



7 April 2011

Address

by Lára V. Júlíusdóttir, Chairman of the Supervisory Board, at the Annual General Meeting of the Central Bank of Iceland, 7 April 2011

Mr. President; Madame Prime Minister; honourable Ministers, Governors, and Ambassadors; Ladies and Gentlemen:

On behalf of the Supervisory Board, I welcome you all to this 50th Annual General Meeting of the Central Bank of Iceland, and I declare the meeting convened.

As you all surely know, we are combining the conventional Annual General Meeting agenda and a special programme commemorating the 50th anniversary of the Central Bank of Iceland's operation as an independent institution. It is my particular pleasure to see that three former Chairmen of the Bank's Board of Governors are here with us today: Jóhannes Nordal, Jón Sigurðsson, and Birgir Ísleifur Gunnarsson, who led the Central Bank for a total of 42 years.

As is customary, I will review the highlights of the Bank's Annual Report and balance sheet, and then Governor Már Guðmundsson will address the meeting, followed by the Minister of Economic Affairs, who confirmed the Bank's annual accounts for 2010 with his signature on 30 March. That will conclude today's conventional Annual General Meeting agenda, which is much shorter than usual, and then our special programme will begin. When the programme has concluded, the Central Bank invites guests to attend a reception in the Bank lobby.

The Bank's *Annual Report* for 2010 will be published today. Central banking operations are more complex and varied than may people suspect, and the Annual Report provides a glimpse of the diverse activities taking place within the Bank.

The Central Bank is responsible for monetary policy. The implementation of monetary policy is grounded in extensive research and forecasting, and the Monetary Policy Committee bases its decisions on this analysis, which is published in the Bank's Monetary Bulletin four times a year. The Central Bank is also responsible for promoting a safe and efficient financial system. To that end, it evaluates the position of both credit institutions and financial markets and presents that analysis in its Financial Stability report, which is published twice a year. Payment intermediation is an important part of this task. The Central Bank invests the foreign exchange reserves and advises the Government

on foreign exchange issues, as well as undertaking domestic and foreign borrowing on the Government's behalf.

The Central Bank collects a large amount of statistical data, conducts domestic and foreign market transactions, issues banknotes and coin, carries out accounting, runs back office operations, advises other authorities on various topics, and communicates with domestic and foreign institutions. Furthermore, various new functions have developed in recent years. The Capital Controls Surveillance Unit, for example, is a new department with extensive operations. As a result of the banking collapse, the Central Bank has acquired considerable assets that require administration and disposal. Two separate subsidiaries were established for these tasks: the Central Bank of Iceland Holding Company and the asset management company Sölvhóll. Towards the end of the year a third subsidiary was added – Greiðsluveitan, which operates Iceland's payment intermediation system.

I would now like to turn to the operating results of the Central Bank and its subsidiaries.

According to its profit and loss account, the Bank recorded a loss of 13.5 billion krónur in 2010. Two factors are the primary cause of this: a 6.9 b.kr. loss due to exchange rate differences, and a 5.7 b.kr. loss due to operational items. The remainder is attributable to 900 m.kr. in income tax on the subsidiaries' profits.

Because it holds the foreign exchange reserves, the Bank is affected by exchange rate movements. The larger the reserves, the greater the impact. The Central Bank's foreign exchange reserves are at a historical high as a result of the Government-IMF programme, and this makes its mark on the Bank's operating results. During the year, the króna appreciated markedly, which is good news for economic and monetary policy but generated exchange rate losses in the amount of 7 billion krónur.

Among operational items, depreciation in the amount of 21.3 b.kr. is most prominent, but it is offset by 12.8 b.kr. in net interest income and 4.9 b.kr. in other operating revenues. These results are still coloured by the banking collapse, as the depreciation for the year is largely due to assets held by the Central Bank of Iceland Holding Company. In addition, the necessity of maintaining relatively high interest rates on certificates of deposit in order to implement monetary policy plays an important role in the parent company's negative interest rate differential, which amounted to some 5.5 billion krónur.

In short, it can be said that last year's negative operating performance is due to depreciation of crash-related assets, efforts by monetary policy to strengthen the króna and control inflation, and the Bank's sizeable foreign exchange reserves.

The Bank's operating expenses declined by 10.8% year-on-year in spite of growing activity. Operating expenses as a percentage of the Bank's balance sheet have fallen by more than half in recent years, or from 0.34% in 2007 to 0.15% in 2010.

The Bank's equity totalled nearly 70 b.kr. at the end of 2010, as opposed to just over 82 b.kr. a year earlier, with the difference due to the loss for the year.

Honoured guests:

2010 was another eventful and demanding year for the Central Bank of Iceland. The Bank's operations are still profoundly affected by the turmoil accompanying the financial crisis. But a number of milestones have been reached, particularly as regards stability. The króna appreciated markedly in 2010, and inflation reached the Bank's inflation target towards the end of the year. A number of projects are pending, however, and there is considerable ground to cover before the Bank's operations can return to what one can refer to as normal.

Last year Gylfi Magnússon was replaced as Minister of Economic Affairs by Árni Páll Árnason. The Bank wishes to thank Gylfi for fruitful collaboration and to wish Árni Páll the greatest success in his endeavours. We look forward to working with him.

There were no changes in Supervisory Board personnel in 2010. Currently the Board comprises three women and four men. Because one Supervisory Board member lives abroad, his alternate often attends in his stead. On those occasions, the Board consists of four women and three men. It would have been unthinkable 50 years ago, when the Bank first began operation, that women could constitute a majority of the Supervisory Board. The first woman did not join the Board until 1994. The Supervisory Board held 13 meetings during the year. I would like to thank Board members for their collaboration and a job well done. I would also like to thank the Governors and the staff of the Bank for their extremely valuable contribution during the past year and for their excellent co-operation with the Supervisory Board. In closing, I wish to congratulate current and former staff members on the 50th anniversary of the Bank's operation.

And now I will turn the podium over to Governor Már Guðmundsson. Thank you.

