,274,603
Central Bank facilities	358,916	12,997	41,844	0	12,508	0	0
Deposits of residents, total	1,605,801	1,582,868	1,414,301	1,535,835	1,491,176	1,554,159	1,614,104
Current accounts	492,711	450,351	430,042	436,730	385,894	386,688	388,041
Current accounts in foreign currency	29,540	37,837	40,969	30,002	42,363	58,709	53,395
Money market rate accounts	109,537	190,901	119,053	110,023	101,575	121,725	142,650
Sight deposits	372,798	360,044	341,679	321,398	290,977	283,051	293,446
Indexed deposits	255,554	227,133	213,420	223,018	219,437	210,213	191,708
Holiday pay accounts	7,492	6,745	6,733	7,462	7,922	8,446	9,157
Supplementary pension deposits	62,302	74,057	80,769	86,327	89,010	93,750	99,948
Other time deposits	108,569	98,009	95,441	143,685	200,273	223,332	207,126
Foreign currency accounts	167,298	137,792	86,195	177,190	153,726	168,245	228,632
Deposits from credit institutions	171,038	172,741	144,117	66,198	70,418	133,816	43,096
Bond issue	87,238	19,643	7,557	134,623	150,962	179,333	177,101
Subordinated loans	31,066	33,208	48,846	55,358	58,966	55,129	54,228
Direct borrowing	552,492	434,162	404,194	450,992	418,802	332,612	289,195
Derivatives	5,520	2,251	1,267	5,363	8,017	3,098	4,714
Other liabilities ³	273,191	79,128	80,563	91,183	120,831	122,546	92,164
Foreign liabilities, total	731,539	311,467	207,607	153,335	121,549	143,927	149,098
Deposits from foreign credit institutions	203,429	180,259	160,489	107,438	63,451	57,966	46,857
Deposits from foreign parties, other than credit institutions	103,706	80,729	45,850	44,205	57,786	67,362	64,785
Derivatives	11,564	0	807	1,692	142	128	125

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

M.kr. at year-end	2008	2009	2010	2011	2012	2013	2014
Bond issue	0	0	0	0	0	18,294	37,262
Subordinated loans	17,046	0	0	0	0	0	0
Direct borrowing	395,787	50,340	0	0	0	0	0
Other foreign liabilities	8	140	462	0	170	177	69
Total equity and minority interest	369,070	309,740	415,117	444,925	508,519	550,732	594,395
Total liabilities and equity	4,185,871	2,958,205	2,765,413	2,937,813	2,961,748	3,075,353	3,018,095

1. The latest data are preliminary. The data represent only DMBs that are operating at any given time. 2. In these figures, the loans of Arion Banki hf., Íslandsbanki hf., and NBI hf. are assessed at purchase value; that is, the price at which these parties purchased the loan portfolio from Kaupthing Bank hf., Glitnir Bank hf., and Landsbanki Íslands hf. The purchase value is the amount that is expected to be collected on the loans. The value of the loan portfolio therefore does not reflect customers' debt position. The loan portfolios are revalued on a regular basis and could lead to an increase or decrease in the value of specific loans. 3. Foreign party means that the counterparty is a non-resident according to the Foreign Exchange Act. no. 87/1992.

Table 5 Summary of the accounts of the banking system¹

M.kr. at year-end	2008	2009	2010	2011	2012	2013	2014
Foreign assets, total ²	1,060,082	772,292	950,570	1,405,795	916,558	937,990	923,079
Foreign credit and equities	619,363	375,267	358,529	459,558	605,294	704,788	728,229
Other foreign assets	440,720	397,025	592,041	946,237	311,264	233,203	194,850
Foreign liabilities, total ²	999,381	515,456	487,820	553,122	315,197	316,281	238,136
Foreign bond issue	0	0	0	0	0	18,294	37,262
Other foreign liabilities	999,381	515,456	487,820	553,122	315,197	297,986	200,874
Domestic assets, total	3,571,505	3,195,101	2,927,099	2,995,865	2,944,978	2,950,078	2,933,837
Domestic credit ³	2,480,809	2,269,375	2,241,808	2,369,138	2,369,260	2,385,342	2,478,200
Treasury and Government institutions	273,890	168,440	173,383	194,197	188,434	181,395	155,344
Municipalities	11,019	11,067	18,857	16,971	14,945	12,257	16,357
Non-bank financial companies	34,618	14,330	12,549	142,280	144,179	138,385	115,407
Companies	1,245,311	1,162,071	1,128,607	1,038,041	1,040,562	1,001,098	1,043,664
Households	593,789	527,238	545,529	535,928	607,084	694,204	742,849
Holding companies	425,824	226,200	231,157	186,978	141,465	149,237	124,113
Other	233,815	425,390	368,168	388,558	373,386	312,330	363,574
Provisions	-337,458	-265,360	-236,442	-133,816	-140,795	-103,565	-83,107
Derivatives	90,461	14,078	1,508	1,245	1,066	2,390	2,150
Share in associates	11,487	12,868	8,324	14,575	13,817	24,200	9,462
Share in affiliated undertakings	213,816	106,606	92,566	118,830	124,419	112,318	92,231
Other domestic assets	774,932	792,175	582,892	492,078	436,416	425,828	351,794
Bond money and bonds (M4)	1,713,390	1,628,236	1,456,524	1,709,849	1,683,001	1,775,109	1,835,232
Domestic bond issue	87,238	19,643	7,557	134,623	150,962	179,333	177,101
Broad money (M3)	1,626,153	1,608,593	1,448,967	1,575,226	1,532,038	1,595,776	1,658,132
Time deposits	543,454	596,845	515,416	570,516	618,216	657,467	650,589
Money and sight deposits (M2)	1,082,699	1,011,747	933,550	1,004,710	913,822	938,309	1,007,542
Sight deposits	540,097	497,835	427,874	498,588	444,703	451,295	522,079
Money supply (M1)	542,602	513,912	505,677	506,122	469,119	487,014	485,464
Demand deposits	522,250	488,187	471,011	466,731	428,257	445,397	441,436
Banknotes and coin in circulation	20,352	25,725	34,666	39,391	40,862	41,617	44,028
Other domestic liabilities	1,918,816	1,823,702	1,933,325	2,138,689	1,863,339	1,796,679	1,783,548
Equity	451,448	392,618	484,496	528,702	606,618	640,539	690,727
Other domestic liabilities n.i.e.	1,467,369	1,431,083	1,448,829	1,609,987	1,256,720	1,156,140	1,092,821

1. The latest data are preliminary. The data only represent DMBs that are operating at each time. 2. Foreign party means that the counterpart is non-resident, according to Act on foreign exchange (No. 87/1992). 3. In these figures, the loans of Arion Banki hf., Íslandsbanki hf., and NBI hf. are assessed at purchase value; that is, the price at which these parties purchased the loan portfolio from Kaupthing Bank hf., Glitnir Bank hf., and Landsbanki Íslands hf. The purchase value is the amount that is expected to be collected on the loans. The value of the loan portfolio therefore does not reflect customers' debt position. The loan portfolios are revalued on a regular basis, and could lead to an increase or decrease in the value of specific loans.

Table 6 Liquidity and reserve ratios in %¹

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

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>Non-indexed loans</i>	<i>Indexed loans</i>	<i>Penalty rates</i>	<i>General interest damage claims</i>
1 January 2014	6.75	3.50	13.00	4.50
1 February 2014	6.75	3.50	13.00	4.50
1 March 2014	6.75	3.50	13.00	4.50
1 April 2014	6.75	3.50	13.00	4.50
1 May 2014	6.75	3.50	13.00	4.50
1 June 2014	6.75	3.50	13.00	4.50
1 July 2014	6.75	3.50	13.00	4.50
1 August 2014	6.75	3.50	13.00	4.50
1 September 2014	6.75	3.50	13.00	4.50
1 October 2014	6.75	3.50	13.00	4.50
1 November 2014	6.75	3.50	13.00	4.50
1 December 2014	6.50	3.50	12.75	4.33
Average 2014	6.73	3.50	12.98	4.49
Average 2013	6.75	3.54	13.00	4.50

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

	<i>Non-indexed loans¹</i>		<i>Indexed loans¹</i>		<i>Penalty rates</i>		<i>Credit terms index, 12-month change³</i>
	<i>Nominal²</i>	<i>Real</i>	<i>Nominal²</i>	<i>Real</i>	<i>Nominal²</i>	<i>Real</i>	
2003	12.0	9.0	12.0	9.1	17.2	14.1	2.7
2004	12.2	8.0	12.3	8.0	17.3	12.8	3.9
2005	14.8	10.2	11.6	7.2	20.3	15.5	4.2
2006	17.8	10.2	14.6	7.1	22.5	14.6	6.9
2007	19.3	12.7	15.2	8.9	25.0	18.1	5.9
2008	20.5	3.6	28.1	10.1	25.8	8.1	16.4
2009	16.4	7.1	17.3	8.0	21.2	11.6	8.6
2010	10.4	7.6	9.1	6.4	15.1	12.1	2.6
2011	7.7	2.4	11.7	6.1	11.4	5.9	5.2
2012	8.2	3.5	10.6	5.8	12.4	7.5	4.5
2013	8.2	4.4	9.1	5.3	13.0	9.0	3.7
2014	7.8	6.7	6.4	5.3	13.0	11.8	1.0

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

Table 9 Balance Sheet of the Central Bank of Iceland¹

M.kr.	Year-end					
	2008	2009	2010	2011	2012	2013
Assets:	1,187,460	1,178,082	1,328,240	1,585,775	1,074,954	1,003,777
<i>Foreign assets</i>	429,491	485,131	666,436	1,047,469	539,947	487,624
Gold	6,653	8,664	10,426	12,249	13,757	8,817
SDR	53	18,161	13,079	87,295	1,767	953
Currency balance with the IMF	3,462	3,649	3,322	3,525	3,710	3,326
Foreign deposits	207,257	222,894	420,098	672,144	113,242	42,578
Foreign securities	211,855	231,574	217,821	272,072	407,286	431,765
Other reserve assets	...	...	...	...	...	...
Other foreign assets	211	190	1,690	184	184	184
<i>Domestic assets</i>	757,969	692,952	661,804	538,306	535,007	516,153
<i>Deposit money banks</i>	466,540	28,869	90,037	4,312	17,792	53,327
Other claims	231,024	6,722	0	0	0	0
Collateralised loans	72,352	9,249	40,825	0	12,346	0
Overnight loans	37,982	1,700	995	0	0	0
Other claims in foreign currency	125,181	11,197	48,217	4,312	5,446	53,327
<i>Other financial institutions</i>	16,423	3,133	3,004	3,122	3,050	2,782
Listed securities	2,757	3,133	3,004	3,122	3,050	2,782
Collateralised loans	13,666	0	0	0	0	0
<i>Central Government</i>	270,005	165,398	170,525	191,905	185,126	179,531
Listed securities	0	0	0	18,582	13,965	7,192
Bonds receivable	270,005	165,398	170,525	173,323	171,161	172,339
<i>Other sectors</i>	117	490,665	393,125	334,320	324,423	275,912
Sundry accounts	117	0	93	349	436	208
Equity holdings	0	2	1,509	4,688	10,475	25,207
Securities	0	490,663	391,524	329,283	313,512	250,498
<i>Properties</i>	4,470	4,420	4,370	4,320	4,270	4,226
<i>Other assets</i>	413	467	743	327	344	374
Liabilities and capital:	1,187,460	1,178,082	1,328,240	1,585,775	1,074,954	1,003,777
<i>Foreign liabilities</i>	267,842	203,989	280,213	399,787	193,648	172,353
Short-term	160,262	36,752	67,004	37,043	35,942	29,845
Long-term	104,521	145,266	193,238	341,604	135,492	122,610
IMF SDR allocation	3,058	21,970	19,971	21,141	22,214	19,898
<i>Domestic liabilities</i>	837,240	891,215	978,648	1,102,211	783,206	741,617
<i>Banknotes and coin</i>	24,436	28,958	38,269	43,205	45,142	47,016
<i>Deposit money banks</i>	378,743	152,664	170,537	118,114	158,377	185,662
Sight deposits	90,618	87,607	55,660	31,286	53,215	51,643
Time deposits	0	6,657	0	0	0	0
Certificates of deposit	167,600	29,702	60,957	70,015	100,658	126,689
Other claims	16,519	9,409	47,903	0	0	77
Sight deposits in foreign currency	104,005	19,290	6,017	16,813	4,504	7,253
<i>Other financial institutions</i>	22,008	245,418	316,915	358,224	42,334	48,020
Sight deposits	4,415	36,081	36,916	13,898	14,887	18,273
Time deposits	0	0	0	0	0	0
Certificates of deposit	9,827	0	4,505	8,511	4,716	6,420
Sight deposits in foreign currency	7,766	56,196	22,515	157,557	13,832	14,133
Time deposits in foreign currency	0	153,142	252,979	178,258	8,899	9,194
<i>Central Government</i>	403,246	446,668	424,648	528,816	489,189	404,706
Treasury current accounts	168,723	166,050	130,050	143,851	141,052	88,022
Government institutions, current accounts	895	282	1,427	1,111	1,068	2,157
Treasury sight deposits in foreign currency	2,376	49,129	175,842	376,466	338,491	306,636
Treasury time deposits in foreign currency	169,404	179,998	106,328	7,388	8,578	7,891
Time deposits	61,849	51,210	11,000	0	0	0
<i>Other liabilities</i>	8,807	17,507	28,279	53,852	48,163	56,213
<i>Capital and reserves</i>	82,378	82,878	69,379	83,777	98,100	89,807

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

<i>End of month 2014</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>
1,019,164	1,011,372	985,758	957,450	966,233	969,972	975,348	1,007,341	1,027,239	1,028,004	1,037,777	957,286
502,754	495,727	468,398	468,459	476,618	480,712	502,342	533,608	551,475	557,086	565,936	530,236
9,197	9,518	9,230	9,249	9,007	9,562	9,428	9,580	9,350	9,126	9,219	9,598
955	488	488	1,827	1,394	1,398	1,413	971	986	1,437	999	1,014
3,333	3,266	3,267	3,263	3,264	3,272	3,308	3,320	3,372	3,377	3,395	3,447
46,672	44,596	34,342	41,462	53,319	43,534	55,879	49,671	51,108	55,418	41,731	35,375
438,352	435,426	420,860	412,441	409,412	422,761	432,130	458,713	479,447	485,086	510,339	480,514
0	0	26	31	38	0	0	0	38	2,457	69	104
4,245	2,432	184	184	184	184	184	11,353	7,175	184	184	184
516,409	515,645	517,360	488,992	489,615	489,260	473,006	473,733	475,764	470,918	471,841	427,050
53,365	52,485	52,512	52,226	52,491	52,855	53,118	53,717	55,346	55,000	55,490	57,048
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0
53,365	52,485	52,512	52,226	52,491	52,855	53,118	53,717	55,346	55,000	55,490	57,048
2,628	2,524	2,515	2,453	2,449	2,443	2,433	2,354	2,352	2,335	2,341	2,342
2,628	2,524	2,515	2,453	2,449	2,443	2,433	2,354	2,352	2,335	2,341	2,342
0	0	0	0	0	0	0	0	0	0	0	0
179,195	179,810	180,737	179,359	179,346	178,909	179,007	179,108	179,189	179,079	179,243	153,362
7,248	7,194	7,377	7,413	7,391	6,963	7,030	7,124	7,215	7,074	7,302	7,374
171,947	172,617	173,360	171,947	171,956	171,946	171,977	171,984	171,974	172,005	171,941	145,989
276,603	276,208	276,977	250,334	250,711	250,434	233,828	233,932	234,254	229,881	230,144	209,737
176	131	53	53	54	51	42	47	4,540	41	30	146
25,207	25,207	25,207	25,207	25,207	25,207	25,207	25,207	25,207	25,207	25,207	30,053
251,221	250,870	251,717	225,074	225,449	225,176	208,579	208,678	204,507	204,633	204,907	179,537
4,226	4,226	4,226	4,226	4,226	4,226	4,226	4,226	4,226	4,226	4,226	4,178
391	392	392	393	393	393	393	397	397	397	397	382
1,019,164	1,011,372	985,758	957,450	966,233	969,972	975,348	1,007,341	1,027,239	1,028,004	1,037,777	957,286
175,822	168,125	166,929	165,358	162,271	165,937	135,725	148,185	144,996	138,806	138,941	89,066
33,191	28,245	27,041	25,371	22,752	26,101	25,225	37,551	32,498	26,004	25,811	24,658
122,693	120,341	120,346	120,463	119,992	120,260	90,711	90,771	92,327	92,601	92,819	43,787
19,938	19,540	19,542	19,524	19,527	19,575	19,788	19,863	20,171	20,200	20,311	20,621
751,744	753,944	730,043	702,673	714,333	713,879	749,104	768,079	789,469	796,363	804,031	793,194
44,847	45,061	44,874	45,166	45,862	47,040	48,226	48,454	47,169	47,396	47,542	49,955
213,769	199,215	204,990	191,493	181,836	183,462	182,065	181,091	212,660	211,727	170,356	133,546
49,163	38,776	34,533	32,920	40,983	33,412	37,723	37,226	47,380	52,760	26,009	31,372
0	0	0	0	69,961	147,177	141,817	141,403	163,107	157,002	142,842	100,602
156,820	158,035	168,459	156,894	68,183	0	0	0	0	0	0	0
0	545	466	561	465	437	78	0	0	0	0	0
7,785	1,858	1,532	1,118	2,244	2,437	2,448	2,462	2,173	1,965	1,505	1,572
46,784	45,841	52,354	51,814	60,237	64,137	71,519	75,897	59,359	56,257	65,806	65,070
19,735	19,319	20,211	16,788	26,309	27,392	34,669	45,639	30,256	26,771	37,659	36,072
0	0	0	0	7,603	13,644	13,557	6,918	5,524	5,922	4,467	5,059
3,704	3,506	9,117	11,968	3,312	0	0	0	0	0	0	0
14,105	13,979	13,992	14,018	13,836	13,866	13,903	13,888	13,848	13,829	13,873	13,909
9,241	9,037	9,034	9,041	9,178	9,235	9,391	9,452	9,730	9,735	9,807	10,030
385,796	405,011	369,612	373,540	388,899	383,884	410,697	421,105	430,119	444,087	480,894	514,287
68,654	95,101	57,978	62,201	77,300	73,018	62,335	70,397	70,985	83,780	116,386	143,215
2,199	2,067	2,720	3,298	3,059	1,809	2,398	2,545	2,628	2,703	2,674	2,735
307,259	300,075	301,116	300,265	300,695	301,193	338,061	340,356	348,744	350,146	354,259	360,885
7,684	7,768	7,797	7,776	7,844	7,865	7,903	7,808	7,761	7,458	7,575	7,452
0	0	0	0	0	0	0	0	0	0	0	0
60,548	58,818	58,212	40,660	37,499	35,356	36,596	41,531	40,163	36,896	39,433	30,335
91,597	89,303	88,785	89,420	89,630	90,156	90,520	91,078	92,774	92,836	94,804	75,027