



## Annual Report 2009

# ANNUAL REPORT 2009

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Published by:

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Printing: Ísafoldarprentsmiðja

Reykjavík 2009

ISSN 0559-2712

**Symbols:**

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

# I Objectives and policy

The main objective of monetary policy is to promote price stability. The Act on the Central Bank of Iceland, no. 36/2001, with subsequent amendments, stipulates that the Bank's primary objective is to promote stable price levels. By agreement with the Minister of Economic Affairs, the Bank is authorised to declare a numerical inflation target. In the joint declaration by the Government of Iceland and the Central Bank of Iceland on March 27, 2001, an inflation target was set for the Bank; that is, a rate of inflation, measured as the twelve-month increase in the CPI, of as close to 2½% as possible.<sup>1</sup> Furthermore, the Act states that the Central Bank shall promote the implementation of the economic policy of the government as long as it does not regard this policy to be inconsistent with its main objective of price stability. The Bank shall also undertake such tasks as are consistent with its role as a central bank, such as maintaining external reserves and promoting an efficient and secure financial system, including payment systems domestically and with foreign countries. In other words, the Bank shall address tasks concerning financial stability. The Act also clarifies provisions on accountability, transparency of monetary policy, and the Bank's activities in general.<sup>2</sup>

Because of the extraordinary circumstances that developed after the banks' collapse in the fall of 2008, exchange rate stability became a key factor in the monetary policy devised jointly by the Icelandic Authorities and the International Monetary Fund (IMF). A stable exchange rate is conducive to stable price levels and protects indebted households and businesses. In this way, exchange-rate-centred monetary policy also promotes overall financial stability.

## Monetary policy

Monetary policy implementation is based on the Central Bank's inflation forecast, made over a horizon of three years. The forecast is published in the Bank's *Monetary Bulletin*, which is published four times a year, twice with updated forecasts. The Bank also publishes its own macroeconomic forecast and an in-depth analysis of economic and monetary developments and prospects, in addition to presenting its inflation forecast.

The amendment to the Central Bank Act passed in 2009 provided for the establishment of a monetary policy committee comprising five representatives. Among other tasks, the Monetary Policy Committee (MPC) takes decisions on the application of monetary policy instruments, whereas the three-member Board of Governors previously decided the policy interest rate. 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. The MPC adopted a set of Rules of Procedure<sup>3</sup> soon after it began operations. The Governor of the Central Bank of Iceland is the chairman of the

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1. The declaration was published in *Monetary Bulletin* 2001/2 and on the Bank's website. Minor changes were made to it in November 2005.  
2. The Bank's tasks and activities are further described in various sections of the present report.  
3. The Rules of Procedure for MPC meetings can be found on the Central Bank's website.

Monetary Policy Committee, which includes the Deputy Governor, a senior Bank officer in the field of monetary policy formulation, and two outside experts appointed by the Minister of Economic Affairs.

In 2009 there were 10 interest rate decision dates, four of which were also publication dates for *Monetary Bulletin*. The former Board of Governors made the first monetary policy decision, and the new Monetary Policy Committee made the other nine. Interest rate decision dates are announced in advance; however, the Committee is authorised to change the announced dates or add additional ones.

### Financial stability

The Central Bank seeks to have a constant, clear overview of the position of credit institutions and financial markets, and in its annual *Financial Stability* report, it publishes regular analyses of factors pertaining to financial stability. In addition, the Central Bank promotes an efficient and secure financial system by developing Icelandic payment and settlement systems in line with internationally recognised standards.

As authorised by law, the Central Bank has set rules on minimum liquidity of credit undertakings and on their foreign exchange balance. In special circumstances, when the Central Bank deems it necessary in order to preserve confidence in the domestic financial system, it is authorised by law to issue guarantees to credit institutions experiencing liquidity difficulties, or to grant them loans other than those classified as regular facilities.

### Foreign exchange reserves, foreign borrowing, and currency issues

The Central Bank invests the nation's foreign exchange reserves in order to enhance security in transactions between Iceland – particularly the State and parties with a State guarantee – and other countries. The reserves are handled in accordance with special rules set by the Governor and confirmed by the Supervisory Board, covering topics such as investment and security. The Central Bank is authorised to borrow funds in order to reinforce the foreign exchange reserves and to participate in international co-operation for this purpose. The Bank also acts as an advisor to the Government on matters pertaining to foreign exchange, including foreign borrowings.



The Monetary Policy Committee at the end of 2009. From the left: Þórarinn G. Pétursson Chief Economist of the Bank, Anne Sibert professor, Már Guðmundsson Governor, Arnór Sighvatsson Deputy Governor and Gylfi Zoëga professor.

## II Monetary policy

According to the Act on the Central Bank of Iceland, the principal objective of monetary policy is to promote price stability. This objective is further described in the joint declaration issued by the Bank and the Icelandic Government on 27 March 2001 as an inflation target of 2.5%. Since the financial and currency crisis struck Iceland in the fall of 2008, however, the Monetary Policy Committee's (MPC) main task has been to promote exchange rate stability in accordance with the joint economic policy agreed upon by the Icelandic Authorities and the International Monetary Fund (IMF). Among the focuses of that policy has been to protect private sector balance sheets from further shock during the economic restructuring and rebuilding phase. A stable exchange rate also contributes toward bringing inflation into line with the inflation target. As economic restructuring progresses, the inflation outlook will regain its importance in monetary policy decisions, in accordance with the legally mandated long-term monetary policy regime.

Relatively tight monetary policy and temporary capital account restrictions have therefore been used as tools to support the currency and prevent capital flight, which could undermine the króna and jeopardise economic recovery. When the restructuring of household and business balance sheets is complete and confidence in the domestic economy has been restored, the harm caused by exchange rate volatility will subside, and it will be possible to apply economic policy increasingly in support of recovery. While restructuring is in progress and confidence in the currency is limited, however, it is unavoidable to apply greater monetary restraint than would be appropriate merely from the standpoint of domestic demand.

### Inflation, interest rate, and exchange rate developments

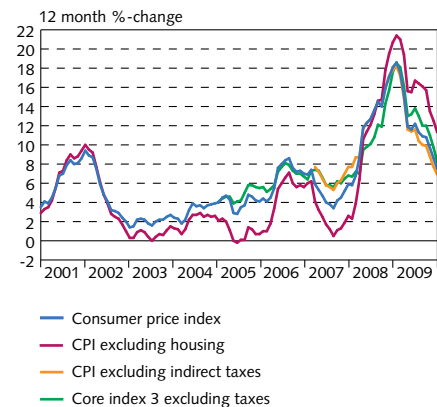
Inflation slowed down noticeably in 2009, owing to the slack in the economy, the relative stability of the króna in the latter half of the year, and the disappearance of the effects of the 2008 currency depreciation from 12-month inflation measurements. Inflation measured 18.6% at the beginning of the year but had dropped to 7.5% by year-end (Chart II-1).

In terms of the trade-weighted exchange rate index, the króna depreciated by 7% in 2009, including 5.5% against the euro and over 3% against the US dollar. Most of the depreciation occurred in the first half of the year, however, and from summer onwards the króna was relatively stable. At the same time, short-term volatility diminished, in spite of reduced foreign exchange market intervention by the Central Bank (see Chart II-2).

At the beginning of the year, the Central Bank's collateral lending rate (the interest rate that affected short-term market rates most strongly) was 18.0%.<sup>1</sup> The Monetary Policy Committee began cutting

1. The Central Bank interest rate that is most important in determining short-term market rates may vary. For a long while, the Bank's 7-day collateral lending rate was the determinant of market rates, but since summer 2009, the interest rate on deposit institutions' current accounts with the Bank and the interest on certificates of deposit have been most important in interest rate formation. For further discussion, see *Monetary Bulletin* 2009/4, pp. 7-8 and 21-23.

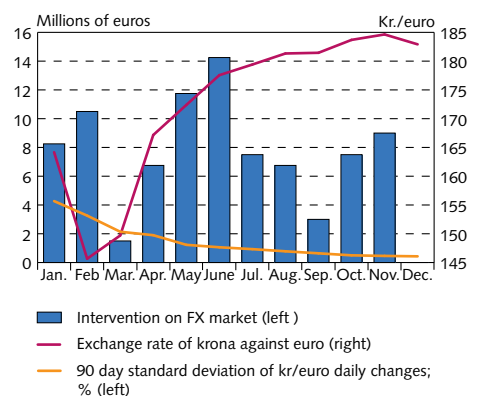
Chart II-1  
Inflation: various measurements



Source: Statistics Iceland.

Chart II-2  
Exchange rate of krona against euro, exchange rate fluctuations and CBI's interventions on FX market

January - December 2009



Source: Central Bank of Iceland.

Table II-1 Central Bank of Iceland interest rates 2009 (%)

Date	Current account	28-day CDs (max)	7-day collaterals	Over-night lending rate
10 Dec.	8.50	9.75	10.00	11.50
5 Nov.	9.00	10.25	11.00	13.00
24 Sep.	9.50	10.00	12.00	14.50
13 Aug.	9.50	–	12.00	16.00
2 July	9.50	–	12.00	16.00
4 June	9.50	–	12.00	16.00
7 May	9.50	–	13.00	17.00
8 April	12.50	–	15.50	19.50
19 March	14.00	–	17.00	21.00
29 Jan.	15.00	–	18.00	22.00

interest rates at its first meeting, in March 2009. Interest rates were lowered rather swiftly thereafter, and by the December decision date, the last of the year, the Central Bank rate that most strongly affected short-term interest rate developments – the maximum rate on 28-day certificates of deposit – was 9.75% (see Chart II-3). Short- and long-term market rates declined in tandem with Central Bank interest rates (see Chart II-4). If broad-based controls on capital movements to and from Iceland had not been in place, the Central Bank would have had to maintain much higher interest rates.

### Monetary policy decisions and the rationale behind them

Central banks are under strict requirements to explain clearly their monetary policy objectives and implementation. In Iceland, the Central Bank is obliged by law to publish reports on its monetary policy; on monetary, exchange rate and foreign exchange developments; and on its measures in these areas. In its quarterly *Monetary Bulletin*, the Bank reports on the economic and monetary outlook. *Monetary Bulletin* is also issued in Icelandic under the title *Peningamál*.

The Act on the Central Bank of Iceland requires that the 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 must report to Parliament on its activities twice a year and that the contents of the report must be discussed at a joint meeting of the Parliamentary Economics and Tax Committee, Budget Committee, and Commerce Committee.

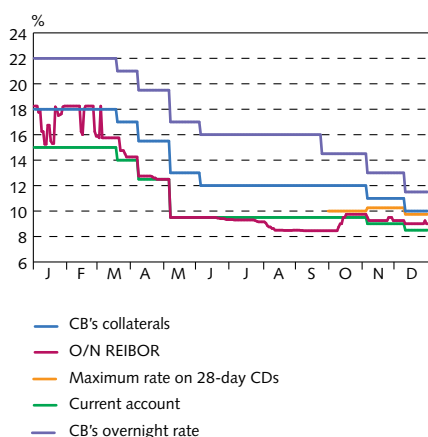
To pursue forward-looking monetary policy, the Central Bank needs models for assessing the economic outlook, especially inflation. A considerable share of research at the Central Bank of Iceland is devoted to this task. At the beginning of 2006, the Bank's economists began using a quarterly macroeconomic model (QMM) that illustrates the main channels for monetary policy transmission. While the QMM is constantly under development, also in progress is the development of a new dynamic stochastic general equilibrium (DSGE) model, which is more suitable for economic policy simulations and will be used alongside the QMM.

One means of enhancing transparency is to make the QMM and its database accessible on the Bank's website.

### The Monetary Policy Committee and its decisions

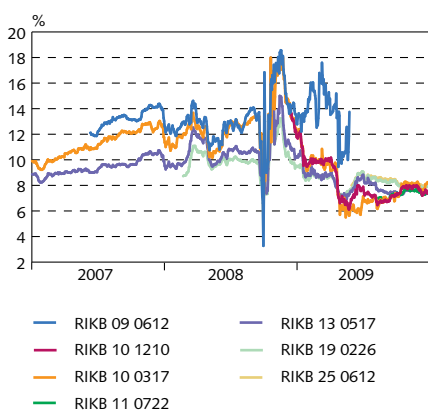
According to the amended Central Bank Act, which entered into force on 27 February 2009, a monetary policy committee (MPC) shall take decisions on the application of the Bank's monetary policy instruments, which include decisions on interest rates, specified transactions with credit institutions, determination of reserve requirements, and currency market transactions intended to influence the exchange rate of the króna.

Chart II-3  
CB's and short-term market rates  
Daily figures January 1, - December 31, 2009



Source: Central Bank of Iceland.

Chart II-4  
Yield on non-indexed Treasury notes  
Daily figures; January 3, 2007 - December 30, 2009



Source: Central Bank of Iceland.

Originally appointed to the Committee were three members from within the Bank – former Governor Svein Harald Øygard, Deputy Governor Arnór Sighvatsson, and Chief Economist Thórarinn G. Pétursson – and two external members – Anne Sibert, Professor of Economics at Birkbeck College of the University of London; and Gylfi Zoëga, Professor of Economics at the University of Iceland. Már Gudmundsson replaced Svein Harald Øygard on the Committee in August, when he took over as Governor and Svein Harald Øygard left the Bank's employ. By law, the Governor of the Central Bank chairs the Monetary Policy Committee.

### Interest rate decisions

The Central Bank Act requires that the Monetary Policy Committee meet at least eight times each year. The MPC began its work in March 2009 and met nine times during the year. The Committee's interest rate decisions were as follows:

*19 March:* The Governor proposed that the collateral lending rate be lowered by one percentage point to 17.0%. The proposal was approved unanimously. Other Central Bank interest rates were lowered by the same amount.

*8 April:* The Governor proposed that the collateral lending rate be lowered by 1.5 percentage points to 15.5%. Arnór Sighvatsson, Thórarinn G. Pétursson, and Anne Sibert voted in favour of the proposal. Gylfi Zoëga voted to lower the collateral lending rate by 2.0 percentage points. The Governor's proposal was therefore approved, and other Central Bank interest rates were lowered by an amount corresponding to the collateral lending rate cut.

*7 May:* The Governor proposed that the collateral lending rate be lowered by 2.5 percentage points to 13.0%. Arnór Sighvatsson and Thórarinn G. Pétursson voted in favour of the proposal. Anne Sibert and Gylfi Zoëga voted to lower the collateral lending rate by 3.0 percentage points. The Committee agreed to lower the overnight lending rate by 2.5 percentage points and to lower current account rates by 3.0 percentage points, to 9.5%.

*4 June:* The Governor proposed that the collateral lending rate be lowered by 1.0 percentage point to 12.0%. Arnór Sighvatsson and Thórarinn G. Pétursson voted in favour of the proposal, while Anne Sibert and Gylfi Zoëga voted in favour of holding the collateral lending rate unchanged. The overnight lending rate was reduced by 1.0 percentage point, and all Committee members agreed that the current account rate should remain unchanged at 9.5%.

*2 July:* The Governor recommended that the Bank's interest rates be held unchanged. The proposal was approved unanimously.

*13 August:* The Governor recommended that the Bank's interest rates be held unchanged. The proposal was approved unanimously. Anne Sibert was not in attendance.

*24 September:* The Governor proposed the following interest rate reductions: collateral lending rate, from 12.0% to 11.5%; current account rate, from 9.5% to 9.25%; and overnight lending rate, from 16.0% to 14.5%. He also proposed that 28-day certificates of deposit be auctioned, with a minimum bid rate of 9.5% and a maximum of 10.0%. Arnór Sighvatsson voted in favour of the Governor's proposal to cut collateral lending and current account rates, but Thórarinn G. Pétursson, Anne Sibert, and Gylfi Zoëga were in favour of keeping these interest rates unchanged. All members, however, were in favour of the Governor's proposal to lower overnight lending rates to 14.5% and to hold an auction of 28-day CDs with a minimum bid rate of 9.5% and a maximum of 10.0%.

*5 November:* The Governor proposed that current account rates be lowered by 0.5 percentage points to 9.0%, that the maximum bid rate for 28-day CDs be raised by 0.25 percentage points to 10.25%, and that the maximum amount auctioned weekly be increased from 25 b.kr. to 30 b.kr. He also recommended that collateral lending rates be lowered by 1.0 percentage point to 11.0% and that the overnight lending rate be cut by 1.5 percentage points, to 13.0%. Arnór Sighvatsson, Thórarinn G. Pétursson, and Gylfi Zoëga voted in favour of the Governor's proposal to cut the collateral lending rate, but Anne Sibert was in favour of keeping it unchanged. All Committee members were in favour of the Governor's proposal to change the overnight lending rate and the maximum bid rate for CDs.

*10 December:* The Governor proposed that the current account rate and the maximum bid rate for CDs be reduced by 0.5 percentage points, to 8.5% and 9.75% respectively. He also recommended that the collateral lending rate be lowered by 1.0 percentage point to 10.0% and that the overnight lending rate be cut by 1.5 percentage points to 11.5%. Arnór Sighvatsson and Gylfi Zoëga voted in favour of the proposal. Thórarinn G. Pétursson and Anne Sibert voted against it, however, as they were in favour of cutting the current account rate and the minimum bid rate by 0.25 percentage points, the collateral lending rate by 0.5 percentage points, and the overnight lending rate by 0.75 percentage points.

*The staff of the Financial Stability Department and the Economics Department work together on many tasks. Here we have from left: Kristín Rós Jóhannesdóttir, Bryndís Ásbjarnardóttir, Magnús Fjalar Guðmundsson, Karen Áslaug Vignisdóttir and Þorvarður Tjörvi Ólafsson.*





## III Financial Stability

In performing its mandatory role of promoting an efficient and safe financial system, including payment systems domestically and with foreign countries, the Central Bank of Iceland focuses on assessing financial system risk, including the risk of illiquidity among financial companies and the risk of problems in payment and securities settlement systems. It also promotes the efficiency and positive development of the financial system.

### The Financial System

#### **Restructuring the banking system**

Banks and savings banks play an important, centralised role in the economy. It is virtually impossible to achieve acceptable growth in an economy that is not served by a sound, effective banking system. Revitalising the banking system has therefore been a priority in 2009, and the Central Bank has participated actively in the Government's restructuring programme.

In 2009, the Government and the resolution committees of the old banks reached agreements concerning the recapitalisation of the new commercial banks. As a result of those agreements, the Treasury owns a 13% stake in Arion Bank, a 5% stake in Íslandsbanki, and an 81% stake in NBI. The newly established Iceland State Banking Agency (ISBA) administers the Treasury's holdings in the banks. The Treasury's contribution to the banks was therefore considerably less than originally assumed. By year-end 2009, the restructuring of the savings banks was still incomplete, and no decision had been made concerning the nature of the Government's contribution of guarantee capital and subordinated loans to them. Although the banks' restructuring is proceeding apace, there is still considerable work to be done before the long-term structure of the new Icelandic financial system is complete. The banks had extremely limited access to foreign capital, the capital controls were still in effect, and the future of the savings bank system remained unclear.

#### **Financial Stability 2009**

The Central Bank of Iceland issued its last *Financial Stability* report in October 2009. That report was written without confirmed information on the banks' and savings banks' balance sheets, operations, and ownership structure; consequently, it was not possible to assess the status of the banking system as a whole, as has been done in previous reports. Nonetheless, the Bank considered it important to issue a *Financial Stability* report at that time, both to document a range of information on the financial crisis of autumn 2008 and the subsequent recovery work, and to discuss anticipated projects related to the regulation and supervision of financial activities. In *Financial Stability* 2009, it was stated that, due to reigning uncertainty, it was difficult to assess the principal risks in the Icelandic financial system. However,

those risks were clearly related to asset quality, on the one hand, and foreign exchange and indexation risk, on the other. For this reason, among others, it was considered important that financial institutions maintain capital adequacy ratios well above the statutory minimum in the near future. At present, deposits form the backbone of the banks' funding, as foreign investment in Iceland and access to global credit markets are limited. Lifting the capital controls entails a certain risk because it involves liberalising capital flows at the same time that the ownership structure of the banks is being clarified. Restructuring and recapitalising the savings banks is in the offing as well, and this, too, could pose some risk. The risk that had accumulated in the Icelandic financial system prior to the crash was considered to have surfaced, however, and it was deemed unlikely that such a situation would materialise again in the near future. The report concluded that, broadly speaking, the risk in the system should dissipate over time, particularly if developments in the regulatory framework, supervision, and sound governance of the financial system are implemented with due care.

#### **Supervision and regulatory instruments**

The financial crisis has revealed weaknesses in the European regulatory framework. Among the points that require particular consideration are deposit guarantee schemes and cross-border banking supervision. Published in March 2009 was a report by Kaarlo Jännäri, former director of the Finnish Financial Supervisory Authority, on the run-up to the Icelandic financial crisis and the operations of supervisory and governmental entities. Among other things, Jännäri's report suggests that Iceland's Central Bank and Financial Supervisory Authority (FME) either merge or collaborate more closely.

Amended Central Bank Rules on Foreign Exchange Balance for financial undertakings took effect on 1 September 2009. The limits on open foreign exchange positions were expanded from 10% of equity to 30%, and authorisations to grant exemptions from the Rules were liberalised as well. The amendment was made because of the fact that, with the banks' collapse, foreign-denominated assets far exceeded foreign liabilities, most financial undertakings' capital ratios had declined due to losses in 2008, and financial undertakings had fewer possibilities for foreign exchange hedging after the banks fell. The new Rules are temporary and are intended as aids in improving financial undertakings' foreign exchange balance. The Rules and the reporting requirements related to foreign exchange balance will be thoroughly reviewed in 2010. Also under scrutiny within the Central Bank are ideas concerning rules on macroprudential risk.

#### **Payment systems**

Balance is being restored after the turmoil that followed the financial crisis in the autumn of 2008. Temporary measures employed to limit the damage from the collapse are gradually being discontinued. The following is a brief account of the main events of 2009 as they pertain to Iceland's payment systems. This topic will be discussed in greater depth in *Financial Stability 2010*.

### Real-Time Gross Settlement (RTGS) system

At year-end 2009, RTGS system participants were seven in number, including the Central Bank. Other participants were NBI, Arion Bank, Byr Savings Bank, the Housing Financing Fund, Straumur-Burdarás, Saga Capital, and MP Bank. In addition, preparations for Clearstream's membership were in the final stages. In addition to the above-specified participants, the Icelandic Securities Depository (ISD) and Fjölgreiðslumiðlun (FGM) used the RTGS system for securities settlement and settlement of netting system transactions. Sparisjóðabankinn (SPB) and SPRON withdrew from the system in early 2009, and Byr took over as provider of payment intermediation services for the savings bank system when SPB discontinued operations.

Several changes were made in the framework of the RTGS system. Participation agreements were prepared and will take effect upon the next review of agreements on authorised limits, which will take place in Q1/2010. On 13 August 2009, amended rules on payment system operations were issued.<sup>1</sup> The amendments included changes in the collateral that meets Central Bank requirements for intraday overdraft limits. The new rules authorise the use of the RTGS system for amounts under the RTGS threshold, upon the fulfilment of certain conditions. Participation requirements were clarified, and the rules now apply to direct and indirect participants. Furthermore, changes were made in the calculation of interest on RTGS account balances (see also Rules no. 553 of 26 June 2009).

In accordance with the above-specified amendments to RTGS system rules, changes were made to the system itself. The system can now receive SWIFT payment orders and can process payment orders for amounts below 10 m.kr. Provisions on contingency and contingency plans were reviewed and a new contingency plan prepared. The new contingency plan is to be presented and launched in 2010.

RTGS system activity contracted significantly in 2009, with total turnover amounting to 26,361 b.kr. and 138,000 transactions, which were 16% and 34%, respectively, of the previous year's figures.

### FGM netting system

At year-end 2009, participants in the FGM netting system were Byr Savings Bank, the Housing Financing Fund, MP Bank, NBI, Íslandsbanki, Arion Bank, and the Central Bank of Iceland.

On 13 August 2009, the Central Bank issued new, revised rules on netting system operations.<sup>2</sup>

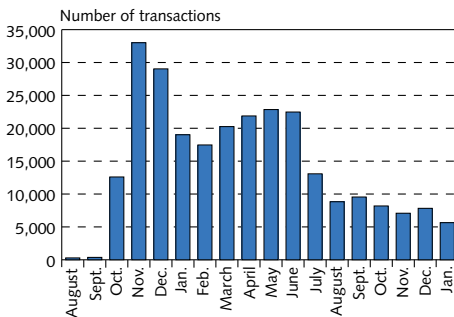
According to information from FGM, netting system turnover contracted by 11% in 2009, to 2,596 b.kr. and 71 millions transactions.

### Securities settlement system

In August 2009, the Central Bank and the Icelandic Securities Depository (ISD) renewed their agreement on settlement of securities transactions and concluded an agreement outlining changes to procedure. The changes in settlement procedure took effect in October

1. Rules on the Central Bank of Iceland Real-Time Gross Settlement System, no. 703/2009, and Rules on Activities of Netting Systems, no. 704/2009.  
2. Rules on Activities of Netting Systems, no. 704/2009.

Chart III-1  
Cross-border payment through CBI



Source: Central Bank of Iceland.

2009. They entailed, among other things, changing the time of securities settlement so that it takes place at 12:05 p.m., when the RTGS system is open, instead of at 8:00 a.m. This change gives participants additional scope to complete settlement of transactions.

According to information from the ISD, securities settlement activity contracted sharply in 2009, totalling 2,141 b.kr. and just over 29,000 transactions. Off-exchange trading has fallen off as well, from 131,000 transactions in 2008 to 51,000 in 2009.r.

### Payment instruments

At the end of 2009, notes and coin in circulation outside the Central Bank amounted to 29 b.kr. Cash in circulation increased by 3 b.kr. in December, bringing the total increase for the year to 4.6 b.kr.

Payment card turnover contracted during the year. In 2009, debit card turnover totalled 383 b.kr. (-6.6%) and credit card turnover 283 b.kr. (-9%). The number of active payment cards also declined during the year. At year-end, active debit and credit cards in Iceland numbered 238,000 and 233,000 respectively. The number of cheques used declined as well, to 241,000 for the year 2009.

### Cross-border payment intermediation

Although domestic payment intermediation withstood the financial crisis of 2008, the same cannot be said of cross-border payment intermediation.

During the first months after the banks failed, 85% of cross-border payments to and from Iceland were routed through the Central Bank of Iceland. When SPB and SPRON failed in Q1/2009, virtually all cross-border payment intermediation was carried out by the Central Bank and number of payments routed through Central Bank accounts increased more than a hundredfold. With co-ordinated efforts and assistance from key employees of the banks, cross-border payment intermediation was kept running. Gradually, the new banks reassumed their previous tasks, and by mid-2009, cross-border payment intermediation had returned more or less to normal and a large majority of payments to foreign recipients were executed without the assistance of the Central Bank. The same cannot be said about incoming payments from foreign banks, however, in part because some foreign banks still use only the Central Bank's accounts for payments to Iceland. At the end of year, some 20% of incoming payments are routed through the Central Bank.

A portion of cross-border payment intermediation is linked to credit card use, and the Central Bank had to provide support in that area as well, by issuing guarantees to foreign card companies and by guaranteeing the provision of foreign exchange for settlement of card transactions. This intervention ceased, however, on 1 December 2009, when the Bank issued its Rules on Settlement of Payment Card Transactions and lifted the above-mentioned guarantees. The Icelandic payment card market then returned to its pre-crisis state.

## IV Foreign reserves

The Act on the Central Bank of Iceland stipulates that one of the Bank's functions is to maintain Iceland's foreign reserves. Accordingly, the Governor lays down rules of procedure on management of the reserves, and the rules are approved by the Supervisory Board. Foreign reserves comprise the Central Bank's holdings of foreign securities, deposits in foreign banks and money market funds, gold, Special Drawing Rights (SDRs), and the reserve position at the International Monetary Fund (IMF). SDRs refer to the Bank's position in its SDR account at the IMF.

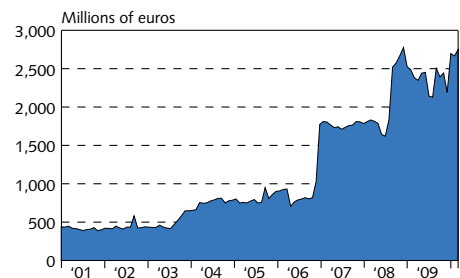
The rules of procedure provide a framework for the investment of the reserves. Funds may be deposited in international financial institutions and invested in money market funds and listed securities issued by entities in member countries of the Organisation for Economic Co-operation and Development (OECD). Issuers can be sovereigns, local governments, state enterprises, international organisations and financial institutions. A minimum rating of A+/A1/A1 from recognised rating agencies (Moody's/S&P/Fitch) is required for long-term securities. Short-term securities require minimum ratings of A-1/P-1/F-1, respectively, from the same agencies. The same demands are made towards deposit-taking institutions. According to the rules of procedure, the bulk of the reserves are invested in securities with a lifetime of more than one year, but a share of the reserves must be held in sight accounts. The average duration of securities and deposits in foreign reserves may not exceed five years. The Bank's gold reserves amounted to just over 64,000 ounces at the end of 2009. The gold is held in the Bank of England and may be loaned against gold or US dollar interest rates.

On 1 April 2009, the credit line with the Bank for International Settlements (BIS) in the amount of 100 million US dollars expired. The currency swap agreements concluded with the central banks of Denmark, Norway, and Sweden in May 2008 expired at the end of 2009. At that time, the Central Bank and the Treasury received the first disbursement of the loans from these banks and the Bank of Finland, in connection with the IMF programme. During the year, the Central Bank had immediate access to repurchase transactions with BIS for up to 700 million US dollars.

As of year-end 2009, the Central Bank of Iceland's foreign exchange reserves totalled 485 b.kr., after having increased by 56 b.kr. during the year. The increase in the reserves is due in large part to loans from the IMF, in the amount of SDR 105 million and from the Nordic countries in the amount of 300 million euros, as well as deposits from the estates of the old banks and the depreciation of the króna. The main outflows from the reserves were for the payment of a 150 million euro Treasury bond and foreign exchange market intervention amounting to 86 million euros.

The currency composition of the foreign exchange reserves is adjusted with the aim of minimising fluctuations in foreign-denominated assets net of foreign-denominated liabilities. The currency com-

Chart IV-1  
Foreign reserves  
January 2001 - February 2010



Source: Central Bank of Iceland.

Table IV-1 Return on investment of Central Bank foreign reserves

	2005	2006	2007	2008	2009
<i>US dollar</i>					
Interest income (%)	3.84	4.06	4.34	3.17	2.71
Price gain/loss (%)	-2.35	0.01	2.74	4.21	-0.37
Total return on securities (%)	1.49	4.07	7.08	7.38	2.34
Average maturity at year-end	2.33	2.09	2.40	2.12	2.51
MSCI 1-3-year index (%) <sup>1</sup>	1.66	3.95	7.34	6.70	0.77
Average maturity at year-end	1.69	1.70	1.66	1.77	1.91
MSCI 3-5 year index (%)	0.86	3.50	9.83	12.21	-0.76
Average maturity at year-end	3.52	3.52	3.62	3.84	3.84
Time deposits (%)	3.16	4.93	5.09	1.97	0.16
LIBOR (annual average) (%)	3.20	4.96	5.10	2.27	0.17
<i>Euro (EUR)<sup>2</sup></i>					
Interest income (%)	3.33	3.67	4.27	4.37	3.33
Price gain/loss (%)	-0.46	-2.55	-1.84	1.59	2.38
Total return on securities (%)	2.87	1.12	2.42	5.96	5.71
Average maturity at year-end	2.80	3.52	2.96	2.50	1.81
MSCI 1-3-year index (%) <sup>1</sup>	2.16	1.80	3.83	6.94	4.16
Average maturity at year-end	1.73	1.81	1.70	1.78	1.84
MSCI 3-5 year index (%) <sup>1</sup>	2.91	0.62	3.37	8.76	5.51
Average maturity at year-end	3.50	3.56	3.56	3.61	3.70
Time deposits (%)	2.08	2.82	3.86	4.08	0.41
LIBOR (annual average) (%)	2.09	2.83	3.87	3.87	0.63
<i>Pound (GBP)</i>					
Interest income (%)	5.50	5.01	5.51	4.51	3.28
Price gain/loss (%)	0.15	-2.86	0.68	4.41	0.84
Total return on securities (%)	5.65	2.15	6.18	8.92	4.12
Average maturity at year-end	2.95	2.22	2.23	2.07	2.66
MSCI 1-3-year index (%) <sup>1</sup>	4.90	3.07	7.48	9.18	3.27
Average maturity at year-end	1.51	1.79	1.75	1.92	1.72
MSCI 3-5 year index (%) <sup>1</sup>	5.62	1.48	7.54	11.80	3.31
Average maturity at year-end	3.36	3.38	3.42	3.36	3.68
Time deposits (%)	4.66	4.70	5.58	4.71	0.35
LIBOR (annual average) (%)	4.67	4.66	5.58	4.74	0.62

1. For the year 2007 and 2009 returns according to indices reflect the Bloomberg/EFFAS Government Bond Index.

2. Euro reserves 1 and 2 are weighted together.

position of the Central Bank's foreign reserves is regularly reviewed and confirmed in the rules of procedure governing the FX reserves. According to the rules of procedure, the weight of currencies in the foreign reserves for the year 2009 was as follows: US dollars 35%, euros 45%, pounds sterling 15%, and yen 5%.

#### Currency-by-currency investment of the foreign reserves

Table IV-1 shows the return on investment of major currencies comprising the foreign reserves in recent years. The MSCI Sovereign Bond Index is used as a benchmark in measuring investment performance of bond portfolios during the period 2004-2006, while the Bloomberg/EFFAS Government bond index is used for 2007-2009, as the MSCI Sovereign Bond Index is no longer updated and has been supplanted by the EFFAS index. From mid-2008 onwards, the Central Bank greatly

increased its emphasis on safe investment of its liquid assets and directed its transactions in greater measure towards the central banks in Europe and the US instead of using the interbank market. This increased caution is due to instability in foreign financial markets.

In recent years, the Central Bank has used indices designed by Lehman Brothers/Barclays as a reference for management of the bond portfolios in the foreign exchange reserves, in accordance with Board of Governors Decision no. 1019. Barclays has now taken over these operations from Lehman Brothers. Table IV-2 gives a comparison between the bond portfolio yield and the Lehman/Barclays indices. In 2009, the bond portfolio outperformed the reference indices.

Table IV-2 Comparison between portfolio returns and Lehman benchmark indices

	Returns 2009
US dollar	2.24%
Lehman Brothers/Barclays benchmark	2.05%
<i>Difference</i>	0.19%
Euro	5.71%
Lehman Brothers/Barclays benchmark	5.69%
<i>Difference</i>	0.02%
Sterling	4.12%
Lehman Brothers/Barclays benchmark	3.88%
<i>Difference</i>	0.24%



The staff at the International and Market Operations Department oversees among other things domestic and international markets on behalf of the Central Bank and the Treasury. Here we have a photograph of, from the left: Oddgeir Gunnarsson, Hafsteinn Hafsteinnsson, Viðar Geirsson, Halldór Kristinsson, Gerður Ísberg, Hallgrímur Ólafsson, Freyr Hermannsson, Anna Karen Arnarsdóttir, Helga Rún Helgadóttir and Daniel Svavarsson.



*The Statistics Department handles the compilation, entry and processing of various data. Here are, from the left: Pétur Örn Sigurðsson, Bryndís Pétursdóttir, Margrét Sigríður Guðjónsdóttir, Fjóla Agnarsdóttir, Tómas Örn Kristinsson and Eva Hjördís Bjarnadóttir.*



## V Treasury debt management

### **Domestic debt management and State guarantees**

According to an agreement between the Central Bank of Iceland and the Ministry of Finance, the Bank administers Government debt management as the agent of the Ministry. The agreement provides for division of tasks and for the Ministry of Finance's ultimate decision-making authority in debt affairs. The Central Bank is assigned the task of carrying out auctions, buy-backs, and redemptions of Treasury securities; preparation of primary dealer agreements; and oversight of securities lending to primary dealers. The Bank also handles regular information disclosure on government debt affairs to the market and the Ministry of Finance and maintains the website [www.bonds.is](http://www.bonds.is). According to the agreement, the Central Bank also handles tasks related to Government guarantees and relending. The Bank administers Government guarantees and assesses the Treasury's risk due to such guarantees. It also submits statements to the Ministry concerning Government guarantees, handles the processing of guarantees, and collects the pertinent fees. The Bank also issues bonds for relending.

### **Foreign debt management**

By agreement with the Minister of Finance, the Central Bank is assigned the implementation of Treasury foreign borrowing and other tasks specified in the Act on the National Debt Management Agency, no. 43/1990. Under this agreement, the Central Bank implements the Minister of Finance's decisions on foreign borrowing, interest rate swaps and currency swaps outside Iceland and management of short-term borrowing facilities, along with management of other foreign loans of the Treasury. The agreement also assigns the Central Bank a consultative role on borrowing and debt management policies and on relations with international rating agencies. Furthermore, the Bank supervises the credit terms of entities that enjoy Treasury guarantees and intend to borrow in the international market. The Bank oversees the Treasury's foreign loan accounts and provides related services. In managing the Treasury's foreign borrowing, the Central Bank aims to secure the reputation of the Republic of Iceland in international markets and procure foreign credit on the best available terms.

At the end of February 2009, the Minister of Finance appointed a committee in accordance with the Government resolution of 24 February 2009, in order to negotiate with representatives of foreign governments that had pledged to extend foreign currency loans to support the economic programme underlying the collaboration between the Icelandic Government and the International Monetary Fund (IMF), according to the memorandum of understanding from November 2008. The committee's task was to conclude bilateral loan agreements with foreign governments, which could add approximately 3 billion US dollars to the roughly 2 billion dollars loaned by the IMF, according to the Stand-By Arrangement approved by the Fund on 19 November 2008. Members of the committee included representatives from the Central Bank, Ministry of Finance, Ministry

for Foreign Affairs, and Prime Minister's Office, together with Jón Sigurðsson, who acted as chairman.

On 23 March 2009, a loan agreement was signed between the governments of the Faeroe Islands and Iceland. Under the agreement, the Faroese Government will lend the Icelandic Government 300 million Danish kroner. The loan amount was disbursed upon signing. According to the agreement, the parties are to reach an agreement on the duration and repayment profile of the loan before 1 December 2013. Otherwise, the loan shall be repaid in three equal annual payments on 15 December of each year, beginning in 2013. Interest terms will be reviewed annually, based on the Faroese Government's borrowing terms, plus a premium of 0.15%. Interest on the loan was 5.317% for the period from 24 March to 15 December but then dropped to 2.2% due to more favourable borrowing terms received by the Faroese Government.

On 1 July 2009, loan agreements were signed between Iceland and Denmark, Finland, and Sweden, on the one hand, and between the Central Bank of Iceland, guaranteed by the Icelandic Government, and Norges Bank, guaranteed by the Norwegian Government, on the other. According to the agreements, the four Nordic countries will extend loans to Iceland in the combined amount of 1,775 billion euros. It is permissible to draw on the loans in four equal tranches linked to the first four reviews of the IMF programme. The total duration of the loans is 12 years, and instalment payments of principal are deferred for the first five years, during which time interest will be paid quarterly. At the end of the five-year period, the principal amount will be repaid in equal quarterly instalments for the remainder of the loan period.

On 4 September 2009, a loan agreement was signed between Poland and Iceland. According to the agreement, the Polish government will lend Iceland 630 million Polish zlotys, the equivalent of approximately 200 million US dollars. The loan can be drawn in three tranches that are linked to the second, third, and fourth reviews of the IMF programme. The loan has a 12-year duration, at interest rates based on Poland's borrowing terms, plus a premium of 2% until 2015, and 1.3% thereafter.

With the agreements with the Faeroe Islands, Denmark, Finland, Norway, Sweden, and Poland the Icelandic Government secured the supplementary funding that was part of the IMF programme. Both the Nordic agreements and the Polish agreement are flexible in that they all authorise partial withdrawal of each tranche of the loan, as well as permitting Iceland to access the undrawn remainder later in the contract period. Furthermore, Iceland is authorised to repay the loans prior to the agreed maturity date without incurring prepayment penalties. Therefore, the agreements are in essence a loan framework that provide an important safety net for the foreign exchange reserves. No loan agreement was concluded, however, with the Russian Federation, which had indicated the possibility of a foreign exchange loan in the fall of 2008. Following in-depth exploratory discussions, it was clear by October 2009 that the Russians would not extend such a loan due to changed circumstances.

### **Borrowings in foreign credit markets**

Long-term credit is procured with issues under the European Medium-Term Note (EMTN) Program. Short-term credit is issued through two commercial paper programmes: the Euro-Commercial Paper Program (ECPP) and the United States Commercial Paper Program (US-CPP). The Treasury also has a multi-currency revolving credit facility.

#### **EMTN Program**

The EMTN program was first signed in 2001. The agreement is administered by Citibank and provides for both public and private issues. It was most recently renewed in the summer of 2008, and the ceiling now amounts to 5 billion euros. The last issue under this agreement took place in November 2006, when bonds with a nominal value of 1 billion euros were sold, with 3.75% fixed interest. The bonds mature in December 2011. Two other bond issues are outstanding under the EMTN agreement: a 250 million euro bond bearing 5.38% fixed interest and maturing in April 2012, and a 200 million US dollar bond bearing 4.38% fixed interest and maturing in March 2014.

#### **ECPP<sup>1</sup> and US-CPP<sup>2</sup>**

The agreement on the issuance of commercial paper in Europe - the European Commercial Paper Program (ECPP) - has been in effect since 1985 and was last renewed in May 2008. The agreement authorises the issuance of commercial paper up to a ceiling of 1 billion US dollars, or the equivalent in other currencies, and its sale through Citibank, SEB, Deutsche Bank, and Barclays at current market terms. The agreement establishing the United States Commercial Paper Program (US-CPP) was signed in 2001. The total outstanding balance in the US market may not exceed 1 billion US dollars. Dealers are Citibank and J.P. Morgan of New York. The ECPP and the US-CPP are linked so that the combined total amount of the two issues may not exceed 1 billion US dollars.

#### **Repayment and borrowings**

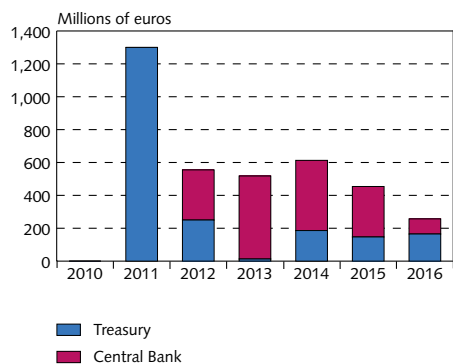
In recent years, the Central Bank has purchased currency on the domestic foreign exchange market in order to pay interest on the Treasury's foreign debt. Because of the upheaval on the foreign exchange market and the depreciation of the króna in early 2009, it was decided that the Bank would not purchase currency on the domestic foreign exchange market.

One foreign loan in the amount of 150 million euros matured during the year. The loan matured in September and was repaid in full.

In the fall, two foreign loans were taken in order to strengthen the Central Bank's foreign exchange reserves. One was a loan for 300 million euros, granted by the central banks of the Nordic countries, and the other was the second tranche of the IMF loan, which amounted to 105 million SDRs. Loans from the IMF and Norges Bank are recognised in the accounts of the Central Bank, while the loans from Denmark, Sweden, and Finland are recognised in the accounts of the Treasury.

1. European Commercial Paper Program.  
2. United States Commercial Paper Program.

Chart V-1  
Repayment plan of long-term loans of  
Treasury and Central Bank in foreign currency



Source: Central Bank of Iceland.

### Debt management and risk analysis

In borrowing from abroad, the Treasury attempts to spread repayments as equally as possible over the coming years. Management of the Treasury's foreign debt also involves distributing the loan portfolio with regard to maturity and currency composition.

The Treasury's foreign liabilities totalled 360.8 b.kr. at year-end 2009, in addition to the debt to the IMF in the Central Bank accounts, which amounted to 130.7 b.kr., and the debt to Norges Bank, in the amount of 14.6 b.kr. The weighted average maturity of foreign long-term borrowing was 2.39 years and the average duration 1.87 years. Including the debts in the Central Bank's accounts, to the IMF and Norges Bank, the weighted average maturity of foreign long-term borrowing is 4.38 years, and the average duration is 3.38 years.

No long-term foreign loans taken by the Treasury or the Central Bank are scheduled to mature in 2010. A loan of 1 billion euros matures in December 2011, and a 300 million euro syndicated loan matures in September 2011. The maturity profile of the Treasury and the Central Bank's long-term loans until 2016, based on their status as of year-end 2009, can be seen on the accompanying chart.

### Sovereign credit rating of the Republic of Iceland

A number of agencies assign the Republic of Iceland a sovereign credit rating, chief among them Moody's Investors Service, Fitch Ratings, and Standard & Poor's. The Central Bank of Iceland communicates regularly with these agencies on behalf of the Government. Rating agencies have significant influence on lending terms in the global credit markets, and an entity's credit rating is, among other things, an indicator of the terms it will enjoy as a borrower. Iceland's sovereign credit rating has suffered greatly from the banks' failure in 2008. Before that time, the Republic of Iceland enjoyed confidence as a borrower in international markets, and all of the world's major markets were open to the Treasury because of its strong ratings.

Moody's rating is now Baa3 for long-term foreign and domestic obligations, and P-3 for short-term obligations. The country ceiling is Baa2/P-3. The outlook on all ratings is stable. Moody's downgraded its sovereign credit ratings for Iceland by two notches during the year. In their opinion on the credit rating, Moody's analysts state as follows: "The Baa3 rating weighs the enduring fiscal, financial and monetary challenges resulting from the crisis against Iceland's high wealth, economic flexibility and sound institutions, ..." The ratings from Moody's are investment-grade.

The sovereign credit rating from Fitch Ratings is BBB- for long-term foreign-currency obligations and F3 for short-term foreign-currency obligations. The local-currency rating is A-, and the outlook on all of the ratings is negative. The Republic's credit ratings from Fitch were in investment grade. Iceland was removed from the credit

3. The duration is the length of time, in years, that it takes to repay the price of a bond at the present value of payments. The average time to maturity, on the other hand, is a simple average of the length of time from the reference date to the maturity date of bonds in the portfolio.

watch list due to the progress made in financial sector restructuring and in the IMF programme, and the much improved external position of the economy.

Standard & Poor's kept Iceland's sovereign credit rating unchanged in 2009. The Republic's rating is BBB- for long-term foreign-currency obligations and A-3 for short-term foreign currency obligations, while its local-currency ratings are BBB+ and A- for long- and short-term obligations respectively. Iceland's sovereign ratings with Standard & Poor's are investment-grade, and the outlook is stable. In its comments, S&P said: "The stable outlook balances the challenges of the high public debt ratio and remaining external vulnerabilities with our belief that Iceland's economy and institutions have above-average flexibility to deal with these challenges."

The Japanese rating agency R&I Rating kept Iceland's ratings unchanged in 2009. The rating for long-term foreign-currency obligations is now BBB-, and the outlook is negative.



Agreements and rules must be reviewed regularly. Here are *Sígfús Gauti Þórðarson*, *Björgvin Sighvatsson* and *Sigurður G. Thoroddsen*.



*The staff of the bank's canteen. From the left: Halla Kristín Björnsdóttir, Sigríður Gunnarsdóttir, Þórhildur S. Blöndal, Bergþóra Öskarsdóttir and Sigurberg Jónsson.*

## VI International cooperation

The Central Bank of Iceland has extensive responsibilities and obligations in the field of international finance. The Bank cooperates closely with other central banks and international economic and monetary organisations.

### **International Monetary Fund**

The Central Bank represents Iceland at the International Monetary Fund (IMF). The Icelandic Government and the IMF have collaborated extensively during the past year. Three IMF missions visited Iceland in connection with the macroeconomic programme prepared by the IMF and the Government. In addition to these visits, the IMF provided the Icelandic authorities technical assistance in the field of budget framework, financial systems, debt restructuring and management, monetary operations, monetary and financial statistics and capital account liberalization. A total of 12 missions visited Iceland to render technical assistance. The economic programme prepared by the Fund and the Government was delayed because of the Icesave issue. The First Review, which was approved by the IMF on 28 October 2009, was originally scheduled for completion on 25 February. At the request of the Icelandic Government, it was also agreed to extend the IMF Stand-by Arrangement by six months, or until 31 May 2011. Disbursements will be adjusted to reflect this change. The extension was requested because of delays in implementing and reviewing the programme. The Executive Board's involvement centred on ensuring that the second tranche of the loan, in the amount of 105 million SDRs (167.5 million US dollars, or 20.8 b.kr.), was ready for disbursement. The total loan facilities granted by the Fund in connection with the programme amount to 665 million SDRs, or 1,061.1 million US dollars. All reports related to the economic programme and the IMF Stand-By Arrangement are published on the Central Bank website.

During the first half of the year, Central Bank Governor Svein Harald Øygard represented Iceland on the IMF Board of Governors. Már Guðmundsson assumed those duties when he became Governor in August 2009. Iceland cooperates with the Nordic and Baltic countries through a Constituency at the IMF, and they jointly elect an Executive Director as one of the Fund's 24 Executive Board members. In 2009, the Constituency's permanent representative on the IMF Executive Board in Washington was Jens Henriksson from Sweden. The Nordic-Baltic Constituency's representative to the Fund's International Monetary and Financial Committee (IMFC) was Swedish Minister of Finance Anders Borg.

The spring meeting of the International Monetary and Financial Committee was held in Washington, D.C., and the autumn meeting was held in Istanbul. In connection with the meetings, the Central Bank of Iceland published on its website the Nordic-Baltic Constituency Office's reports to the IMF on the main activities of the Fund and its Executive Board. Nordic-Baltic speeches presented to the IMFC and the IMF Annual Meeting were also published.

### Cooperation with Nordic central banks and other banking institutions

During the year, the Central Bank of Iceland cooperated with other Nordic central banks on numerous endeavours, including the Nordic loans in connection with the IMF programme. The Governors and staff of the Nordic central banks engage in regular collaboration on the various aspects of monetary policy, financial stability, and other facets of central bank operations. The Bank's representatives also meet regularly with executives and staff members of the European Central Bank.

### The Bank for International Settlements (BIS)

The Central Bank is a shareholder in the Bank for International Settlements (BIS) in Basel, Switzerland. BIS is an important forum for consultation among central banks as well as being an information and research centre in economics, especially in the fields of monetary policy and financial stability. The Governor and other Central Bank staff members participate regularly in work carried out by BIS.

### Organisation for Economic Cooperation and Development (OECD)

During the year, Central Bank representatives participated in the work of various OECD committees and groups, including the Economic Policy Committee, Working Party 1, the Committee on Financial Markets, and an expert committee on government debt management. OECD experts come to Iceland on a regular basis to keep abreast of economic developments, and they issue frequent reports setting forth the Organisation's opinion of economic affairs in the country.

### Other financial institutions and rating agencies

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



*The financial turmoil during the winter 2008-2009 had a wide impact. For a while, the Bank's Finance Department conducted most cross-border payments in Iceland. Harpa, the concert and conference hall, rises in the background. From left: Margrét Einarsdóttir, Snævar Sölvason, Guðrún Elin Herbetsdóttir and Anna Árnadóttir.*



## VII Special activities

### **Capital Controls Surveillance Unit**

During the year, the Capital Controls Surveillance Unit (CCSU) became an independent unit whose task is to strengthen surveillance of the capital account restrictions. The CCSU answers directly to the Governor. The unit's main functions in 2009 were to conduct general monitoring of the capital controls, investigate violations of the Foreign Exchange Act, no. 87/1992, and the rules set pursuant to it, and process requests for exemptions to the controls. Amendments to the Rules on Foreign Exchange are also in the hands of the CCSU. The Rules were revised and re-issued at the end of October, when the first phase of the capital account liberalisation strategy was launched and steps were taken to tighten enforcement of the Rules. An important element in reinforcing the CCSU is to improve the Central Bank's information gathering from both financial undertakings and other parties. Co-operation with public entities has also been enhanced. The Bank already works closely with the Financial Supervisory Authority in investigating violations of the Foreign Exchange Act and the Rules set pursuant to it. Numerous cases have been under scrutiny by the Central Bank of Iceland in the recent term, and in 2009, 23 cases involving violations by 29 parties were reported to the Financial Supervisory Authority.

The CCSU received 390 requests for exemptions from the Rules on Foreign Exchange during the year. Of that total, 127 were approved and 27 rejected, and 94 were handled with instructions and guidelines or were withdrawn because there was no need for an exemption. At year-end, 88 submitted requests were still pending.

Authorised foreign exchange transactions totalled over 2 b.kr., export loans without foreign exchange transactions were just under 1 b.kr., and export payments in Icelandic krónur totalled 265 m.kr. Inflows in Icelandic krónur totalled 181 m.kr.

The CCSU receives special support from an advisory committee comprising the Deputy Governor, the Chief Attorney, and four other experts or officers within the Bank. The advisory committee's role is to monitor the work of the CCSU, promote effective collaboration between the CCSU and other Bank departments, and set policy, including policy related to capital account liberalisation, surveillance, and enforcement of the Rules on Foreign Exchange.

### **Central Bank of Iceland Holding Company (ESÍ)**

After the banks collapsed, the Central Bank acquired considerable claims against domestic financial institutions, which are backed by collateral of various types. Some of these claims were transferred to the Treasury after the banks failed, and the Central Bank advised the Government on their treatment. Most of 2009 was dedicated to preparing and filing claims against the estates of the failed financial institutions, but that phase is now complete and the actual asset management phase has begun.

Towards the end of the year, it was decided to transfer the assets in question to a separate subsidiary of the Central Bank, a holding company called Central Bank of Iceland Holding Company (ESÍ). Another Central Bank subsidiary, Sölvhóll ehf., is an operating company whose role will be to maximise the value of the assets held by ESÍ and divest them when market conditions permit, subject to the approval of the ESÍ board. This arrangement provides the Bank with an effective means of separating the operations related to the crash from its conventional activities. As of 31 December 2009, ESÍ's balance sheet constituted 42% of the Central Bank's balance sheet, and its assets totalled 491 b.kr.

#### **National Festival Fund**

The National Festival Fund operated for its 32nd year in 2009. The board of the Fund decided to allocate 33.9 m.kr. to 65 applicants for the year 2010.



Staff of the capital controls surveillance unit (CCSU). Here we see, from the left: Jón Karlsson, Einar Örn Þorvaldsson and Pétur Steinn Pétursson.

## VIII Accounts and organisation

### Central Bank accounting principles

According to Article 32 of the Act on the Central Bank of Iceland, no. 36/2001, the preparation of the Bank's annual accounts "shall be in accordance with the law and with recognised accounting principles. The Minister shall lay down further rules on the accounting principles and preparation of the annual accounts." The current rules were set in 2005. The financial statements for 2009 are based on the same principles as in 2008; however, minor changes have been made in the presentation of individual items. These changes are explained in the notes to the financial statements, which appear in this *Annual Report*.

### Operating results and balance sheet

According to the profit and loss account, the Central Bank returned a profit of 500 m.kr. in 2009, as opposed to a loss of 8,625 m.kr. the year before. Excluding exchange rate differences, there was a 2,523 m.kr. loss on the Bank's operations in 2009, compared with a loss of 227,509 m.kr. in 2008, excluding the transfer to and from the Treasury. The table illustrates the changes in the principal items of the Bank's profit and loss account.

There will be no transfer to the Treasury for 2009, as the Bank's operating loss before exchange rate differences amounted to 2,523 m.kr. Finally, there was a dramatic change in the recorded exchange rate difference for the year, which was positive by 3,023 m.kr. in 2009 but positive by 43,980 m.kr. in 2008.

As the table illustrates, the profit for 2009 increased by 9,126 m.kr. year-on-year. Net interest income fell by 4,483 m.kr., primarily because net interest income from the foreign exchange reserves declined owing to a year-on-year decline in foreign interest on bank deposits and securities. Other operating income rose by 1,071 m.kr., primarily due to the revaluation of gold. At year-end 2009, gold was trading at 1,087.50 US dollars, or 135,829 kr., per ounce. The total revaluation of gold in 2009 amounted to 1,668 m.kr. The Bank's operating expenses declined year-on-year, primarily because of increased consultancy costs in 2008, due to the collapse of the banks. Wages and salaries rose by 9.7%, primarily due to recruitment of new staff members. The Bank's assets amounted to 1,178 b.kr. at year-end 2009, as opposed to 1,187 b.kr. at end-2008. Foreign assets in the foreign exchange reserves rose by 56 b.kr. during the year. The real increase in the reserves was funded with loans, both from the International Monetary Fund (IMF), in the amount of 20.8 b.kr., and from the Nordic countries, 54.8 b.kr. Foreign liabilities declined by 38 b.kr., due mainly to the repayment of outstanding swap agreements with the central banks of Denmark, Sweden, and Norway, in the amount of 100 million euros from each bank.

Foreign deposits in banks and financial institutions rose by 110 b.kr., as time deposits with financial institutions increased by 153 b.kr., concurrent with a 36 b.kr. reduction in foreign-denominated bank deposits.

Table VIII-1 Principal items of the Bank's profit and loss account

(Figures in millions of kr.)	2009	2008	Changes
Net profit (loss)	500	(8,625)	9,126
<i>Main changes:</i>			
Net interest income	15,229	19,711	(4,483)
Other income	6,824	5,752	1,071
Operating expenses	2,502	3,070	(568)
Collateral loans written off	22,073	75,000	(52,927)
Transfer to Treasury	0	0	0
Exchange rate gain (loss)	3,023	43,980	(40,957)
Net profit (loss) of the year	500	(8,625)	9,126

Table VIII-2 Main items of the Balance Sheet

(Figures in billions of kr.)	2009	2008	Change
<b>Equity</b>			
Main changes:	83	82	1
Foreign assets in reserves	485	429	56
Loans to banks and other financial institutions	32	149	-117
Central Government	165	270	-105
Loans due and payable	491	333	157
Other equities	5	5	0
<b>Liabilities:</b>			
Foreign liabilities	204	242	-38
Notes and coin	29	24	5
Deposits of banks and other financial institutions	160	273	-112
Foreign deposits of banks and financial institutions	238	128	110
Central government deposits	447	403	43
Other liabilities	18	35	-17
Equity	83	82	1

Past-due loans rose by 157 b.kr. year-on-year due to the fact that past-due Treasury Relending loans were purchased at year-end 2009 and because three commercial banks were subjected to winding-up proceedings during the year.

At year-end 2009, the Bank's foreign assets constituted 41% of its total assets, while they constituted 47% of its total assets at year-end 2008. The Bank's Annual Accounts appear later in this Annual Report, together with detailed notes explaining individual items.

The collapse of the banks put Central Bank collateral loans backed by shares in commercial banks into a state of disarray. An agreement was reached, according to which the Treasury purchased a large portion of the Bank's collateral loan stock when the crisis struck. Collateral loans with a nominal value of 345 b.kr. were purchased from the Bank at year-end 2008 for a purchase price of 270 b.kr., which is to be paid with an indexed, interest-bearing bond. In 2009, interest and indexation on the bond were capitalised in the amount of 35,688 m.kr.

At year-end 2009, it was decided that the Central Bank should buy back these assets and then sell them to a separate subsidiary of the Central Bank, called Central Bank of Iceland Holding Company (ESÍ). The Central Bank paid 134 b.kr. for the purchase; therefore, the bond was valued at 161 b.kr. at year-end.

### Supervisory Board

The Central Bank Act, no. 36/2001, stipulates that there shall be seven members of the Supervisory Board. The Parliament of Iceland elected a new Supervisory Board twice during the year, in addition to minor changes in the Board's membership. Jón Sigurðsson resigned from the Board on 26 January, and Valgerður Bjarnadóttir resigned on 19 February. A new Supervisory Board was elected by Parliament on 16 March. Elected members were Lára V. Júlíusdóttir, Ragnar Árnason, Ágúst Einarsson, Katrín Olga Jóhannesdóttir, Ragnar Arnalds, Friðrik Már Baldursson, and Jónas Hallgrímsson. On 11 August, Parliament elected a new Supervisory Board, whose members were Lára V. Júlíusdóttir, Ragnar Arnalds, Ágúst Einarsson, Hildur Traustadóttir, Ragnar Árnason, Magnús Árni Skúlason, and Katrín Olga Jóhannesdóttir. Magnús Árni Skúlason resigned on 12 September, and Daniel Gros was elected to replace him on 15 October. Björn Herbert Guðbjörnsson was elected to the Supervisory Board on 15 December to replace Ágúst Einarsson, who resigned.

### Board of Governors – Governor – Deputy Governor

At the beginning of 2009, the Board of Governors of the Central Bank of Iceland comprised Davíð Oddsson (Chairman), Eiríkur Guðnason, and Ingimundur Friðriksson. Ingimundur Friðriksson resigned on 9 February 2009. He began working for the Central Bank of Iceland in 1973 as a summer employee and was hired on a permanent basis on 1 March 1975. Ingimundur Friðriksson was appointed Governor for a seven-year term beginning on 1 September 2006, after having been an acting Governor since 15 June of that year. He had previously served as acting Governor from 1 October 2002 through 30 September 2003. On 26 February 2009, Parliament passed Act no. 5/2009 amending the Act on the Central Bank of Iceland, no. 36/2001. The

new Act provides for one Governor and one Deputy Governor within the Central Bank instead of a Board of Governors.

Upon the passage of the amended Act, Eiríkur Guðnason and Davíð Oddsson left their positions as governors of the Central Bank of Iceland. Eiríkur Guðnason had been employed by the Central Bank of Iceland since 1969. He was appointed Governor on 1 May 1994 and held that position until he left the Bank. Davíð Oddsson was appointed Governor and Chairman of the Board of Governors on 20 October 2005. He held that position until he left the Bank.

Following the amendment to the Central Bank Act, the Prime Minister decided to appoint Svein Harald Øygard as interim Governor and Arnór Sighvatsson as interim Deputy Governor, until the positions had been duly advertised. Svein Harald Øygard left the employ of the Central Bank of Iceland on 25 August 2009. After the conclusion of the application process, the Prime Minister appointed Már Guðmundsson to the position of Governor of the Central Bank for a term of five years, effective August 20, 2009; and Arnór Sighvatsson to the position of Deputy Governor of the Central Bank for a term of four years, effective July 1, 2009. The term of appointment for the Deputy Governor is determined pursuant to Paragraph 1 of Temporary Provision III of Act no. 26/2009.

Már Guðmundsson received a BA in economics from the University of Essex and studied economics and mathematics at the University of Gothenburg. He has a M.Ph. degree in economics from Cambridge University, where he pursued doctoral study as well. From 2004, Már served as Deputy Head of the Monetary and Economic Department of the Bank for International Settlements in Basel, Switzerland. Prior to that, he was employed by the Central Bank of Iceland for some two decades, including over ten years as Chief Economist. Már served as economic advisor to the Minister of Finance from 1988 to 1991. He has written a number of papers and articles on monetary and exchange rate affairs and related topics.

Arnór Sighvatsson graduated from the University of Iceland with a BA in history and philosophy and pursued graduate study in the United States, where he received an MA and a PhD in economics from Northern Illinois University. He was employed by Statistics Iceland concurrent with his undergraduate studies and taught at Northern Illinois University while pursuing his doctoral degree. He joined the Central Bank of Iceland in 1990 and became Chief Economist and Director of the Economics Department in 2004. He was appointed interim Deputy Governor of the Bank in 2009. From 1993-1995, Arnór served as assistant to the Executive Director of the International Monetary Fund in the Fund's Nordic Office. He has written numerous articles and scholarly papers on monetary and exchange rate matters.

### **Central Bank organisation**

The Bank's activities take place in six main departments. The General Secretariat 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

General Secretariat handles regular communications with international credit rating agencies, the International Monetary Fund, and non-financial transactions with foreign financial institutions. The Legal Services staff prepares a wide range of contractual agreements for the Bank, as well as preparing legal documents and debt instruments and participating in the preparation of laws, regulations, and legal opinions. The Library and Collection Department is a part of the General Secretariat. It carries out library operations, as well as overseeing the Central Bank and National Museum numismatic collection.

The Capital Controls Surveillance Unit (CCSU) is a new department answering directly to the Governor. 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. The CCSU also handles requests for exemptions from the Rules on Foreign Exchange.

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

The Finance Department oversees financial information for the Bank and its subsidiaries, as well as handling accounting entry for the National Festival gift from Norway and the Greenland Fund, which are administered by the Bank. The Department also handles accounting relative to Treasury bond redemption and Treasury foreign borrowing. Furthermore, it administers the Bank's SWIFT system, as well as overseeing payments for the Bank, the Treasury, and State enterprises. It also handles the operation of the Bank's payment systems. The Department's activities are divided into two units: Accounting and Back Office.

The Financial Stability Department's activities centre on the stability and effectiveness of financial institutions and markets. The Department's operations are divided into three units related to financial stability: Financial Systems, Payment Systems, and Contingency. The Cashier's Unit also belongs to the Financial Stability Department. The Financial Systems Unit carries out analysis of financial undertakings and the structure of the financial system, as well as supervising the Central Bank's precautionary rules. Payment Systems oversees the most important payment and settlement systems, sets policy for system development, drafts and sets rules, lends support to market solutions, and handles operations, as well as overseeing payment systems. Contingency handles the development and preparation of stress tests and contingency-related projects. The Cashier's Unit carries out the issuance and handling of notes and coin. The Financial Stability Department publishes an annual report entitled *Financial Stability*.

The Economics 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 Economics Department also participates in the publication of *Financial Stability*. The Department comprises two units: Analysis and Publications and Research and Forecasting.

The Operations Department is in charge of security, procurement, budgeting, expenditure control, and the operation and administration of the Bank's real estate and equipment. The Department also handles human resources and payroll affairs, as well as a variety of in-house services. Operations is also responsible for the Bank's archives.

The Statistics and IT Department handles the compilation, entry, and processing of statistical data that the Central Bank compiles for its work. It also operates the Bank's computer systems and databases. The Bank collects information on a regular basis about the domestic credit market, balance of payments, and external position of the economy. Most institutions and companies operating in the domestic credit market report monthly on balance sheet items. They are also obliged to provide the Central Bank with information about interest rate changes as soon as such changes are made. The balance of payments and external position are calculated on a quarterly basis. 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 the Bank's publications and on the Statistics pages of its website. All statistical data are also available in English. The Statistics and IT Department comprises four units: 1) Information Technology; 2) operation and maintenance of the Bank's FAME database, 3) data compilation and entry, and 4) data processing and communication.

### Human resources

Considerable changes took place in Central Bank staffing during 2009. Nine employees left the Bank or retired, and 19 new staff members were hired. The number of summer employees was similar to previous years. Four employees retired during the year: Ágústa Johnsen, supervisor in the Office of the Board of Governors, retired after nearly 50 years of service; Hólmsfríður Ingibergsdóttir, Operations Department employee, retired after 44 years; Erla Árnadóttir, Chief Accountant, retired after over 12 years' employment; and Guðmundur Björnsson, Auditing Department, retired after nine years. Þórarinn G. Pétursson was appointed Chief Economist and Director of the Economics Department, after having served as Deputy Chief Economist and Chief of Research and Forecasting. Rannveig S. Sigurðardóttir, Chief of Analysis and Publications in the Economics Department, was appointed to the post of Deputy Chief Economist. Ásgeir Daníelsson was appointed Chief of Research and Forecasting to replace Þórarinn G. Pétursson. Kristín Hannesdóttir was appointed Chief Accountant and Director of the Finance Department. Sýlvía Kristín Ólafsdóttir, Chief of Contingency in the Financial Stability Department, left the Bank, and Harpa Jónsdóttir was engaged to take her place. Ingibjörg Guðbjartsdóttir was hired as Director of a newly established department, the Capital Controls Surveillance Unit.

The General Secretariat expanded its staff by six, the Finance and Financial Stability Departments by two each, and the Operations and Statistics and IT Departments by one each, and the Internal Audit Department was closed and its activities outsourced, reducing staffing by two positions.

In 2009, the Supervisory Board of the Central Bank of Iceland decided to engage the Icelandic National Audit Office to carry out the Bank's internal auditing activities. The Bank's Internal Audit Department was closed. Chief Auditor Stefán Svavarsson (appointed by the Supervisory Board) left the Bank's employ, and his one assistant retired.

At year-end 2009, the Bank's staff numbered 135 persons (excluding part-time employees in custodial services), 74 males and 61 females, an increase of 11 since 2008. The number of full-time equivalent positions was 126.6. Five employees were in part-time posts equivalent to 3.6 positions, and the Icelandic Banks' Data Centre was responsible for seven of the 14 positions in the joint cafeteria, security, and maintenance and janitorial services it shares with the Central Bank.

#### Wage agreements

Most Central Bank employees are members of the Federation of Bank Employees and are paid salaries according to its wage agreements. The current wage agreement expires at year-end 2010. It provides for a pay rise of 14,000 kr. to all employees effective January 1, 2010, subject to a minimum pay increase of 2.5%. This increase has been postponed until 1 June 2010.

#### Equal opportunities policy

The Board of Governors first confirmed the Bank's equal opportunities strategy in 1996. An equal opportunities committee has been active since that time. The equal opportunities strategy has been reviewed regularly, most recently in 2007. The Bank's equal opportunities policy was confirmed at that time.



From a meeting of The Supervisory Board in late 2009. From the left: Jón Þ. Sigurgeirsson, Már Guðmundsson, Ragnar Árnason, Katrín Olga Jóhannesdóttir, Björn Herbert Guðbjörnsson, Lára V. Júlíusdóttir, Ragnar Arnalds, Hildur Traustadóttir, Ingibjörg Ingvadóttir, Arnór Síghvatsson and Þórarinn G. Pétursson.



## Central Bank of Iceland

### 31 December 2009

## Supervisory Board

### *Principal members*

Lára V. Júlíusdóttir, Chairman  
 Ragnar Arnalds, Deputy Chairman  
 Björn Herbert Guðbjörnsson (elected 15 December 2009)  
 Hildur Traustadóttir  
 Ragnar Árnason  
 Katrín Olga Jóhannesdóttir  
 Daniel Gros (elected 15 October 2009)

### *Alternates*

Margrét Kristmannsdóttir  
 Anna Ólafsdóttir Björnsson  
 Gunnar Svavarsson (elected 15 December 2009)  
 Guðrún Ágústa Guðmundsdóttir  
 Birgir Þór Runólfsson  
 Ingibjörg Ingvadóttir  
 Friðrik Már Baldursson

## Governor

Már Guðmundsson

## Deputy Governor

Arnór Sighvatsson

### *Principal Officers*

Economics Department:	Þórarinn G. Pétursson Chief Economist
Finance Department:	Kristín Hannesdóttir Director
Financial Stability Department:	Tryggvi Pálsson Director
General Secretariat:	Jón Þ. Sigurgeirsson Director
International and Market Operations Department:	Sigurður Sturla Pálsson Director
Legal Services:	Sigríður Logadóttir Chief Attorney
Operations Department:	Ingvar A. Sigfússon Director
Statistics and IT Department:	Tómas Örn Kristinsson Director
Capital Controls Surveillance Unit:	Ingibjörg Guðbjartsdóttir Head

## Employees

### SECRETARIAT

Ellen Hrefna Haraldsdóttir  
Jón Þorvarður Sigurgeirsson  
Lilja Dögg Alfreðsdóttir  
Ragnheiður Jónsdóttir  
Stefán Jóhann Stefánsson  
Þorsteinn Þorgeirsson

### Legal Services

Magnús Ingi Erlingsson  
Sigfús Gauti Þórðarson  
Sigríður Logadóttir

### Capital controls surveillance unit

Andri Gunnarsson  
Ingibjörg Guðbjartsdóttir  
Jón Karlsson

### Library and Collection

Anton Holt  
Guðbjörg Þórarinsdóttir  
Magný Gyða Ellertsdóttir  
Sigurborg Ólafsdóttir  
Sigurbjörg Sigurðsson  
Valborg Stefánsdóttir

### INTERNATIONAL AND MARKET OPERATIONS DEPARTMENT

Bergur Barðason  
Björgvin Sighvatsson  
Daniel Svavarsson  
Freyr Hermannsson  
Gerður Ísberg  
Gréta María Grétarsdóttir  
Hafsteinn Hafsteinnsson  
Halldór Sveinn Kristinsson  
Hallgrímur Ólafsson  
Haukur Camillus Benediktsson  
Helga Rún Helgadóttir  
Oddgeir Gunnarsson  
Ósvaldur Kjartan Knudsen  
Sigurður G. Thoroddsen  
Sigurður Sturla Pálsson  
Viðar Rúnar Geirsson

### ACCOUNTING DEPARTMENT

Alf Houmøller Pedersen  
Anna Sveins Árnadóttir  
Arndís Leifsdóttir  
Árni Þórðarson  
Berglind Ósk Björgvinsdóttir  
Guðrún Elín Herbertsdóttir  
Hafðís Helgadóttir  
Halldóra Konráðsdóttir  
Ísólfrur Sigurðsson  
Jónína Guðbjartsdóttir  
Kristín Hannesdóttir  
Margrét Einarsdóttir

Oddný Lára Eiríksdóttir  
Oddrún Jónasdóttir

### FINANCIAL STABILITY DEPARTMENT

Bryndís Ásbjarnardóttir  
Elín Kristjana Sighvatsdóttir  
Guðmundur Kristján Tómasson  
Guðrún Ögmundsdóttir  
Harpa Jónsdóttir  
Jan David Tysk  
Jónas Þórðarson  
Páll Kolka Ísberg  
Perla Ösp Ásgeirsdóttir  
Tryggvi Pálsson

### Cashier's Unit

Auður Gísladóttir  
Ingveldur S. Kristjánsson  
Jóhanna Pétursdóttir  
Kolbrún Jóhannsdóttir  
Kristján Guðmundsson  
Sigríður Ketilsdóttir  
Stefán Arnarson

### ECONOMICS DEPARTMENT

Ásgeir Daníelsson  
Guðrún Yrsa Richter  
Gunnar Gunnarsson  
Helga Guðmundsdóttir  
Hörður Garðarsson  
Karen Áslaug Vignisdóttir  
Magnús Fjalar Guðmundsson  
Markús Möller  
Martin Seneca  
Ólafur Örn Klemensson  
Rannveig S. Sigurðardóttir  
Regína Bjarnadóttir  
Rósa Björk Sveinsdóttir  
Svava Jóhanna Haraldsdóttir  
Þorvarður Tjörvi Ólafsson  
Þórarinn Gunnar Pétursson

### OPERATIONS DEPARTMENT

Birna Kristín Jónsdóttir  
Eva Benediktsdóttir  
Ingvar Alfreð Sigfússon  
Kristín Gunnarsdóttir  
Þórður Gautason

### Maintenance and Janitorial Services

Bogey R. Hreiðarsdóttir  
Guðný Harpa Hallgrímsdóttir  
Hildur Hrönn Hreiðarsdóttir  
Karítas Ísaksdóttir  
Kristinn Unnarsson  
Marteinn Jóhannesson  
Olga Aðalbjörg Björnsdóttir  
Ólafía Egilsdóttir  
Ragnheiður Elva Rúnarsdóttir  
Rita Sigurðardóttir

Sigurlaug Jósepsdóttir  
Sólveig Kristinsdóttir  
Stefanía Hrönn Guðnadóttir

### Cafeteria

Bergþóra Óskarsdóttir  
Guðlaug Erla Ingólfssdóttir  
Halla Kristín Björnsdóttir  
Sigríður Laufey Guðmundsdóttir  
Sigurborg Jónsson

### Design and Printing

Sigríður María Jónsdóttir  
Sigurborg Steingrímsdóttir  
Sveinn Auðunn Blöndal

### Secretaries

Hrafnhildur Georgsdóttir  
Klara Jóhannsdóttir  
Þórey Þórarinsdóttir

### Archives

Eva Sóley Sigurðardóttir  
Guðrún Sigmarsdóttir  
Hilmar Gunnþór Garðarsson  
Sveinbjörg Rut Helgadóttir

### Transport

Garðar Halldórsson  
Karl G. Smith

### Security

Guðleifur Svanbergsson  
Gunnlaugur Magnússon  
Hannes Ólafsson  
Hólmgeir Helgi Hákonarson  
Jóhann Gunnar Friðjónsson  
Sigurður Sigurðsson  
Sveinbjörn Kristjánsson  
Þorsteinn Þorvaldsson

### STATISTICS AND IT DEPARTMENT

Anna Karen Arnarsdóttir  
Arnar Freyr Guðmundsson  
Bryndís Pétursdóttir  
Einar Örn Ólafsson  
Eva Hjördís Bjarnadóttir  
Fjóla Agnarsdóttir  
Guðmundur Harðarson  
Gylfi Vilberg Árnason  
Hrönn Helgadóttir  
Jakob Gunnarsson  
Karl Jóhann Magnússon  
Lárus Jóhannesson  
Lilja Anna Gunnarsdóttir  
Margrét Sigríður Guðjónsdóttir  
Mark Townley  
Pétur Örn Sigurðsson  
Ríkarður Bergstað Ríkarðsson  
Svava Óskarsdóttir  
Tómas Örn Kristinsson  
Tryggvi Eyvindsson  
Örn Jónasson



## ANNUAL ACCOUNTS 2009



## *Independent Auditor's Report*

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

We have audited the accompanying Annual Accounts of the Central Bank of Iceland for the year 2009, which comprise a report from the Supervisory Board and the Governors, Profit and Loss account, Balance Sheet, Statement of Cash Flows, summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Annual Accounts*

Management is responsible for the preparation and fair presentation of these Annual Accounts in accordance with generally accepted accounting principles in Iceland and the Icelandic Annual Accounts Act. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Annual Accounts 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 Annual Accounts 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 Annual Accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Annual Accounts, 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 Annual Accounts 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 Annual Accounts.

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

*Opinion*

In our opinion, the Annual Accounts give a true and fair view of the financial position of the Central Bank of Iceland as of December 31, 2009, and of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles in Iceland applied on a consistent basis.

*Emphasis of matter*

Without qualifying our opinion, we draw attention to Note 23 in the Annual Accounts which appropriately describes the proper restatement of comparative figures related to the year 2008 because of material and unusual transactions between the Central Bank of Iceland and its owner, the Central Government. The intention of the transactions were to secure an acceptable equity ratio for the Central Bank of Iceland and the management of the Central Bank of Iceland have therefore restated the comparative figures for the year 2008 to describe the substance of these transactions.

Kópavogur, March 19, 2010

Deloitte hf.

Benóni Torfi Eggertsson  
State Authorized Public Accountant

Jón Rafn Ragnarsson  
State Authorized Public Accountant

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

The Supervisory Board and the Governor of the Central Bank of Iceland hereby confirm the Annual Accounts of the bank for the year 2009.

Reykjavík, March 17, 2010

### Supervisory Board

*Ragnar Arnalds  
Hildur Traustadóttir  
Katrín Olga Jóhannesdóttir*

*Lára V. Júlíusdóttir  
Chairman*

*Björn Herbert Guðbjörnsson  
Ragnar Árnason  
Daniel Gros*

### Governor

*Már Guðmundsson*

## Confirmation by the minister of economic affairs

With reference to the statements of the auditor, the Supervisory Board and the Governor, the Annual Accounts are hereby ratified.

Reykjavík, March 25, 2010

*Gylfi Magnússon*

## Profit and Loss Account for the Year 2009

	Notes	2009	2008
<b>Interest income</b>			
From domestic assets .....		67,165,053	71,002,316
From foreign assets .....		9,340,025	12,833,835
		<u>76,505,078</u>	<u>83,836,151</u>
<b>Interest expense</b>			
From domestic liabilities .....		50,642,966	55,640,308
From foreign liabilities .....		10,633,445	8,484,573
		<u>61,276,411</u>	<u>64,124,881</u>
<b>Net interest income</b>	16	<b>15,228,667</b>	<b>19,711,270</b>
<b>Other operating revenues</b>			
Service revenues .....		445,089	388,333
Service expenses .....		(253,789)	(187,747)
Revenues of shares .....		55,554	93,330
Revaluation from shareholdings .....		3,547,100	3,863,404
Revaluation of gold .....		1,668,139	162,560
Exchange rate gains on foreign exchange transactions .....		1,361,499	1,432,571
		<u>6,823,593</u>	<u>5,752,451</u>
<b>Net income from operations</b>		<b>22,052,260</b>	<b>25,463,721</b>
<b>Other operating expense</b>			
Wages and salaries and related expenses .....	12	1,324,140	1,171,122
Other operating expenses .....		872,061	1,692,413
Expense due to banknotes and coin .....		211,494	115,517
Depreciation of fixed assets .....	6	94,335	90,520
		<u>2,502,030</u>	<u>3,069,572</u>
Write-offs of collateral claims .....	4, 23	22,073,493	249,903,000
		<u>24,575,523</u>	<u>252,972,572</u>
<b>Loss for the year w/o transfer to and from Treasury</b>		<b>(2,523,264)</b>	<b>(227,508,851)</b>
Transfer to the Treasury .....	11	0	0
Transfer from the Treasury .....	23	0	174,903,000
<b>Loss without exchange rate difference</b>		<b>(2,523,264)</b>	<b>(52,605,851)</b>
Exchange rate difference .....	17	3,023,442	43,980,457
<b>Profit (loss) for the year</b>	14	<b>500,178</b>	<b>(8,625,394)</b>

Amounts are in ISK thousands

## Balance sheet 31 December 2009

ASSETS	Notes	2009	2008
<b>Foreign assets</b>			
Bank deposits .....		241,054,034	207,256,518
Gold .....	5	8,663,849	6,652,894
Securities .....	5	231,573,927	211,855,297
FX balance with the International Monetary Fund .....	7	3,648,662	3,515,293
Other foreign assets apart from foreign reserves .....	2	190,046	210,651
Foreign assets		<u>485,130,518</u>	<u>429,490,653</u>
<b>Domestic assets</b>			
<i>Deposit money banks</i>			
Collateral loans and overnight loans .....	9	10,949,172	110,334,271
Foreign loans to banks .....		3,076,555	8,475,000
Swap agreements .....		8,120,917	14,238,789
Other claims .....		6,722,016	0
		<u>28,868,660</u>	<u>133,048,060</u>
<i>Other financial institutions</i>			
Listed securities .....		3,132,781	2,757,323
Collateral loans .....		0	13,665,591
Past-due collateral loans and overnight loans .....	4	328,411,553	231,024,172
Foreign-denominated loans due and payable .....	4	162,202,466	102,467,609
		<u>493,746,800</u>	<u>349,914,695</u>
<i>National Treasury</i>			
Securities due to takeover of collateral loans .....	4	161,141,869	270,005,388
Foreign securities .....		4,256,573	0
		<u>165,398,442</u>	<u>270,005,388</u>
<i>Other parties</i>			
Miscellaneous accounts .....		132,975	117,386
Securities .....		50,514	61,759
		<u>183,489</u>	<u>179,145</u>
<i>Fixed operational assets</i>			
Real estate and liquid assets .....	6	4,754,354	4,821,724
Domestic assets		<u>692,951,743</u>	<u>757,969,012</u>
<b>Total assets .....</b>		<u><u>1,178,082,262</u></u>	<u><u>1,187,459,665</u></u>
Assets not included in the Balance Sheet .....	15		



## Balance sheet 31 December 2009

### Liabilities and equity

	Notes	2009	2008
<b>Foreign liabilities</b>			
Deposits of non-residents .....		36,752,068	58,029,541
Loans from Nordic central banks .....	8	14,570,280	76,373,187
Counterpart to IMF .....	7	21,970,839	3,058,311
Loan from IMF .....	7	130,695,818	104,521,027
		<u>203,989,005</u>	<u>241,982,066</u>
<b>Domestic liabilities</b>			
Banknotes and coin .....		28,957,678	24,436,438
<i>Deposit money banks</i>			
Current account .....		87,607,042	90,617,889
Certificates of deposit .....		36,359,094	167,600,343
FX accounts .....		75,485,112	111,771,235
Swap agreements .....		9,408,543	16,519,266
		<u>208,859,791</u>	<u>386,508,733</u>
<i>Other financial institutions</i>			
Current accounts .....		35,412,352	4,415,226
Certificates of deposit .....		668,738	9,826,958
Time deposits, FX .....		153,141,635	0
		<u>189,222,725</u>	<u>14,242,184</u>
<i>Treasury and government institutions</i>			
Treasury, current accounts .....	11	166,050,140	168,722,997
Treasury, time deposits .....		6,672,821	16,482,643
FX accounts .....		49,129,190	2,376,001
Foreign-denominated bonds .....		179,997,675	169,404,066
Treasury borrowings for expansion of FX reserves .....		44,537,142	45,365,912
Government institutions, current accounts .....		281,500	894,607
		<u>446,668,468</u>	<u>403,246,226</u>
<i>Other liabilities</i>			
Miscellaneous parties .....		17,157,002	34,318,954
Pension obligations .....	10	349,569	347,218
		<u>17,506,571</u>	<u>34,666,172</u>
		<u>891,215,234</u>	<u>863,099,753</u>
<b>Equity</b>			
Guarantee capital .....	14	57,501,000	57,501,000
Revaluation of real estate and liquid asset .....	14	4,606,855	4,990,681
Other equity .....	14	20,770,169	19,886,165
		<u>82,878,024</u>	<u>82,377,846</u>
		<u>1,178,082,262</u>	<u>1,187,459,665</u>
<b>Guarantees</b>			
	15		

Amounts are in ISK thousands

## Statement of Cash Flows 2009

OPERATING ACTIVITIES:	2009	2008
Net profit (net loss) for the year .....	500,178	(8,625,394)
<i>Operating items not involving cash:</i>		
Depreciation of fixed assets .....	94,335	90,520
Exchange rate differences on assets and liabilities .....	12,193,771	(16,539,609)
Exchange rate differences on cash position .....	(15,217,213)	(27,440,848)
Various valuation changes, assets and liabilities .....	(29,402,674)	(3,757,613)
Loans written off .....	22,073,493	249,903,000
Transfer from Treasury .....	0	(174,903,000)
<i>Change in operating assets and liabilities, net</i> .....	<u>(45,327,513)</u>	<u>(4,647,598)</u>
To (from) operating activities	<u>(55,085,622)</u>	<u>14,079,458</u>
 <b>INVESTING ACTIVITIES:</b>		
Collateral loans and overnight loans granted .....	130,457,221	(393,209,629)
Foreign-denominated loans to domestic parties .....	(7,493,275)	(100,178,849)
Purchase price of property and equipment .....	(24,677)	(37,067)
Capital shares sold .....	0	633,921
Securities purchased .....	(4,256,573)	(1,702,110)
Collected instalments on securities, etc. ....	272,341	197,293
Securities purchased in foreign reserves .....	(64,428,800)	(59,902,623)
Securities sold from foreign reserves .....	59,723,019	116,842,323
Total investing activities	<u>114,249,256</u>	<u>(437,356,742)</u>
 <b>FINANCING ACTIVITIES:</b>		
Notes and coins in circulation, increase .....	4,521,240	8,701,012
Stand-by facility from IMF .....	39,608,619	115,743,131
Loans taken from (repaid to) Nordic central banks .....	(67,743,880)	67,742,000
Other loans (installment) .....	(47,437,513)	91,548,418
Certificate of deposit, increase (decrease) .....	(146,313,900)	176,448,336
Time deposits, decrease .....	(9,300,000)	(10,100,000)
Foreign currency deposits, increase .....	153,544,018	84,124,384
Increase (decrease) in deposits, DMBs .....	26,947,240	(58,503,653)
Increase in deposits, other .....	8,787,359	32,930,418
Increase (decrease) in deposits, central government .....	(3,249,644)	75,110,625
Total financing activities	<u>(40,636,460)</u>	<u>583,744,671</u>
 <b>CHANGES IN CASH POSITION:</b>		
Foreign cash balance, increase .....	18,527,174	160,467,386
Exchange rate differences on cash position .....	15,217,213	27,440,848
Foreign cash balance at beginning of year .....	<u>207,309,648</u>	<u>19,401,414</u>
Foreign cash balance at year-end .....	<u>241,054,034</u>	<u>207,309,648</u>

## Notes to the Annual Accounts 2009

1. The annual accounts have been prepared in accordance with the Annual Accounts Act, no. 3/2006, the provisions of the Act on Financial Undertakings, no. 161/2002, and the Rules on Central Bank Accounting and Annual Accounts, no. 1088/2005.
  - The Annual Accounts for the group include those of the parent company and its subsidiaries. Subsidiaries are companies controlled by the group. Control exists when the group has decision-making power concerning the operations and financial management of the subsidiaries. Among the objectives of consolidated financial reporting is to publish only income, expenses, assets, and liabilities vis-à-vis external parties; therefore, internal transactions are netted out in preparing the financial statements.
  - Assets and liabilities denominated in foreign currencies are translated into Icelandic krónur (kr.) using the mid. exchange rate at the end of 2009. Income and expenses in foreign currencies are converted using the exchange rate on the date of transaction. Exchange rate gains/losses are posted to the Profit and Loss Account.
  - Assets and liabilities linked to price indices are shown in the Balance Sheet with accrued indexation at year-end, stated in terms of the relevant index figures for January 2010 reflecting price levels at year-end 2009. Indexation is entered in the Profit and Loss Account under Interest income / on domestic loans.
  - Debt securities in foreign reserves are recorded at market value, and valuation changes are entered in the Profit and Loss Account. The valuation changes reflect the difference between market value and book value based on amortized cost, with unamortized discounts and premiums being recorded based on straight line basis which approximates effective interest cost.
  - Income is entered when earned, whether or not it has been collected. Likewise, expenses are entered when incurred, whether or not they have been paid. Changes in the valuation of debt securities are also entered in the Profit and Loss account regardless of whether they are realized or unrealized.
  - In preparing the Statement of Cash Flows the conventional classification of activities is used and the cash position refers to foreign bank balances.
  - Share investments are stated at cost since the shares owned by the Bank are not listed.
  - 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

### Summary of accounting policies

method, fixed tangible 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.

## Shareholdings

- 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.
2. The Bank's holding in the Bank for International Settlements (BIS) is entered at cost price. At the end of 2009 the bank held 1,070 shares at nominal value of 5,000 SDR. This holding is entered under the item Foreign Assets/Assets not included in foreign reserves. The book value at year-end 2009 amounted to 184.5 m.kr. and the nominal value being 261,8 m.kr. (1.3 m. SDR). The bank has paid 25% of the nominal value of each share or 1,250 SDR; thus, the remainder, or 75%, is unpaid and the bank is obliged to pay the outstanding shares if they are called. The bank's interest in the book value of equity amounts to 5,9 b.kr. at year end 2009.
  - The item Other/Miscellaneous accounts includes equity in Fjöl-greiðslumiðlun hf., a netting service provider. The book value of this holding is 1.2 m.kr. which is also the nominal value.

## Subsidiaries

	<i>Location</i>	<i>Ownership share</i>	<i>Nominal value, m.kr.</i>	<i>Primary activities</i>
Sölvhóll ehf.	Iceland	100%	1.000.000	Operating company
Central Bank of Iceland Asset Management ehf.	Iceland	100%	1.000.000	Holding company

## Central Bank of Iceland Asset Management ehf. and Sölvhóll ehf.

3. Until 2008, the Bank had not sustained any losses due to credit risk. In the wake of the banking collapse of 2008-2009, however, it has become clear that the Bank has sustained some losses due to unsecured collateral for collateral loans that were deemed sound at the time the loans were granted. (In view of this, the Treasury, as the owner of the Bank, purchased securities with a book value of 345 b.kr. at year-end 2008 and paid for them with an indexed five-year debt instrument in the amount of 270 b.kr.) At the same time 75 b.kr. has been written off. At year-end 2009, it was decided that the Central Bank would buy back the assets in question and then sell them to a separate subsidiary owned by the Bank and bearing the name Central Bank of Iceland Asset Management ehf. (ESI). Another Central Bank subsidiary, Sölvhóll ehf., is an operating company whose role will be to maximise the value of the assets in the holding company (ESI) and divest them when market conditions permit, subject to the approval of the ESI board. This arrangement provides the Bank with an effective means of separating the operations and assets related to the crash from its conventional activities.

<i>Changes in the Treasury debt instrument are itemised as follows:</i>		
	2009	2008
Balance at beginning of year	270,005,388	0
Purchases during the year	0	270,005,388
Indexation	23,303,301	0
Interest paid	(5,265,887)	0
Accrued interest	7,099,067	0
Payment	(134,000,000)	0
Balance at year-end	<u>161,141,869</u>	<u>270,005,388</u>

<i>Collateral loans due and payable are itemised as follows:</i>		
	2009	2008
Balance at beginning of year	333,491,781	0
Collateral loans due and payable during the year	117,269,848	678,496,781
Collateral loans purchased from the Treasury	134,000,000	0
Collateral loans sold to the Treasury	0	(95,102,000)
Collateral loans written off	(22,073,493)	(249,903,000)
Instalments and exchange rate differential	(72,074,117)	0
Balance at year-end	<u>490,614,019</u>	<u>333,491,781</u>

5. The bank's foreign assets amounted to 485,1 b.kr. at the end of 2009 but were 429,5 b.kr. at the end of the previous year. The figure includes the gold reserves of the Central Bank which amounted to 63,785.1 troy ounces. The gold is valued at its market value at the end of 2009 which was 1087,50 US dollars pr. troy ounce which is equivalent to 135,829 kr. At the end of 2009 the bank's gold reserves therefore amounted to 8.7 b.kr.

## Foreign assets and gold

<i>Holdings of gold are itemised as follows (thous.kr.):</i>		
	2009	2008
Balance at beginning of year	6,652,894	3,305,189
Purchases during the year	0	9,442
Revaluation	1,668,139	150,843
Exchange rate differential	342,816	3,187,420
Balance at year-end	<u>8,663,849</u>	<u>6,652,894</u>

- Returns on bonds and bank balances in foreign reserves during the year were as follows, by currency:

	<i>Bonds</i>	<i>Bank balances</i>
USD	2.34%	0.16%
EUR	5.71%	0.41%
GBP	4.12%	0.35%

6. 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

## Fixed assets

method or the revaluation method. According to the cost-price method, fixed tangible 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 at year end 2009 are itemised as follows (figures in thous.kr.):

	Land	Real estate	Equipm./ furnish	Collections	Total
<i>Cost price and valuation</i>					
Cost price at beginning of year 2008 . . . . .	0	90,976	41,746	2,726	135,449
Valuation at beginning of year 2008 . . . . .	24,000	4,575,331	181,945	237,000	5,018,275
<i>Total at beginning of year 2008</i>	24,000	4,666,307	223,691	239,726	5,153,724
Capitalised during the year . . . . .	0	0	34,473	5,399	39,872
Sold (cost price) . . . . .	0	0	(3,905)	0	(3,905)
Cost price at beginning of year 2009 . . . . .	0	90,976	72,314	8,126	171,416
Valuation at beginning of year 2009 . . . . .	24,000	4,575,331	181,945	237,000	5,018,275
<i>Total at beginning of year 2009</i>	24,000	4,666,307	254,259	245,126	5,189,692
Capitalised during the year . . . . .	0	0	30,877	0	30,877
Sold (cost price) . . . . .	0	0	(8,890)	0	(8,890)
Cost price at beginning of year 2009 . . . . .	0	90,976	103,191	8,126	202,293
Valuation at beginning of year 2009 . . . . .	24,000	4,575,331	173,055	237,000	5,009,385
<i>Total at beginning of year 2009</i>	24,000	4,666,307	276,246	245,126	5,211,679
<i>Depreciation</i>					
Cost price at beginning of year 2008 . . . . .	0	787	13,831	0	14,619
Valuation at beginning of year 2008 . . . . .	0	145,548	117,829	0	263,376
<i>Total at beginning of year 2008</i>	0	146,335	131,660	0	277,995
Depreciation for the year at cost price . . . . .	0	892	16,347	0	17,239
Depreciation for the year at valuation price . . . . .	0	49,003	24,278	0	73,281
Sold (cost price) . . . . .	0	0	(547)	0	(547)
Cost price at beginning of year 2009 . . . . .	0	1,679	29,631	0	31,311
Valuation at beginning of year 2009 . . . . .	0	194,551	142,107	0	336,657
<i>Total at beginning of year 2009</i>	0	196,230	171,738	0	367,968
Depreciation for the year at cost price . . . . .	0	892	22,592	0	23,484
Depreciation for the year at valuation price . . . . .	0	49,003	21,848	0	70,851
Sold (valuation) . . . . .	0	0	(4,978)	0	(4,978)
Cost price at year-end 2009 . . . . .	0	2,572	52,223	0	54,795
Valuation at year-end 2009 . . . . .	0	243,554	158,976	0	402,530
<i>Total at year-end 2009</i>	0	246,126	211,199	0	457,325
<i>Book value</i>					
Book value at beginning of year 2008 . . . . .	24,000	4,519,972	92,031	239,726	4,875,730
Book value at beginning of year 2009 . . . . .	24,000	4,470,077	82,521	245,126	4,821,724
Book value at year-end 2010 . . . . .	24,000	4,420,181	65,046	245,126	4,754,354
Depreciation percentages . . . . .	0%	1-3%	10-33%	0%	
Estimated utilisation period . . . . .		33-80 years	3-10 years		
<i>The property valuation and insurance valuation of the company's assets are itemised as follows:</i>					
	<i>Property valuation</i>			<i>Insurance valuation</i>	
Real estate . . . . .			4,143,935		5,727,769
Furnishings, equipment and works of art, insurance . . . . .					783,085

7. Iceland's quota with the International Monetary Fund (IMF) amounted to 117.6 m. SDR at the end of 2009. One-fourth of the quota was originally paid with a gold contribution and the remainder in Icelandic currency. The bank's reserve tranche position with IMF was 18.6 m. SDR which is the difference between the quota and IMF's total króna holdings at the bank (see table). The bank's borrowing in the form of SDR allocation from the IMF amounted to 112.2 m. SDR. The bank received the second payment on the Stand-by facility with the IMF, 105 m.SDR.

## International Monetary Fund

Assets	In m.kr.	
	SDR	ISK
Central Bank of Iceland's quota .....	117.6	23,021.4
Total currency holdings .....	(99.0)	(19,373.7)
Reserve tranche position .....	18.6	3,647.7
Accrued interest on tranche .....	0.0	1.0
SDR deposit with IMF .....	92.8	18,160.5
	<u>111.4</u>	<u>21,809.2</u>
<i>Liabilities</i>		
	SDR	ISK
SDR allocation with IMF .....	112.2	21,961.2
Currency holdings, No. 2 account .....	0.0	0.6
Accrued interest on allocation .....	0.0	8.9
Stand-by facility .....	665.0	130,180.4
Accrued interest on stand-by facility .....	2.6	515.4
	<u>779.9</u>	<u>152,666.6</u>

- The stand-by facility, 665 m. SDR, is the first and second payment on a loan from the IMF. The downpayment on the loan was received on Nov. 19, 2008, and the second payment on Oct. 30, 2009, and the average interest cost for the period to year-end 2009 is approximately 2.37%, excluding lending fees amounting to 3.1 m. SDR. The remainder of the loan, as per loan agreement with the IMF, will be paid in seven equal instalments with each payment amounting to 105 m. SDR, for a total of 735 m. SDR. The loan, a total of 1.4 b. SDR, is for reimbursement under four years from 2012 onwards.
8. The Bank entered into swap agreements with the central banks of Denmark, Norway and Sweden. The agreement was for 500 m. euros from each of the banks for a total of 1,500 m. euros. The swap contracts were renewed on a monthly basis and the interest paid was approximately 3%. In November 2009, the Bank paid up outstanding swap agreements in the amount of 100 million euros from each bank. Therefore, at year-end, there were no outstanding swap agreements with the Nordic central banks.
- On 21 December 2009, the first tranche of the loan from the Nordic countries was disbursed to Iceland in connection with the macroeconomic programme of the Icelandic Government and the International Monetary Fund (IMF). The tranche amounted to 300 m. euros, of which the Central Bank of Iceland borrowed 81 m. euros, or approximately 14.5 b.kr., from Norges Bank, but loans

## Foreign debt

from Denmark, Sweden and Finland are with the Treasury. Iceland is authorised to draw up to 444 million euros until the Second Review of the programme.

- It was not considered necessary to draw further on the loan facility at present; therefore, 144 million euros will be carried over to the next period, which begins upon completion of the Second Review. The disbursed amount will be invested as a portion of the Central Bank of Iceland foreign exchange reserves.

### Financial institutions

9. Credit institutions that are participants in the Central Bank's Real-Time Gross Settlement (RTGS) system pledge collateral for payment in the system. Collateral is in the form of securities. The amount corresponds to the intraday overdraft for participants to meet fluctuations on their RTGS accounts.
  - At the end of 2009, market value of collateral securities in the RTGS system amounted to 18.25 b.kr.
  - Credit institutions pledge collateral to the custody of the Central Bank for their collateral loans in accordance with Rules No 997/2004.

### Pension obligation

10. According to actuarial valuations, the bank's total pension obligations towards former Governors of the Bank and their spouses, as well as towards the directors of the National Economics Institute, for which the bank was responsible for half the costs, amounted to 349.6 m.kr. at the end of 2009. Payments during the year towards this obligation amounted to 49.9 m.kr. reduce previously recorded debt. The increase in the pension obligation, after taking into account payments for the year, amounted to 52.2 m.kr. which was expensed.

*Changes in liability during the year are as follows:*

	2009	2008
Pension obligation at beginning of year .....	347,218	320,719
Paid due to retirement.....	(49,878)	(45,284)
Increase during the year.....	52,229	71,783
Pension obligation at year-end.....	<u>349,569</u>	<u>347,218</u>

### Central Government

11. The Central Bank's transfer to the Treasury, according to Article 34 of the Central Bank Act, no. 36/2001, is equal to two-thirds of its net profit (excluding exchange rate loss or gain) in the year, provided that its equity (excluding revaluation of fixed assets) exceeds 2.25% of the outstanding lending and domestic securities stock of the credit system at the end of the year, but otherwise one-third. The bank's equity was below this limit at the end of 2009. Therefore, a transfer would have been based on one third of profit except that the bank incurred a loss in 2009 (excluding exchange rate loss or gain) so there will be no transfer to the central government for 2009.



- The Bank borrowed funds from the Central Government to increase foreign reserves at the end of 2006. The Treasury sold bonds on foreign markets and lent the proceeds to the Bank in the amount of 1 b. euros. The nominal interest rate is 3.75% but the bonds sold at the effective rate of 3.88%. The maturity date of the bond is December 1, 2011, but interests are paid yearly on December 1.
- The Bank also borrowed from the Central Government in late 2008 for the purpose of increasing the reserves. The government took a loan from Bayerische Landesbank in the amount of 300 m. euros. The loan was received at the end of September with interest to be paid bi-annually in March and September and the due date is in September 2011. The funds lent to the Bank will be denominated in kronur, and the equivalent amount in kr. is 43.5 b. kr. Interest on the loan will be equal to the interest paid on deposits of money banks, currently 9.5%. Borrowing cost were borne by the Treasury. The book value of the debt at the end of 2009 was 44.6 b. kr. including accrued interest.
- Deposits of the Central Government with the Bank amounted to 447 b. kr. at the end of 2009 as compared with 403 b. kr. at the end of 2008 for an increase of 44 b. kr. New foreign loans from Denmark, Finland and Sweden in order to strengthen the foreign reserve to the Central Government amounted to 40.2 b.kr. and a time deposit amounted to 9.3 b.kr was paid. Other changes are explained by exchange rate difference and valuation changes.

12. Total remuneration and fees to the Board of Governors and Supervisory Board amounted to 95.1 m.kr. in 2009. Governors are not remunerated for sitting on boards and committees that are established jointly by the financial market institutions and companies, or to which the Central Bank appoints representatives by law.

#### Salaries and payroll costs

Salaries and payroll costs are specified as follows (in thous.kr.):

	2009	2008
Salaries .....	1,048,976	915,850
Payroll costs.....	222,935	183,490
Pension obligation.....	52,229	71,782
	<u>1,324,140</u>	<u>1,171,122</u>
Average number of positions .....	127	116

13. Total emoluments of the Supervisory Board and Board of Governors, in m.kr:

	2009	2008
<i>Governors</i>		
Davíð Oddsson.....	16,1	25,3
Eiríkur Guðnason.....	23,5	19,8
Ingimundur Friðriksson .....	18,7	19,7
Svein Harald Øygaard.....	15,5	
Már Guðmundsson .....	7,4	
<i>Supervisory Board</i>		
Halldór Blöndal.....	0,7	3,4
Lára V. Júlíusdóttir.....	2,4	
Other Board members and alternates (19), (12)	10,8	11,5
	<u>95,1</u>	<u>79,7</u>

## Equity and net profit

14. Over the past five years, the Bank's equity has developed as follows (in m.kr.):

Equity	2009	2008	2007	2006	2005
Equity at beginning of year (excl. revaluation)	77,386	86,012	43,236	31,379	34,198
Capital contribution	0	0	44,000	0	0
Net profit (loss) before transfer and exch.differences	(2,523)	227,509	7,013	48	(186)
Collateral loans reclaimed from the Treasury	0	174,903	0	0	0
Transfer to Treasury	0	43,980	(2,338)	(16)	0
Exc. rate diff., gain (loss)	3,023	43,980	(5,899)	11,825	(2,633)
Equity at end of year (excl. revaluation)	77,886	77,386	86,012	43,236	31,379
Reval. of fixed assets	4,607	4,991	4,991	4,991	4,991
Depreciaton of revaluaton	39				
Equity at year-end	<u>82,878</u>	<u>82,378</u>	<u>91,003</u>	<u>48,227</u>	<u>36,370</u>
<i>Position at year-end in b.kr.</i>					
Total assets	1,178.1	1,187.4	476.8	321.8	162.3
Equity - excluding revaluation of equity	77.9	77.4	86.0	43.2	31.4
Equity / total assets	6.6%	6.5%	18.0%	13.4%	19.3%

## Guarantees and off-balance sheet commitments

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

The Central Bank of Iceland's participation in the Icelandic Banks' Data Centre is not capitalised in the Annual Accounts. In terms of form, operations are conducted jointly by all of Iceland's banks and savings banks, in accordance with an agreement to this effect. According to the collaboration agreement, the Central Bank of Iceland originally contributed one-fifth of its initial capital. The net worth of the Icelandic Banks' Data Centre was 1.5 b.kr. at year-end 2009.

At year-end 2009, the Central Bank had negotiated access to loan facilities from foreign financial institutions in the amount of 700 million US dollars, or 90 b.kr. The Bank had not utilised that credit line by the end of 2009.

## Net interest income

16. Net interest income totalled 15.2 b.kr. in 2009, as opposed to 19.7 b.kr. in the prior year. The change is due primarily to a reduction in net interest income on the foreign exchange reserves:

	2009	2008
<i>Net interest income on monetary policy instruments:</i>		
Interest income on collateral loans.....	67,165,053	71,002,316
Interest exp. on required dep. with credit inst.	(3,403,223)	(5,998,252)
Interest expense on certificates of deposit....	(11,491,599)	(13,992,949)
	<u>52,270,231</u>	<u>51,011,115</u>
<i>Net interest income on foreign reserves:</i>		
Interest income on foreign bank balances....	542,019	1,650,294
Interest income on foreign debt securities....	8,642,722	9,925,373

Interest exp. on Central Governm. fin. loan ..	(9,568,862)	(6,856,944)
	(384,122)	4,718,723
<i>Other interest income (expense):</i>		
Interest expense on Central Government's deposits:		
Time deposits .....	(6,376,549)	(3,263,727)
Demand deposits .....	(20,276,486)	(21,487,274)
	(26,653,035)	(24,751,001)
Interest income on other assets .....	58,468	1,258,167
Other interest expense to credit institutions ..	(9,027,227)	(9,056,194)
Interest expense on foreign debt and dep. ...	(1,035,648)	(3,469,540)
	(36,657,442)	(36,018,568)
Net interest income	15,228,667	19,711,270

17. The exchange rate gain for the 2009 amounted to 3.0 b.kr., as compared with 43.9 b.kr. in the previous year. The exchange rate revaluation is calculated based on the following items (figures in thous.kr.):

	2009	2008
Gold .....	342,816	3,187,420
IMF accounts, net .....	12,371	11,786,879
Foreign bank balances .....	15,217,213	27,440,849
Foreign securities .....	11,478,886	124,975,203
Foreign short-term debt .....	(14,210,481)	(9,846,996)
Foreign deposits/debt denominated in foreign currencies .....	(9,817,364)	(113,562,898)
Net exchange rate differences	3,023,442	43,980,457

18. The Central Bank of Iceland is a public institution assigned with specific duties according law which relate primarily to monetary policy decisions and the management of foreign reserves. The risk in the banks operation is therefore of a different character even though the same terms are used as by commercial banks. The risks the bank faces are primarily of the following types: interest rate risk, foreign currency risk, credit risk and liquidity risk. These risks are briefly explained in the following notes. Additionally, the bank's operational risk is the risk of human errors and failure of internal processes and systems. The operational risk is managed on a daily basis by the bank's personnel and every care is taken to implement internal controls and procedures to minimize the risk of errors and other failures.

19. Interest rate risk is the risk of a loss due to changes in interest rates. It is the Bank's investment policy, with respect to foreign debt securities, to invest only in liquid securities issued by highly rated parties. The return on these securities is also considered when investments are made. The bank has thus far not been an active trader; rather it has been the bank's policy for the most part to invest in debt securities and hold until the due date. The portfolio is, however, under constant supervision and the securities are sold if there is the slightest evidence of a possible default or decrease in value due to credit risk. The bank does not use derivative to manage its interest rate risk on its investment in foreign securities, bank deposits or liabilities, and the same applies to domestic assets and liabilities. The return on domestic assets in form of collateral loans

## Exchange rate differences

## Risk management

## Interest rate risk

is dependent on the effective discount rate at each time; interest on the deposits of commercial banks as well as the central government are determined based on such discount rates. The net interest income of the Bank is dependent on two things. On one hand, it is based on the difference between interest rates on assets and liabilities, and on the other hand, the net interest income is based on the average amount invested in assets and the corresponding liabilities. The assets and liabilities are specified as follows with the related actual interest and the related calculated average interest rates for the year 2009:

*Analysis of interest by assets and liabilities*

Figures are in b.kr.

	Year-end 2009	Year-end 2008	Avg. position	Interest recorded 2009	Calcul. avg. interest
<i>Assets</i>					
Bank balances.....	241.1	207.3	215.1	0.74	0.3%
Gold.....	8.7	6.6	7.6	0.00	0.0%
Debt securities.....	231.6	211.9	221.7	8.65	3.9%
Reserve position with the IMF.....	3.6	3.5	12.7	0.02	0.1%
Foreign assets excl. from reserves.....	0.2	0.2	0.2	0.00	0.0%
Collateral loans and overnight loans.....	10.9	226.5	118.7	1.20	1.0%
Listed securities.....	3.1	2.8	3.0	0.69	23.4%
Other securities and assets	22.3	14.4	18.4	4.38	23.9%
Central Government.....	161.1	270.0	216.6	33.70	15.6%
Loans due and payable....	490.6	239.5	365.0	27.12	7.4%
	<u>1,173.3</u>	<u>1,182.6</u>	<u>1,178.0</u>	<u>76.51</u>	<u>6.5%</u>
Other assets	4.8	4.8	4.8		
	<u>1,178.1</u>	<u>1,187.4</u>	<u>1,182.7</u>		
<i>Liabilities</i>					
Foreign deposits.....	36.8	134.4	85.6	0.00	0.0%
IMF loan and SDR allocation.....	152.7	107.6	130.1	2.92	2.2%
Banknotes and coin.....	29.0	24.4	26.7	0.00	0.0%
Commercial bank deposits	123.0	95.0	109.0	12.43	11.4%
Commercial bank foreign deposits.....	75.5	111.8	93.6	0.00	0.0%
Term deposits. FX.....	153.1	0.0	76.6	0.07	0.1%
Certificates of deposit.....	37.0	177.4	107.2	10.36	9.7%
Central Government deposits.....	166.3	169.6	168.0	20.28	12.1%
Foreign long-term debt....	14.6	0.0	7.3	0.00	0.0%
Central Government. time deposits.....	6.7	16.5	11.6	1.13	9.8%
Central Government, foreign deposits.....	49.1	2.4	25.8	0.07	0.3%
Central Government, foreign loans.....	224.5	214.8	219.7	13.00	5.9%
Pension obligations.....	0.3	0.3	0.3	0.00	0.0%
Other debt.....	26.6	50.8	38.7	1.02	2.6%
	<u>1,095.3</u>	<u>1,105.0</u>	<u>1,100.1</u>	<u>61.28</u>	<u>5.6%</u>
Equity.....	82.9	82.4	82.6		
	<u>1,178.1</u>	<u>1,187.4</u>	<u>1,182.8</u>		

Note: The average position for Central Government foreign deposits as calculated above is not representative for the actual average position.

20. The foreign currency risk is the risk of loss due to changes in exchange rates. The bank has not used derivative instruments to manage the foreign currency risk. The currency ratios of the assets in reserves are dependent on the ratios in foreign trade for the economy as a whole and in that connection the euro is dominant. The bank's assets and liabilities denominated in foreign currencies specified as follows at the end of 2009 (all figures are in m.kr.):

## Foreign currency risk

### Analysis of foreign currency financial assets and liabilities 2008

Assets	EUR	USD	GBP	SDR	JPY	NOK	Other curr.	Total
Bank								
balances	71,112	89,083	26,224		3,934	14,255	2,649	207,257
Gold		6,652						6,652
Debt								
securities	178,012	24,789	9,054					211,855
Res.position IMF				3,515				3,515
Domestic								
loans	118,294		2,975		2,939		1,186	125,394
Loans due and payable	101,209							101,209
	<u>468,627</u>	<u>120,524</u>	<u>38,253</u>	<u>3,515</u>	<u>6,873</u>	<u>14,255</u>	<u>3,835</u>	<u>655,882</u>
<b>Liabilities</b>								
Foreign								
deposits	124,232	5,686	4,405			69	11	134,403
Loan from IMF				107,579				107,579
Foreign curr.								
dep.	44,788	28,748	21,380			14,169	5,062	114,147
Loan- res.								
investm.	169,404							169,404
	<u>338,424</u>	<u>34,434</u>	<u>25,785</u>	<u>107,579</u>	<u>0</u>	<u>14,238</u>	<u>5,073</u>	<u>525,533</u>
Difference	<u>130,203</u>	<u>86,090</u>	<u>12,468</u>	<u>(104,064)</u>	<u>6,873</u>	<u>17</u>	<u>(1,238)</u>	<u>130,349</u>
Equity at year end.....								<u>82,377</u>

### Analysis of foreign currency financial assets and liabilities 2009

Assets:	Evra	Dollar	Pund	SDR	JPY	Nok	Other curr.	Total
Bank bal.	78,663	49,124	37,763	18,160	512	54,826	2,006	241,054
Gold		8,664						8,664
Debt								
securities	194,488	28,091	8,994					231,574
Res.position IMF				3,649				3,649
Domestic								
loans	169,261	526	3,911		3,005	631	512	177,846
	<u>442,412</u>	<u>86,405</u>	<u>50,668</u>	<u>21,809</u>	<u>3,517</u>	<u>55,457</u>	<u>2,518</u>	<u>662,787</u>
<b>Liabilities:</b>								
Foreign								
deposits	2,034					34,717		36,751
Loan from IMF				152,667				152,667
Foreign curr.								
dep.	145,982	39,684	36,190		719	53,149	2,033	277,757
Loan- res.								
investm.	194,568							194,568
	<u>342,584</u>	<u>39,684</u>	<u>36,190</u>	<u>152,667</u>	<u>719</u>	<u>87,866</u>	<u>2,033</u>	<u>661,743</u>
Difference	<u>99,829</u>	<u>46,721</u>	<u>14,478</u>	<u>(130,858)</u>	<u>2,798</u>	<u>(32,409)</u>	<u>485</u>	<u>1,044</u>
Equity at year end.....								<u>82,878</u>

## Credit risk

21. Credit risk is the risk that asset claims will be lost due to deteriorating financial condition of debtors and they will not be able to repay their debt towards the bank. Until 2008 the bank had not experienced such losses. Due to the liquidity problems of the commercial banks which led to solvency issues, the Central Bank will incur losses due to decreasing value of collaterals, and which have proven to be inadequate even though such collaterals were deemed to be of good quality at the time of lending.

*Credit risk of FX reserve assets by credit rating:  
(Figures in m.kr.)*

	Rating	Year end 2008	Ratio
Foreign bank balances.....	AAA	207,257	48.3%
Debt securities, GBP.....	AAA	8,148	1.9%
Debt securities, GBP.....	AA	905	0.2%
Debt securities, USD.....	AAA	22,310	5.2%
Debt securities, USD.....	AA	2,479	0.6%
Debt securities, EUR.....	AAA	122,829	28.6%
Debt securities, EUR.....	AA	46,283	10.8%
Debt securities, EUR.....	A	8,901	2.1%
Other assets in reserves.....	AAA	10,167	2.4%
Foreign assets outside reserves...		211	0.0%
Financial assets in reserves		<u>429.490</u>	<u>100,0%</u>

*Credit risk of FX reserve assets by credit rating:  
(Figures in m.kr.)*

	Rating	Year end 2009	Ratio
Foreign bank balances.....	AAA	241,054	45.95%
Debt securities, GBP.....	AAA	9,365	1.93%
Debt securities, USD.....	AAA	21,152	4.36%
Debt securities, EUR.....	AAA	132,362	27.28%
Debt securities, EUR.....	AA	50,816	10.47%
Debt securities, EUR.....	A	7,812	1.61%
Other assets in reserves.....	AAA	12,314	6.28%
Foreign assets outside reserves...		190	0.04%
Debt securities, EUR, w/o credit rating.....		10,067	2.08%
Financial assets in reserves		<u>485,131</u>	<u>100.0%</u>

## Liquidity risk

22. Liquidity risk is the risk of not being able to honor payment obligations as they fall due. This risk also comprises the risk of selling financial assets at a lower price than their fair value. The following table shows the estimated maturity of assets and liabilities on due dates. The first column shows assets and liabilities without a fixed maturity or expected to be used permanently. The table is shown both in domestic and foreign currencies.

*Maturity analysis of assets and liabilities 2008 (m.kr.):*

	<i>Past due</i>	<i>No fixed maturity</i>	<i>3 months or less</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
<i>Foreign assets</i>							
Bank balances .....			207,257				207,257
Gold .....		18	6,634				6,652
Debt securities .....			211,855				211,855
Reserve position IMF .....		3,458	57				3,515
Assets exc. from reserve .....		184			27		211
Loans to domestic banks .....			116,707	8,475			125,182
Loans, past due .....	101,209						101,209
	<u>101,209</u>	<u>3,660</u>	<u>542,510</u>	<u>8,475</u>	<u>27</u>	<u>0</u>	<u>554,672</u>
<i>Foreign liabilities</i>							
Short-term debt/deposits .....			248,549				248,549
Loan from IMF .....		3,058			104,521		107,579
Long-term debt .....					169,404		169,404
		<u>3,058</u>	<u>248,549</u>	<u>0</u>	<u>273,925</u>	<u>0</u>	<u>525,532</u>
Foreign curr. maturity gap	<u>101,209</u>	<u>602</u>	<u>293,961</u>	<u>8,475</u>	<u>(273,898)</u>	<u>0</u>	<u>29,140</u>
<i>Domestic assets</i>							
Collateral loans .....			124,001				124,001
Loans, past due .....	231,024						231,024
Listed securities .....				35	160	2,562	2,757
Other .....			117	14	48		179
Central government .....					270,005		270,005
Real estate and liquid assets .....		4,822					4,822
	<u>231,024</u>	<u>4,822</u>	<u>355,142</u>	<u>49</u>	<u>270,213</u>	<u>2,562</u>	<u>632,788</u>
<i>Domestic liabilities</i>							
Notes and coins .....		24,437					24,437
Deposits .....			111,553				111,553
Certificates of deposits .....				177,427			177,427
Central gov. deposits .....			168,723				168,723
Central gov. time dep. .....				16,483	45,366		61,849
Public institutions, dep. ....			895				895
Various other .....			34,319				34,319
Pension obligations .....				45	180	122	347
Equity .....		82,378					82,378
	<u>0</u>	<u>106,815</u>	<u>315,490</u>	<u>193,955</u>	<u>45,546</u>	<u>122</u>	<u>661,928</u>
Domestic currency gap	<u>0</u>	<u>(101,993)</u>	<u>39,652</u>	<u>(193,906)</u>	<u>224,667</u>	<u>2,440</u>	<u>(29,140)</u>
Foreign curr.y maturity gap	<u>101,209</u>	<u>602</u>	<u>293,961</u>	<u>8,475</u>	<u>(273,898)</u>	<u>0</u>	<u>29,140</u>
Total amounts	<u>101,209</u>	<u>(101,391)</u>	<u>333,613</u>	<u>(185,431)</u>	<u>(49,231)</u>	<u>2,440</u>	<u>0</u>

*Maturity analysis of assets and liabilities 2009 (m.kr.):*

	<i>Past due</i>	<i>No fixed maturity</i>	<i>3 months or less</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
<i>Foreign assets</i>							
Bank balances .....		148,782	92,273				241,055
Gold .....		23	8,641				8,664
Debt securities .....			235,831				235,831
Reserve position IMF .....		3,649					3,649
Assets exc. from reserve .....		184			6		190
Loans to domestic banks .....			3,077	8,121			11,197
Loans, past due .....	162,202						162,202
	<u>162,202</u>	<u>152,639</u>	<u>335,564</u>	<u>8,121</u>	<u>6</u>	<u>0</u>	<u>662,787</u>
<i>Foreign liabilities</i>							
Short-term debt/deposits .....			314,508				314,508
Loan from IMF .....		21,971			130,697		152,667
Long-term debt .....					179,998	14,570	194,568
		<u>21,971</u>	<u>314,508</u>	<u>0</u>	<u>310,694</u>	<u>14,570</u>	<u>661,743</u>
Foreign curr. maturity gap .....	162,202	130,668	21,056	8,121	(310,688)	(14,570)	1,044
<i>Domestic assets</i>							
Collateral loans .....			10,949				10,949
Loans, past due .....	328,412						328,412
Listed securities .....				0	186	2,946	3,133
Other .....		6,722	183				6,906
Central government .....					161,142		161,142
Real estate and liquid assets .....		4,754					4,754
	<u>328,412</u>	<u>4,754</u>	<u>17,671</u>	<u>183</u>	<u>161,328</u>	<u>2,946</u>	<u>515,295</u>
<i>Domestic liabilities</i>							
Notes and coins .....		28,958					28,958
Deposits .....			123,019				123,019
Certificates of deposits .....			37,028				37,028
Central gov. deposits .....			166,050				166,050
Central gov. time dep. .....				6,673	44,537		51,210
Public institutions, dep. ....			282				282
Various other .....			17				17
Pension obligations .....				50	200	100	350
Equity .....		82,878					82,878
	<u>0</u>	<u>111,836</u>	<u>326,396</u>	<u>6,723</u>	<u>44,737</u>	<u>100</u>	<u>489,791</u>
Domestic currency gap	328,412	(107,081)	(308,725)	(6,539)	116,591	2,847	25,504
Foreign curr. maturity gap	162,202	130,668	21,056	8,121	(310,688)	(14,570)	1,044
Total amounts	490,614	23,587	(287,669)	1,582	(194,097)	(11,723)	26,548

*Instalments on long-term debt are itemised as follows:*

Instalments 2011 .....	224,585
Instalments 2012 .....	32,724
Instalments 2013 .....	32,724
Instalments 2014 .....	34,805
Later .....	45,213
Total long-term debt .....	<u>370,051</u>



23. In the wake of the liquidity crunch experienced by commercial banks and the banking system in general in 2008, it became clear that the Central Bank had sustained some losses due to unsecured collateral for collateral loans that were nonetheless deemed sound when the loans were granted. In view of this, the Central Bank of Iceland and the Treasury concluded an agreement according to which the Treasury would take over a portion of the Central Bank's collateral loans and overnight loans. The objective of the agreement was to ensure that the Central Bank would have an acceptable equity position in the wake of the financial crisis that struck in the fall of 2008. According to the agreement, the Treasury, as the owner of the Bank, purchased securities with a book value of 345 b.kr. and paid for them with an indexed five-year debt instrument in the amount of 270 b.kr. Of the total amount, secured collateral was valued at 51 b.kr., while the remainder was less sound. In view of this, the difference, 75 b.kr., was written off in the Central Bank's Annual Accounts for 2008. In assessing the claims, however, the Treasury, as the owner, decided based on the risk involved to write off the claims at the outset by 174.9 b.kr. On 11 February 2010, an appendix to the agreement was concluded, as the parties agreed that the claims should be transferred back to the Bank again at a reduced price as of 31 December 2009.

### Changes in comparative amounts from 2008

#### Changes in comparison amounts from the 2008 Annual Accounts:

	<i>Change in comparison amounts</i>	<i>Annual account 2008</i>
<i>Other operating expense</i>		
Wages and salaries and related expenses .....	1,171,122	1,171,122
Other operating expenses .....	1,692,413	1,692,413
Expense due to banknotes and coin. ....	115,517	115,517
Depreciation of fixed assets .....	90,520	90,520
	<u>3,069,572</u>	<u>3,069,572</u>
Write-offs of collateral claims .....	249,903,000	75,000,000
	<u>252,972,572</u>	<u>78,069,572</u>
Loss for the year excluding reclaim from the Treasury .....	(227,508,851)	(52,605,851)
Reclaim from the Treasury .....	174,903,000	0
Loss without exchange rate difference	(52,605,851)	(52,605,851)
Exchange rate difference .....	43,980,457	43,980,457
Profit (loss) for the year	<u>(8,625,394)</u>	<u>(8,625,394)</u>



## APPENDICES



## Press releases in 2009

No. 1	January 6, 2009	Exchange rate indices
2	January 6, 2009	Foreign exchange transactions by the Central Bank of Iceland
3	January 28, 2009	Misstatements about foreign exchange reserves in Fréttabladid
4	January 29, 2009	The Central Bank of Iceland leaves its policy rate unchanged
5	February 27, 2009	Act no. 5/2009 amending the Act on the Central Bank of Iceland, no. 36/2001
6	March, 2, 2009	Capital control not lifted at the present time
7	March 3, 2009	Balance of payments in the fourth quarter of 2008 and the external position
8	March 3, 2009	Monetary Policy Committee
9	March 4, 2009	Three-month certificates of deposit issued on March 25, 2009
10	March 19, 2009	Policy rate lowered
11	March 19, 2009	<i>Statement of the Central Bank of Iceland Monetary Policy Committee:</i> Cautious easing of monetary policy is now appropriate
12	April 8, 2009	Policy rate lowered
13	April 8, 2009	<i>Statement of the Central Bank of Iceland Monetary Policy Committee:</i> Careful easing of monetary policy continues
14	May 7, 2009	Policy rate lowered
15	May 7, 2009	<i>Statement of the Central Bank of Iceland Monetary Policy Committee:</i> Monetary easing continues
16	June 4, 2009	Policy rate lowered
17	June 4, 2009	<i>Statement of the Central Bank of Iceland Monetary Policy Committee:</i> Continued monetary easing conditional on favourable exchange rate developments
18	June 4, 2009	Balance of payments in the first quarter of 2009 and the external position
19	June 30, 2009	New Rules on Central Bank of Iceland Facilities for Financial Undertakings
20	July 1, 2009	Joint press release on Nordic credits to Iceland
21	July 4, 2009	Policy rate unchanged
22	July 4, 2009	<i>Statement of the Central Bank of Iceland Monetary Policy Committee:</i> Further monetary easing requires a stronger króna
23	July 15, 2009	Written Statement from the Central Bank of Iceland
24	July 31, 2009	Capital account liberalization strategy approved
25	August 13, 2009	Policy rate unchanged
26	August 13, 2009	<i>Statement of the Central Bank of Iceland Monetary Policy Committee:</i> Further monetary easing requires a stronger króna
27	August 20, 2009	Már Guðmundsson takes over as Governor of the Central Bank
28	September 3, 2009	Balance of payments in the second quarter of 2009 and the external position
29	September 15, 2009	Thórarinn G. Pétursson appointed as Chief Economist of the Central Bank of Iceland
30	September 18, 2009	Surveillance of Foreign Exchange Rules tightened
31	September 24, 2009	Central Bank of Iceland interest rate decision and issuance of 28-day certificates of deposit
32	September 24, 2009	<i>Statement of the Central Bank of Iceland Monetary Policy Committee:</i> Unchanged monetary policy stance
33	October 31, 2009	First stage of capital account liberalisation
34	November 5, 2009	Monetary Policy Committee interest rate decision
35	November 5, 2009	<i>Statement of the Central Bank of Iceland Monetary Policy Committee:</i> Interest rate corridor aligned to the effective monetary policy stance
36	November 26, 2009	Balance of payments in the third quarter of 2009 and the external position
37	December 10, 2009	MPC decision on interest rates

- 38 December 10, 2009 *Statement of the Central Bank of Iceland Monetary Policy Committee: Gradual monetary easing continues*
- 39 December 21, 2009 *First tranche of Nordic loan disbursed to Iceland*

## Publications by the Central Bank of Iceland in 2009

### *In English:*

Annual report 2008

Monetary Bulletin 2009, four issues

Financial Stability 2009

Economic Indicators, eleven issues

Economic Affairs, February 2009

The Economy of Iceland 2008

Central Bank of Iceland Working Papers No. 41: QMM: A Quarterly Macroeconomic Model of the Icelandic Economy, by Ásgeir Daniélsson, Magnús F. Guðmundsson, Svava J. Haraldsdóttir, Þorvarður T. Ólafsson, Ásgerður Ó. Pétursdóttir, Þórarinn G. Pétursson og Rósa Sveinsdóttir

Central Bank of Iceland Working Papers No. 42: Inflation control around the world: Why are some countries more successful than others?, by Þórarinn G. Pétursson

Central Bank of Iceland Working Papers No. 43: Does inflation targeting lead to excessive exchange rate volatility?, by Þórarinn G. Pétursson

Central Bank of Iceland Working Papers No. 44: QMM: A steady state version, by Ásgeir Daniélsson

Central Bank of Iceland Working Papers No. 45: Survey Evidence on Customer Markets, by Ali Choudhary, Þorlákur Karlsson og Gylfi Zoëga

Central Bank of Iceland Working Papers No. 46: Employment and Asset Prices, by Gylfi Zoëga

Central Bank of Iceland Working Papers No. 47: A double-edged sword: High interest rates in capital-control regimes, by Gylfi Zoëga

### *In Icelandic:*

Ársskýrsla 2008

Fjármálastöðugleiki 2009

Peningamál 2009, four issues

Hagvísar Seðlabanka Íslands, eleven issues

Efnahagsmál, February 2009

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

## Economic and monetary chronicle 2009

### January 2009

On January 1, the Iceland Civil Aviation Administration operations at Keflavík Airport and Leifur Eiríksson International Airport were merged into a State-owned corporation called Keflavik Airport Ltd.

On January 2, the listing of the exchange rate index was discontinued. The old index, which bore the abbreviation GVT, was replaced with an index based on a narrow trade basket (TWI), which was recalculated so that its January 2 value equalled that of the GVT index.

On January 6, the Government announced that it would thoroughly investigate the possibility of seeking legal remedy before the European Human Rights Court because of the UK authorities' application of the Anti-Terrorism, Crime and Security Act of 2001 against Landsbanki in late 2008. The Government also reiterated that it would support legal action by the Kaupthing resolution committee because of the British Financial Services Authority's conduct against Kaupthing subsidiary Singer & Friedlander on October 8, 2008. It will also support possible legal action taken by the Landsbanki resolution committee against the British authorities.

On January 8, Fitch Ratings announced that it had affirmed its ratings for Kaupthing Bank hf., Landsbanki Íslands hf., and Glitnir hf. (the old Icelandic banks). The ratings for short- and long-term obligations were affirmed at D, the support rating was 5, and the individual rating was F. The agency also announced that it would no longer assign credit ratings for the banks.

On January 23, Moody's Investors Service released its annual sovereign credit report on the Republic of Iceland. The report stated that Moody's still considered Iceland an investment-grade country despite the current financial and economic crisis and the challenges it faces. However, the negative outlook for the Baa1 rating was maintained because "the economic outlook remains uncertain and could quickly change."

On January 26, the coalition government between the Independence Party and the Social Democratic Alliance was dissolved. A coalition between the Social Democratic Alliance and the Leftist Green Party assumed control on February 1, under the leadership of Prime Minister Jóhanna Sigurðardóttir.

On January 28, the Ministry of Finance published a statement of Treasury assets and liabilities. It is assumed that the Treasury's total liabilities will rise by just over 400 b.kr. in 2009. In addition, the Treasury will guarantee the debt due to Icesave/Edge and the loans from the IMF and others to the Central Bank of Iceland, in the amount of almost 1,300 b.kr. The Treasury's debt is estimated to approach 1,100 b.kr. by year-end 2009. According to the National Budget for 2009, the Treasury deficit for the year will be 150 b.kr.

On January 29, the Board of Governors of the Central Bank of Iceland decided to hold the Bank's policy interest rate unchanged at 18%.

### February 2009

On February 3, the Minister of Health cancelled the consultation fee charged by hospitals and health care institutions. The previous regulation, set on December 29, 2008, was revoked.

On February 9, Moody's Investors Service announced that it had lowered (old) Kaupthing Bank hf.'s credit rating for long-term obligations from Caa1 to C. The bank's short-term obligations are still rated as "Not Prime" and the financial strength rating is E.

On February 11, Moody's Investors Service announced that it had lowered (old) Glitnir Bank hf.'s credit rating for long-term obligations from Caa1 to C. The bank's short-term obligations are still rated as "Not Prime" and the financial strength rating is E.

On February 12, the International Monetary Fund published a report entitled, "Iceland-SBA-Review Under the Emergency Financing Mechanism", about the progress of the economic programme drafted by the Fund and the Government of Iceland. The report was a part of the Stand-By Arrangement granted by the IMF to the Icelandic Government on November 19, 2008, and was written following the visit to Iceland by the IMF mission on December 15-19, 2008.

On February 19, the District Court of Reykjavík extended Kaupthing and Glitnir's moratoria on payment until November 13, 2009.

On February 25, the Icelandic Federation of Labour (ASÍ) and the Confederation of Icelandic Employers (SA) agreed to postpone the implementation of the negotiated wage increases that were to take effect on March 1, and to postpone their review of contractual wage settlements for up to four months. Despite the postponement of general wage hikes, the agreement contained a provision stipulating that minimum wages should rise to 157,000 kr. and that several other provisions should take effect, including lengthened vacation time.

On February 26, Parliament passed legislation amending the Act on the Central Bank of Iceland. The new Act provides for one Governor and one Deputy Governor within the Central Bank instead of a Board of Governors. The Governor and Deputy Governor are to be appointed following advertisement of the positions; applicants must have completed a master's degree in economics or a related field and must possess extensive experience and knowledge of monetary issues. Decisions on the application of the Bank's monetary policy instruments will henceforth be made by a Monetary Policy Committee, but in other respects, the Bank's direction shall be in the hands of the Governor. In this context, the Bank's monetary policy instruments include decisions on interest rates, specified transactions with credit institutions, determination of reserve requirements, and currency market transactions intended to influence the exchange rate of the króna. Upon the entry into force of the amendment, the Board of Governors was abolished, as were the positions of the three governors then constituting the Board.



On February 27, the Prime Minister appointed Svein Harald Øygard and Arnór Sighvatsson to temporary positions as Central Bank Governor and Deputy Governor, respectively, in accordance with the amended Central Bank Act. They will remain in office until the Prime Minister has made permanent appointments on the basis of an advertisement pursuant to the provisions of the Act.

### March 2009

On March 3, the District Court of Reykjavík extended Landsbanki Íslands hf.'s moratorium on payment until November 26, 2009.

On March 3, the Governor of the Central Bank decided that Thórarinn G. Pétursson, Acting Chief Economist of the Central Bank, should take a seat on the Monetary Policy Committee. Other members include Central Bank Governor Svein Harald Øygard, who also chairs the Committee, and Deputy Governor Arnór Sighvatsson. That same day, the Prime Minister appointed two external representatives, Dr. Gylfi Zoëga and Dr. Anne Sibert, to the Monetary Policy Committee.

On March 5, Parliament agreed to repeal an act of law from 2003 concerning retirement income for the president of Iceland, governmental ministers, members of Parliament, and Supreme Court judges. Their terms of remuneration in retirement will henceforth be on a par with those of other civil servants.

On March 6, Parliament passed legislation providing for 100% reimbursement of value-added tax on on-site labour for construction work done on residential property. The increased reimbursement percentage applies to the period March 1, 2009 to July 1, 2010.

On March 9, the Financial Supervisory Authority announced that it had intervened in the operations of Straumur-Burdaras Investment Bank hf. on the basis of the provisions of Article 100(a) of the Act on Financial Undertakings, no. 161/2002. The Financial Supervisory Authority appointed a resolution committee, which assumed all of the authorisations of Straumur's Board of Directors.

On March 9, Fitch Ratings announced that it had lowered Straumur-Burdaras Investment Bank's rating for long-term obligations from B to D. The agency has stopped issuing ratings for Straumur.

On March 10, Moody's Investors Service announced that it had lowered (old) Landsbanki Íslands hf.'s credit rating for long-term obligations from Caa1 to C. The bank's short-term obligations are still rated as "Not Prime" and the financial strength rating is E. Moody's also announced that it had stopped issuing ratings for the bank.

On March 10, Parliament authorised owners of private pension savings to withdraw up to 1 m.kr. over a nine-month period. The authorisation covers applications submitted between March 1, 2009, and October 1, 2010.

On March 13, the International Monetary Fund mission completed a fifteen-day visit to Iceland. The visit, whose purpose was to review the economic programme prepared by the Fund and the Icelandic Government, was conducted in connection with the USD 2.1 billion Stand-

By Arrangement approved for Iceland by the Executive Board of the Fund on November 19. The mission met with Government officials, members of Parliament, and representatives of the private sector and labour organisations.

On March 17, Parliament passed an amendment to the Act on Securities Transactions. The amendment reduced the threshold for mandatory takeover bids from 40% to 33% but provided for exemptions under which, in certain instances, a holding may exceed the threshold without creating a takeover requirement.

On March 17, Parliament passed a statutory amendment authorising the Financial Supervisory Authority to publish the results of its investigations except in exceptional circumstances.

On March 19, the Monetary Policy Committee of the Central Bank of Iceland decided to lower the Bank's policy interest rate by 1.0 percentage point, to 17%.

On March 19, the District Court of Reykjavík granted Straumur-Burdaras Investment Bank hf. a moratorium on payment.

On March 21, the Financial Supervisory Authority announced that it had intervened in the operations of Reykjavík Savings Bank hf. (SPRON) on the basis of the provisions of Article 100(a) of the Act on Financial Undertakings, no. 161/2002. The Financial Supervisory Authority appointed a resolution committee, which assumed all of the authorisations of SPRON's Board of Directors.

On March 21, the Financial Supervisory Authority announced that it had intervened in the operations of Sparisjóðabanki Íslands hf. on the basis of the provisions of Article 100(a) of the Act on Financial Undertakings, no. 161/2002.

On March 23, the District Court of Reykjavík granted Sparisjóðabanki Íslands hf. a moratorium on payment.

On March 26, a Government loan facility was announced. The facility was arranged with VBS Investment Bank and Saga Capital because of the debts that the Treasury took over from the Central Bank. The banks will receive indexed seven-year loans at 2% interest. The loan is subject to various security-related terms and conditions.

On March 27, the Financial Supervisory Authority announced that it appointed a resolution committee for Sparisjóðabanki Íslands hf. on the basis of the provisions of Article 100(a) of the Act on Financial Undertakings, no. 161/2002. The resolution committee assumed all of the authorisations previously held by the bank's Board of Directors.

On March 30, the report prepared by Finnish banking expert Kaarlo Jänkäri was made public. The report centred on the regulatory framework and supervision of banking operations and contained various comments and suggestions for improvements. The Government then appointed a work group to examine the recommendations in the report.

On March 30, Parliament approved amendments to the Act on Bankruptcy, etc., which centre on payment mitigation measures designed to support individuals in severe financial distress. According to the

amended Act, an individual may seek composition of creditors for the purpose of payment mitigation if he can demonstrate that he cannot fulfil his financial commitments and will be unable to do so for the foreseeable future. Under debt mitigation, it is possible to stipulate full cancellation of contractual claims; proportional reduction of such claims; deferral of payment; payment with a share in the instalment amount, either in a single payment or at given intervals during a further specified period of time; change in the form of payment; or the last four of these simultaneously.

On March 30, Parliament passed legislation on guarantors, which includes provisions on required disclosure of information to prospective guarantors and exempts a guarantor's real property from settlement if a claim should fall on him.

On March 31, Parliament agreed to tighten foreign exchange restrictions with amendments to the Customs Act and the Foreign Exchange Act. A new temporary provision added to the Foreign Exchange Act stipulates that exports of goods and services shall take place in foreign currency. The amendment to the Customs Act requires that the transaction price on exportation reports be listed in foreign currency and that it be based on the currency appearing on the exporter's sales invoice, but not Icelandic krónur.

#### **April**

On April 3, the Financial Supervisory Authority announced that it had intervened in the operations of SPM Savings Bank, at the savings bank's request, on the basis of the authority contained in Article 100(a) of the Act on Financial Undertakings, no. 161/2002. The savings bank's assets and liabilities were allocated in accordance with a purchase agreement with New Kaupthing hf. and an agreement with the savings bank's largest creditors.

On April 8, the Monetary Policy Committee of the Central Bank decided to lower the collateral loan rate by 1.5 percentage points to 15.5%. Other Central Bank interest rates were also lowered by the same amount.

On April 8, an agreement was announced between the Ministry of Business Affairs and credit institutions that grant foreign-denominated loans, extending the payment smoothing option for indexed loans to cover foreign-denominated loans as well.

On April 15, Parliament passed Act no. 46/2009 amending the Income Tax Act. The main provisions of the amendment are as follows: i) parties with interest income in Iceland shall be required to pay tax on that income; ii) cancelled debt in accordance with composition of creditors agreements providing for debt mitigation is not considered income; iii) provisions are to be adopted for the taxation of residents that own companies domiciled in low-tax countries.

On April 15, Parliament passed Act no. 44/2009, which amends the provisions in the Act on Financial Undertakings pertaining to the delivery of a financial undertaking to an interim Board of Directors and the requirements for and commencement of winding-up proceedings.

On April 15, Parliament passed Act no. 45/2009, which provides for increases in household mortgage interest allowances. The increase in 2009 was estimated to total 2 b.kr.

On April 15, Parliament passed Act no. 50/2009 on temporary payment mitigation of residential mortgage loans, which can be offered to debtors for up to five years.

On April 17, Parliament passed Act no. 51/2009, which authorises the Minister of Industry to negotiate with prospective owners concerning the construction of an aluminium smelter at Helguvík. Among other provisions, the Act stipulates that the activities of the smelter shall be exempt from future amendments to the principal provisions of the Income Tax Act that may be onerous.

On April 18, agreements between the Minister of Agriculture and the Farmers' Association of Iceland were announced. The agreements set forth provisions for agricultural subsidies over the next few years. According to the agreements, payments will rise by 2% in both 2010 and 2011, and they will also rise by half of the accumulated non-fulfilment of the original agreements, up to a maximum total amount of 5%. In 2012, payments will rise to the amount specified in current agricultural subsidy agreements, subject to a maximum of 5%.

On April 22, the Financial Supervisory Authority announced that Deloitte LLP had completed its valuation of the assets transferred from the old banks in order to form the balance sheets of New Kaupthing Bank, NBI, and Íslandsbanki. Concurrent with this, the consulting firm Oliver Wyman completed its appraisal of the valuation.

On April 24, the Competition Authority announced that commercial banks, savings banks, pension funds, and the Housing Financing Fund were authorised to take co-ordinated action to assist individual mortgage holders in financial distress. Without such authorisation, concerted action of this type could have been in violation of the Competition Act.

On April 27, the District Court of West Iceland granted SPM Savings bank a moratorium on payment.

### **May**

On May 7, the Monetary Policy Committee of the Central Bank decided to lower the collateral loan rate by 2.5 percentage points to 13.0%. Overnight lending rates were also lowered by 2.5 percentage points, and other Central Bank rates were reduced by 3 percentage points.

On May 10, the coalition government of the Social Democratic Alliance and the Left-Green Movement assumed power.

On May 12, the District Court of Reykjavík appointed a winding-up committee for Straumur-Burðarás Investment Bank hf.

On May 22, the District Court of Reykjavík appointed a winding-up committee for Sparisjóðabanki Íslands hf.

On May 28, Parliament passed Act no. 60/2009, raising alcoholic beverage and tobacco taxes, oil charges, and motor vehicle taxes, while

lowering per-kilometre charges. The change was intended to generate some 4.4 b.kr. annually for the Treasury.

## June

On June 4, the Monetary Policy Committee of the Central Bank decided to lower the collateral loan rate by 1 percentage point to 12.0%. The overnight lending rate was also lowered by 1 percentage point.

On June 5, agreements between the governments of Iceland and the Netherlands, on the one hand, and Iceland and the United Kingdom, on the other, were signed. The agreements provide for the liability of the Icelandic Depositors' and Investors' Guarantee Fund for deposits in Landsbanki branches in the two countries, as well as for a Government guarantee of the Fund's financing. The agreements were signed by Iceland subject to parliamentary approval of the Government guarantee.

On June 24, the District Court of Reykjavík approved a request to appoint winding-up committees for SPRON hf. and Frjálsi Investment Bank hf.

On June 26, the Prime Minister appointed Már Guðmundsson as Governor of the Central Bank, effective August 20, and Arnór Sighvatsson as Deputy Governor, effective July 1.

On June 29, Parliament passed Act no. 70/2009, which sets forth various fiscal measures. The measures include the following:

- i) raising the payroll tax by 1.56% of the tax base and raising the contribution to the Wage Guarantee Fund by 0.1% of wages;
- ii) levying a separate 8% tax on individual income in excess of 700,000 kr. per month, irrespective of the spouse's income;
- iii) raising the tax on financial income from 10% to 15% on such income in excess of 42,000 kr. per month and accelerating the collection of the tax,
- iv) tightening income-linking and reducing the tax-free threshold in the social security system,
- v) reducing childbirth leave benefits,
- vi) limiting Government payments to victims and restricting entitlement to indigent party status in court cases,
- vii) revoking payments to the University of Iceland in the amount of parish fees for persons outside organised religious groups.

Estimated revenues from tax code amendments amounted to 17 b.kr. on a full-year basis, and 8.6 b.kr. in 2009, excluding the Treasury's payroll tax payments to itself. The reduction in expenditure was estimated at 4.5 b.kr. on a full-year basis, and 2.2 b.kr. in 2009.

## July

On July 1, an agreement was signed between Iceland, on the one hand, and Norway, Denmark, Finland, and Sweden, on the other, concerning a loan of 1,775 million euros from the four Nordic countries to Iceland.

On July 1, revised Rules on Central Bank of Iceland Facilities for Financial Undertakings, no. 553 of June 26, 2009, took effect. The new Rules provided for two major changes. On the one hand, eligibility rules concerning collateral for Central Bank facilities were tightened. The main securities eligible as collateral for Central Bank of Iceland facilities are now Housing Financing Fund bonds, Treasury notes, and Treasury bills. The new Rules also contain provisions that expand and clarify the Central Bank's authorisation to manage market liquidity.

On July 2, the Monetary Policy Committee decided to hold the collateral loan rate unchanged at 12.0%.

On July 3, the Financial Supervisory Authority appointed a three-member interim Board of Directors for SPM Savings Bank on the basis of Article 100(a) of the Act on Financial Undertakings, no. 161/2002, as amended by Act no. 44/2009.

On July 10, the Minister of Fisheries announced the decision on fishing quotas for the principal non-pelagic species in the 2009-2010 fishing year. The quota permitted catches amounting to 150,000 tonnes of cod, 50,000 tonnes of perch, 63,000 tonnes of haddock, and 50,000 tonnes of pollock. The total allowable catch for haddock was reduced by 30,000 tonnes between years, and the cod quota by 12,500 tonnes.

On July 10, Parliament passed Act no. 75/2009, which provides for the establishment of a State-owned limited liability company to support the restructuring of viable non-financial firms.

On July 10, Parliament passed Act no. 73/2009, amending the Foreign Exchange Act. The amendments expand the Financial Supervisory Authority's investigative authority and include penalty provisions for unauthorised intermediation in foreign exchange transactions.

On July 10, Parliament passed Act no. 76/2009, amending the Act on Financial Undertakings. The new amendment makes extensive changes in the legal environment of savings banks. It clarifies provisions on their operational form, revokes their authorisation to convert to limited liability companies, simplifies and tightens the rules on dividend payments, and adds rules on changes to guarantee capital.

On July 16, Parliament authorised the Government to apply for European Union membership. That same day, the Prime Minister, on behalf of the Government, sent the European Union an application for membership for Iceland.

On July 20, the Ministry of Finance announced that agreements had been reached with the resolution committees of the three commercial banks – Glitnir, Kaupthing, and Landsbanki – concerning capitalisation and settlement of assets. The agreement entailed offering the resolution committees of Glitnir and Kaupthing the possibility of acquiring a majority holding in Íslandsbanki and New Kaupthing. In the case of Landsbanki, the agreement centred on the arrangements for continuing negotiations. All of the agreements were subject to the final decision of the resolution committees, which was to be taken following consultation with creditors. They were also subject to the approval of the Financial Supervisory Authority, which must determine whether

the actions taken are in compliance with funding requirements, the banks' strength, and the position of the owners at any given time.

### August

On August 5, the Central Bank announced its strategy for the phased removal of the capital controls. The first phase entails the liberalisation of capital inflows and investment. The liberalisation strategy ensures that assets thus flowing into the country can be expatriated again, provided that they are registered with the Central Bank. In later phases, restrictions on capital outflows will be lifted, first on long-term obligations and then on short-term assets.

On August 11, Parliament elected a new Central Bank Supervisory Board following a proportional election, in accordance with Article 26 of the Act on the Central Bank of Iceland, no. 36 of May 22, 2001. Elected Board members are Lára V. Júlíusdóttir, Ragnar Arnalds, Ágúst Einarsson, Hildur Traustadóttir, Ragnar Árnason, Magnús Árni Skúlason, and Katrín Olga Jóhannesdóttir. The following were elected as alternates: Margrét Kristmannsdóttir, Anna Ólafsdóttir Björnsson, Björn Herbert Guðbjörnsson, Guðrún Ágústa Guðmundsdóttir, Birgir Þór Runólfsson, Ingibjörg Ingvadóttir, and Friðrik Már Baldursson. At the first meeting of the new Supervisory Board, Lára Júlíusdóttir was elected Chairman and Ragnar Arnalds was elected Vice-Chairman. Daniel Gros was elected to replace Magnús Árni Skúlason on October 15, 2009.

On August 11, Parliament passed the Act on the Iceland State Banking Agency, no. 88/2009, which provides for a Government institution whose role is to administer the State's holdings in financial institutions.

On August 13, the Monetary Policy Committee decided to hold the collateral loan rate unchanged at 12.0%.

On August 14, the Ministry of Finance announced that Government funding for Íslandsbanki and New Kaupthing was assured. The funding was approved at shareholders' meetings and was in line with proposals that had been announced on July 20. The banks' equity was contributed in the form of Treasury bonds and corresponded to a capital adequacy ratio of approximately 12%.

On August 28, Parliament passed Act no. 98/2009, which amends a number of laws due to the transfer of tasks within the Government of Iceland. Among other changes, all tasks related to economic policy, including the administration of Statistics Iceland and the Central Bank of Iceland, were transferred from the Prime Minister's Office and the Ministry of Finance to the Ministry of Economic Affairs. Consumer affairs and property registration were transferred to the Ministry of Justice and Human Rights, and ownership of the State-owned farmsteads and publicly owned companies previously administered elsewhere was transferred to the Ministry of Finance.

On August 28, Parliament passed Act no. 96/2009, authorising the Minister of Finance to guarantee the Depositors' and Investors' Guarantee Fund's obligations for the Landsbanki Icesave accounts in the Netherlands and the UK. The authorisation was subject to a number of reservations, mainly that the so-called Brussels guidelines, from No-

vember 14, 2008, on the consideration of Iceland's extraordinary circumstances should apply to the agreements, that State assets should enjoy immunity according to international law, and that annual payments to the UK and the Netherlands should not exceed 4% and 2%, respectively, of accumulated GDP growth since 2008.

### September

On September 3, Fitch Ratings published its sovereign credit ratings for the Republic of Iceland. The ratings were unchanged since October 2008: A- for domestic obligations, BBB- for foreign long-term obligations, and F3 for foreign short-term obligations. The outlook remains negative. The domestic rating is higher than the foreign rating because the domestic bond market is considered relatively strong.

On September 4, the Ministry of Finance announced that the Icelandic Government and the Kaupthing resolution committee had signed a settlement agreement pertaining to assets transferred from Kaupthing to New Kaupthing in October 2008. The settlement agreement is in accordance with the agreement announced on July 20, 2009. As was announced on August 14, the Treasury contributed capital to New Kaupthing in the form of Treasury bonds amounting to 72 b.kr., which corresponds to a capital adequacy ratio of approximately 12%. Like the agreement announced on July 20, the agreement authorises the Kaupthing resolution committee, upon consulting with creditors, to acquire an 87% stake in New Kaupthing. This would reduce the Icelandic Government's stake to 13%, and a large portion of its capital contribution would be reversed. If creditors do not exercise this option, the Icelandic Government will remain the owner of the bank; however, the creditors will retain an option to purchase up to 90% of share capital in the bank between 2011 and 2015, at terms that guarantee the State a suitable return on its investment in the bank.

On September 13, the Ministry of Finance announced that the Icelandic Government and the Glitnir resolution committee had signed a settlement agreement pertaining to assets transferred from Glitnir to Íslandsbanki in October 2008. The settlement agreement is in accordance with the agreement announced on July 20, 2009. As was announced on August 14, the Treasury contributed capital to Íslandsbanki in the form of Treasury bonds amounting to 65 b.kr., which corresponds to a capital adequacy ratio of approximately 12%. The agreement authorises the Glitnir resolution committee, upon consultation with creditors, to acquire 95% of share capital in Íslandsbanki. The Icelandic Government's stake would then be 5%, and a large portion of its capital contribution would be reversed; however, the Government would continue to support the bank with its holding and with a 25 b.kr. subordinated loan. If creditors choose not to exercise this option, the Icelandic Government will remain the owner of the bank. The payment for transferred assets will then be remitted with a bond issued by Íslandsbanki. Furthermore, the creditors will be granted the option of purchasing up to 90% of share capital in the bank between 2011 and 2015, at terms that guarantee the State a suitable return on its investment in the bank.



On September 24, the Monetary Policy Committee decided to keep the collateral loan rate and the interest rate on financial institutions' current accounts unchanged at 12% and 9.5%, respectively. Overnight lending rates were lowered by 1.5 percentage points to 14.5%. The Committee also decided that the Bank should auction 28-day certificates of deposit with a minimum bid rate of 9.5% and a maximum of 10%. The first auction was held on September 30.

## October

On 1 October, the District Court of West Iceland authorised SPM Savings Bank to seek composition of creditors agreements.

On 1 October, the Financial Supervisory Authority granted Íslandsbanki hf. and SAT Holding Company hf. permission to own a qualifying holding in SA tryggingar hf. SA tryggingar hf. has two shareholders: Íslandsbanki hf., with 9.3% of share capital, and SAT Holding Company hf., with the equivalent of 90.7% of share capital. SAT Holding Company hf. is wholly owned by Glitnir Bank hf. SA tryggingar took over the insurance operations of Sjóvá Almennar on 21 September.

On 4 October, an agreement was signed concerning a loan taken by Treasury in Poland, in the amount of 630 million Polish zlotys, or about 200 million US dollars. The loan term is 12 years, with no instalments paid in the first five years. It will be paid up during the period 2015-22. The interest rate is 2% over and above comparable Polish Government bonds.

On 12 October, the Icelandic government, the Landsbanki Íslands hf. resolution committee, and Landsbankinn (NBI hf.) signed an agreement on the settlement of assets and liabilities of the old Landsbanki.

On 15 October, the Ministry of Finance, Íslandsbanki, and the Glitnir resolution committee announced that the resolution committee, on behalf of creditors, had decided to exercise the option set forth in the agreement with the Icelandic Government and acquire a 95% stake in Íslandsbanki.

On 18 October, the round of Icesave negotiations that began after 28 August 2009, when Parliament passed the bill providing a conditional State guarantee for the obligations of the Depositors' and Investors' Guarantee Fund, was concluded.

On 22 October, the Icelandic Government submitted to the European Commission its answers to a 2,600-item questionnaire connected with Iceland's application for EU membership.

On 27 October, the Iceland State Banking Agency (ISBA) assumed ownership of the three commercial banks. Contractual agreements will still be finalised under the auspices of the Minister of Finance. The ISBA operates pursuant to Act no. 88/2009. Its role is to administer the State's holdings in financial companies. The ISBA shall have completed its work no later than five years after its establishment.

On 28 October, the Executive Board of the International Monetary Fund (IMF) approved the First Review of Iceland's macroeconomic

programme, thereby authorising the disbursement of the next tranche of the IMF loan to Iceland, in the amount of 167.5 million US dollars (21 b.kr.). Thereafter, the Icelandic Government was able to draw on supplementary credit lines from the Nordic countries, in the amount of 300 million euros. At the request of the Icelandic Government and due to delays in the implementation of the programme, it was also agreed to extend the IMF Stand-by Arrangement by six months, or until 31 May 2011. Disbursements will be adjusted to reflect this change.

On 28 October, the Icelandic Federation of Labour and the Confederation of Icelandic Employers decided not to activate the termination clause in private sector wage agreements. As a result, the wage agreements remain in effect until end-November 2010, with agreed wage changes taking effect on 1 November 2009 and 1 June 2010.

On 31 October, the Minister of Social Affairs signed an agreement with Iceland's major credit institutions, providing for automatic payment smoothing and an extension of indexed mortgage loans by a maximum of three years. An act of law to this effect had been passed by Parliament on 23 October. In addition, it was agreed that these measures would also be available, at the debtor's request, for foreign-denominated mortgages, as well as indexed or foreign-denominated motor vehicle loans that are not in arrears. The reference date was set at January 2008 for indexed loans and 2 May 2008 for foreign-denominated loans. If the loan concerned was taken after these dates, however, the date of the loan shall be the reference date.

On 31 October, the Central Bank of Iceland announced the first phase in the removal of the capital controls. Capital inflows for new investments and subsequent outflows stemming from those investments were authorised. As such, investors are authorised, without restrictions, to convert into foreign currency the sales proceeds from assets in which they invest after 1 November 2009. In addition, a number of technical changes were made to the capital controls in order to reduce circumvention and facilitate implementation.

#### **November**

On 5 November, the Central Bank of Iceland Monetary Policy Committee decided to reduce interest rates on deposit institutions' current accounts by 0.5 percentage points, to 9.0%. The maximum amount in weekly auctions of 28-day certificates of deposits was raised from 25 b.kr. to 30 b.kr., with a minimum bid rate of 9.5% and a maximum of 10.25%. This represented a 0.25 percentage point increase in the maximum rate. Interest on seven-day collateral loans was reduced from 12.0% to 11.0%, and overnight lending rates were cut from 14.5% to 13.0%.

On 6 November, Parliament passed amendments to the Act on Forced Sale, no. 90/1991, deferring the decision on final sale of residential property until after 28 February 2010, at the debtor's request and upon fulfilment of the requirements set forth in the Act.

On 11 November, Moody's Investor Service lowered the Republic of Iceland's credit ratings for long-term obligations in foreign and domestic currency from Baa1 to Baa3, and for short-term obligations from P-2 to P-3. The outlook for all ratings was changed from negative to stable.

## December

On 1 December, the Kaupthing resolution committee, upon consultation with creditors and considering the advice of experts, decided that Kaupthing, and therefore the creditors, would acquire 87% of share capital in Arion Bank. The State will retain ownership of 13% of share capital. In capitalising the bank, the State pledged to contribute 72 b.kr. in equity. According to the agreement, the Kaupthing resolution committee will contribute 66 b.kr. instead of the State.

On 4 December, the EFTA Surveillance Authority (ESA) handed down an interim decision on a complaint about the Emergency Act, no. 125/2008, filed by a group of general creditors against the old banks. The interim conclusion was that the provisions of the Act, particularly those concerning the priority assigned to deposits and the Icelandic Government's actions based on the Act, were in compliance with the EEA Agreement and other legal requirements. The ESA pointed out that no other measures had been available in order to prevent a total collapse of the Icelandic economy.

On 10 December, the Central Bank of Iceland Monetary Policy Committee decided to reduce interest rates on deposit institutions' current accounts by 0.5 percentage points, to 8.5%. The Bank will continue to auction 28-day CDs, although the maximum bid rate will be 9.75% instead of 10.25%. Interest on seven-day collateral loans was reduced from 11.0% to 10.0%, and overnight lending rates were cut from 12.5% to 11.5%.

On 1 – 14 December, a mission from the International Monetary Fund (IMF) visited Iceland. The mission was led by Mark Flanagan.

On 15 December, the supplementary budget for 2009 was approved by Parliament. Treasury revenues increase by 14.8 b.kr. over and above the National Budget, primarily due to interest income and despite the fact that revenues from the proposed sale of embassy assets are reduced by 5 b.kr. Treasury expenditures rise by 13 b.kr., primarily due to unemployment benefits, mortgage interest allowances, and agricultural subsidies, while expenditures for pension benefits and investment expenses decline.

On 15 December, the Minister of Social Affairs adjusted the guideline amounts for municipal financial assistance upwards by 8.63%, effective 1 January 2010. The change was proportional to the rise in consumer prices, as is stipulated in the agreement between the Ministry and the Association of Local Authorities.

On 16 December, it was announced that the resolution committee and creditors of Landsbanki had decided to acquire 19% of share capital in the new bank, NBI. The Icelandic Government contributes 81% of share capital in Landsbanki, or 122 b.kr. of a total of 150 b.kr. The

new bank will issue a 260 b.kr. foreign-denominated 10-year bond to creditors. This is the minimum valuation of appropriated assets in excess of liabilities. If the recovery is greater, the bank will issue further bonds in exchange for creditors' shares.

On 16 December, Parliament passed Act no. 116/2009, thereby agreeing to act on comments by the EFTA Surveillance Authority (ESA) pertaining to points regarding the implementation of EU Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, via Act no 64/2006, and concerning, among other things, the reliability of information and the scope of legislation on measures to combat money laundering and terrorist financing.

On 17 December, Parliament agreed, with Act no. 126/2009, to implement EU Directive 2007/36/EC of 11 July 2007, on the exercise of certain rights of shareholders in listed companies, and the Act on Private Limited Companies. The principal amendment is that the minimum advance notice for calling shareholders' meetings in companies that are listed on regulated securities markets has been lengthened from one week to three. Further changes focus, among other things, on increasing the rights and influence of shareholders and ensuring non-discrimination among shareholders, whether domestic or foreign, as regards participation in shareholders' meetings and voting in the companies concerned.

On 18 December, Parliament passed Act no. 134/2009, amending legislation on unemployment benefits. The Directorate of Labour's penalties and follow-up measures were strengthened, and the authorisation to pay benefits for curtailed employment percentages was extended to end-June 2010, although a ceiling was set on such payments. Also addressed was student membership to the general benefits system, and students' rights to apply for benefits after leaving school were enhanced.

On 18 December, Parliament passed Act no. 120/2009, which entailed changes to various types of social security benefits, particularly with the aim of strengthening the Treasury's operating performance.

On 19 December, Parliament passed Act no. 129/2009, which provides for an environmental and natural resource tax to be levied on fossil fuels, on the one hand, and electricity and hot water, on the other.

On 19 December, Parliament agreed, with Act no. 125/2009, to extend the deadline, set forth in the Act on Financial Undertakings, for initiating cancellation proceedings due to legal instruments of financial institutions in winding-up proceedings from six months to 24 months. The change was made to ensure equitable treatment of creditors in view of the scope of activities of many financial institutions, including those in winding-up proceedings.

On 21 December, Parliament passed Act no. 137/2009, which provides support for innovation companies. Companies approved by Rannís can deduct 15% of their research and development costs, up

to a maximum of 50 m.kr., from their taxable income each operational year. The maximum is set as 75 m.kr. if services are purchased from another approved company. Individuals may deduct the purchase of stock in approved companies from their taxable income, up to a maximum of 300,000 kr. per year.

On 21 December, Parliament passed Act no. 130/2009, providing for various tax measures. The main changes are: i) The oil charge and the gasoline charge increase by 2.50 kr. and 1.65 kr. per litre, respectively. ii) Motor vehicle taxes, alcoholic beverage taxes, and tobacco taxes increase by 10%. iii) The higher value-added tax rate rises from 24.5% to 25.5%. iv) Various fees for permits and services were increased. v) The authorisation to withdraw fund from private pension savings was extended until 1 April 2011, and the maximum withdrawal was raised from 1 m.kr. to 2.5 m.kr.

On 21 December, Parliament passed Act no. 128/2009 on the generation of State revenues. The main elements of that Act are: i) The standard personal income tax deduction was increased by 4.7% to 530,466 kr. per year and the reference to consumer prices was discontinued. ii) The lowest income tax rate remains unchanged at 24.1%; therefore, the tax-free threshold is raised by the same percentage, to 1,485,000 kr. per year. Income between 2.4 m.kr. and 7.8 m.kr. per year bears 27% income tax, and income over 7.8 m.kr. is taxed at 33%. The tax withholding percentage is based on monthly income. iii) Joint taxation of cohabiting couples was discontinued, except that, if one party earns more than 7.8 m.kr. per year and the other less than that amount, up to half of the income exceeding 7.8 m.kr. may be transferred to the lower-income party. However, the receiving party may not have more than 2.7 m.kr. in the 27% tax bracket. The tax brackets follow the wage index. iv) The tax on individuals' financial income was increased from 15% to 18%; however, 30% of rental income on residential housing and individuals' interest income is exempted, up to 100,000 per year. v) The income tax on legal entities was raised from 15% to 18%. vi) Seaman's credits remain unchanged in 2010 and then are phased out in stages until they are discontinued as of 1 January 2014. vii) The payroll tax rises by 1.6% of the tax base, to 8.65%.

On 21 December, the first tranche of the loan from the Nordic countries was disbursed to Iceland in connection with the macroeconomic programme of the Icelandic Government and the International Monetary Fund (IMF). The amount disbursed was 300 million euros. The accumulated loan facility authorisation is now 444 million euros. Because there is no further need for borrowed funds at present, 144 million euros will be carried forward to the next period; that is, until after the Second Review of the IMF programme.

On 22 December, the National Budget for 2010 was approved by Parliament. Revenues are estimated at 462 b.kr. and rise by 11% compared to estimated revenues for 2009; expenditures are estimated at 561 b.kr. and declined by 3% compared to 2009 estimates; and the balance on income will be negative by 99 b.kr.

On 22 December, Parliament passed Act no. 138/2009, authorising the Minister of Finance to confirm agreements with the resolution committees of Kaupthing, Glitnir, and Landsbanki concerning their takeover of shares in Arion Bank, Íslandsbanki, and NBI.

On 23 December, Fitch Ratings affirmed the Republic of Iceland's sovereign credit rating and removed it from credit watch status. The long-term ratings in foreign and domestic currency are BBB- and A-, respectively. The rating for short-term obligations in foreign currency is F3, and the country ceiling is BBB-. The outlook remains negative.

On 29 December, Parliament agreed, with Act no. 146/2009, to amend legislation on the investigation of the background and causes of the fall of the Icelandic banks in 2008 and related events. The amendments are primarily aimed at preparing for the presentation of the Parliamentary Special Investigative Commission report on the banks' collapse and to clarify what will happen afterwards. In this context, the Commission's deadline for submittal of the report was set at end-January 2010, instructions on parliamentary treatment of the report were added, a provision on storage of and access to the massive electronic databases compiled during the Commission's work was added, and the individuals who worked on the investigation are guaranteed certain immunity from possible legal action arising from their work on the investigation.

On 30 December, Parliament passed Act no. 1/2010 (Icesave), authorising the Minister of Finance to guarantee loans extended to the Depositors' and Investors' Guarantee Fund (DIGF) by the British and Dutch governments, in order to cover payments to depositors of Landsbanki Íslands hf.

On 31 December, Standard & Poor's affirmed the Republic of Iceland's sovereign credit rating and changed the outlook from negative to stable following the passage of the Icesave bill. The rating is BBB- for long-term obligations in foreign currency, and BBB+ for long-term obligations in domestic currency. The ratings for short-term obligations in foreign and domestic currency are A-3 and A-2, respectively.

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Table 1 Selected Central Bank interest rates

	<i>Bank's current accounts</i>	<i>Non-indexed certificates of deposit, 90-day</i>	<i>Required deposits, normal terms</i>	<i>O/N loans discount rates</i>	<i>Yield on collateral loan auctions</i>	<i>Collateral loans (nominal rate)</i>	<i>Yield on certificates of deposit, 7-day</i>
February 28, 2003	2.80	4.80	4.10	7.70	5.30	.	.
May 11, 2004	3.00	5.00	4.30	7.90	5.50	.	.
June 8	3.25	5.25	4.50	8.00	5.75	.	.
July 6	3.75	5.75	5.00	8.25	6.25	.	.
September 21	4.25	6.25	5.50	8.75	6.75	.	.
November 1	5.00	6.75	6.00	9.25	7.25	.	.
December 10	6.25	7.75	7.25	10.25	8.25	.	.
February 21, 2005	6.75	8.25	7.75	10.75	8.75	.	.
March 29	7.25	8.50	8.00	10.75	9.00	.	.
June 7	8.00	9.35	8.75	11.00	9.50	.	9.35
October 4	8.75	10.10	9.50	11.75	10.25	.	10.10
December 11	9.00	10.35	9.75	12.00	10.50	.	10.35
February 1, 2006	9.25	10.25	10.00	12.25	10.75	.	10.60
April 1	10.00	11.00	10.75	13.00	11.50	.	11.35
May 21	10.75	11.75	11.50	13.75	12.25	.	12.10
June 11	11.50	-	12.00	14.25	13.00	.	12.85
August 21	12.00	-	12.25	14.50	13.50	.	13.35
September 21	12.50	-	12.75	15.00	14.00	.	13.85
December 21	12.75	-	13.00	15.25	14.25	.	14.10
June 20, 2007	12.75	-	13.00	15.25	14.25	.	14.10
June 21	12.75	-	13.00	15.25	-	13.30	13.20
November 1	13.25	-	13.25	15.25	-	13.75	13.65
March 25, 2008	14.50	-	14.50	16.50	-	15.00	14.75
April 10	15.00	-	15.00	16.50	-	15.50	15.25
October 15	11.50	-	11.50	14.00	-	12.00	11.75
October 28	17.50	-	17.50	20.00	-	18.00	17.75
December 18	15.00	-	15.00	22.00	-	18.00	15.25
March 19, 2009	14.00	-	14.00	21.00	-	17.00	14.25
April 8	12.50	-	12.50	19.50	-	15.50	12.75
May 7	9.50	-	9.50	17.00	-	13.00	9.75
June 4	9.50	-	9.50	16.00	-	12.00	9.75
September 24	9.50	-	9.50	14.50	-	12.00	9.75
November 5	9.00	-	9.00	13.00	-	11.00	-
December 10	8.50	-	8.50	11.50	-	10.00	-
<i>Time-weighted average</i>							
1998	3.00	7.00	5.50	8.50	7.30	.	.
1999	3.80	7.80	6.60	9.30	8.30	.	.
2000	5.90	9.90	8.70	11.40	10.40	.	.
2001	6.70	10.60	9.40	12.30	10.90	.	.
2002	5.50	7.80	7.00	10.70	8.40	.	.
2003	2.80	4.80	4.10	7.70	5.30	.	.
2004	3.65	5.59	4.88	8.28	6.09	.	.
2005	7.69	8.85	8.50	11.02	9.35	.	9.70
2006	11.00	10.63	11.52	13.77	12.50	.	12.35
2007	12.83	-	13.04	15.25	14.25	.	14.10
2008	14.80	-	14.80	16.82	-	15.40	15.08
2009	11.04	-	11.04	17.16	-	13.68	-

Table 2 Exchange rate indices

	Official exchange rate <sup>1</sup> Dec. 31, 1991 = 100	Average exchange rate index <sup>2</sup> Dec. 31, 1994 = 100			Real exchange rate <sup>3</sup> 2000 = 100			
		Average	Based on import weights	Based on export weights	Based on relative prices		Based on unit labour cost	
					Index	%-change <sup>4</sup>	Index	%-change <sup>4</sup>
1998	112.8	96.2	96.7	95.7	93.8	1.8	92.8	2.9
1999	112.6	96.0	96.5	95.6	96.3	2.6	96.8	4.3
2000	112.7	96.1	96.3	95.7	100.0	3.9	100.0	3.3
2001	135.4	115.4	115.1	115.3	87.3	-12.7	86.6	-13.4
2002	131.4	112.0	111.7	112.0	91.7	5.1	90.1	4.1
2003	123.5	105.3	104.8	105.4	96.0	4.7	95.2	5.7
2004	121.0	103.1	102.4	103.5	98.1	2.2	92.5	-2.7
2005	108.6	92.6	91.9	93.0	111.4	13.5	104.3	12.7
2006	121.3	103.4	102.6	104.0	104.2	-6.4	102.0	-2.2
2007	118.3	100.9	99.9	101.5	108.6	4.2	110.9	8.7
2008	166.4	141.7	140.8	142.2	85.5	-21.2	85.5	-22.9
2009	216.1	190.9	189.8	191.3	70.0	-18.2	63.5	-25.7

1. The index shows the average exchange rate of foreign currencies against the Icelandic króna for each period. From September 6, 1995, the trade-weighted basket (goods and services) of 16 currencies replaced the former basket of US dollar (18%), ECU (76%) and Japanese yen (6%). 2. The index shows the average exchange rate of foreign currencies against the Icelandic króna for each period. Weights are based on trade in goods and services. 3. Based on quarterly information on prices (consumer prices), wages, employment and output in main trading partner countries. 4. Year-on-year.

Table 3 Notes and coin in circulation by denomination

	2005		2006		2007		2008		2009	
	Thous. kr.	%	Thous. kr.	%	Thous. kr.	%	Thous. kr.	%	Thous. kr.	%
<i>Notes:</i>										
5,000 kr.	7,932,500	69.3	8,787,500	69.5	9,597,500	70.3	18,000,000	80.8	22,445,000	84.1
2,000 kr.	279,000	2.4	350,000	2.8	398,000	2.9	617,000	2.8	504,000	1.9
1,000 kr.	2,264,000	19.8	2,475,000	19.6	2,669,000	19.5	2,696,500	12.1	2,776,000	10.4
500 kr.	846,750	7.4	905,000	7.2	989,500	7.2	952,750	4.3	957,000	3.6
100 kr.	95,700	0.8	95,550	0.8	.	.	.	.	.	.
50 kr.	11,800	0.1	11,825	0.1	.	.	.	.	.	.
10 kr.	11,055	0.1	11,050	0.1	.	.	.	.	.	.
Total	11,440,805	100.0	12,635,925	100.0	13,654,000	100.0	22,266,250	100.0	100.0	100.0
<i>Coin:</i>										
100 kr.	924,500	52.5	1,006,180	53.6	1,188,600	57.1	1,256,600	57.9	1,318,600	57.9
50 kr.	388,740	22.1	392,590	20.9	374,890	18.0	373,640	17.2	392,390	17.2
10 kr.	292,130	16.6	314,080	16.8	342,370	16.5	359,520	16.6	377,620	16.6
5 kr.	78,240	4.4	82,480	4.4	89,434	4.3	92,434	4.3	95,434	4.2
1 kr.	77,494	4.4	81,247	4.3	86,132	4.1	87,994	4.1	91,634	4.0
Total	1,761,104	100.0	1,876,576	100.0	2,081,426	100.0	2,170,188	100.0	2,275,678	100.0

Table 4 Accounts of the Central Bank<sup>1</sup>

<i>M.kr. at year-end</i>	2003	2004	2005	2006	2007	2008	2009
Net foreign exchange reserves	58,150	65,567	67,356	167,975	163,486	191,063	364,035
Domestic items, net <sup>2</sup>	-36,450	-27,009	-19,904	-108,457	4,361	219,714	26,070
Claims on Treasury and governm, institutions, net	-22,185	-17,782	-75,916	-211,036	-211,177	-123,972	-281,352
Claims on other financial institutions	4,193	8,993	11,902	28,547	50,102	16,193	3,133
Claims on deposit money banks	24,038	31,771	77,772	119,863	258,165	464,826	28,364
Other claims	87	84	189	499	131	-	-
Deposits of other financial institutions	-31	-13,681	-145	-131	-1,425	-14,805	-38,457
Other items, net	-42,551	-36,394	-33,706	-46,199	-91,434	-122,528	314,382
Reserves of deposit money banks	13,311	29,415	36,952	48,047	155,418	387,261	361,704
Required reserves	3,830	-	-	-	-	-	-
Certificates of deposits	4,501	4,404	2,294	1,777	-	167,266	35,566
Other claims	-	-	-	-	-	16,528	9,409
Cash and liquid reserves	4,980	25,012	34,658	46,269	155,418	203,467	316,729
Notes and coin in circulation	8,390	9,143	10,500	11,471	12,429	23,516	28,401
Base money	17,199	34,151	45,158	57,741	167,847	115,054	121,046
Innstæður innlánsstofnana	6,616	22,519	31,956	43,228	152,112	90,618	92,088
Notes and coin	10,583	11,632	13,202	14,513	15,735	24,436	28,958

1. Further breakdown in Table 12. 2. Deposits are marked as negative (-).

Table 5 Summary of the accounts of deposit money banks<sup>1</sup>

<i>M.kr. at year-end</i>	2002	2003	2004	2005	2006	2007	2008 <sup>2</sup>
<i>Assets:</i>							
Domestic assets, total	997,904	1,181,694	1,606,052	2,445,068	3,314,826	4,921,040	7,419,509
Cash and cash balances with Central Bank	25,288	13,294	29,413	36,906	47,359	163,798	157,185
Receivables on domestic institutions	81,977	59,508	89,757	105,362	196,396	209,168	421,750
Domestic credit	863,986	1,062,053	1,431,579	2,205,912	2,969,617	3,827,402	5,485,507
Lending	694,524	805,376	1,123,510	1,701,808	2,407,176	3,143,584	4,728,420
Redeemed liabilities	548	750	329	468	276	336	821
Overdrafts	154,704	132,608	141,548	171,976	198,986	214,527	251,515
Bills	8,957	6,801	5,051	5,648	4,762	11,248	11,463
Unindexed bonds	64,711	100,953	145,004	201,797	329,420	516,535	630,305
Indexed bonds	206,325	217,821	340,650	658,406	780,351	842,964	973,626
Foreign currency-linked bonds	259,278	346,444	490,928	659,988	1,077,672	1,516,756	2,855,024
Foreign currency-linked overdrafts	...	...	...	3,526	15,710	41,219	110,735
Provisions	...	...	...	...	...	...	-105,068
Leasing contracts	139	16,442	18,739	18,909	28,380	38,126	57,823
Dept instruments	118,991	166,669	195,604	256,788	275,620	393,098	480,707
Treasury bills	7,066	14,849	2,440	5,248	2,770	3,401	0
Equities	43,266	58,717	91,287	223,158	255,670	252,593	218,556
Derivatives	...	...	...	...	...	266,126	776,467
Share in associates	16,217	8,655	11,159	28,892	21,125	23,352	16,155
Share in affiliated undertakings	10,436	38,184	44,143	67,996	80,329	131,774	180,476
Other assets	...	...	...	...	...	299,420	381,968
Foreign assets, total	129,002	307,662	633,492	1,488,256	3,031,477	4,778,010	7,474,954
Foreign credit and equities	59,239	132,762	237,430	723,831	1,284,133	2,867,835	4,519,969
Foreign lending	46,296	113,267	190,455	500,953	817,046	1,996,874	3,445,996
Marketable bonds and bills	2,248	3,098	4,554	71,165	227,456	576,504	598,929
Equities	10,695	16,397	42,421	151,713	239,631	294,457	475,044
Foreign receivables	...	...	...	...	...	788,952	1,082,526
Derivatives	...	...	...	...	...	134,180	467,365
Share in associates	0	208	315	1,168	1,714	76,560	121,030
Share in affiliated undertakings	5,740	24,244	118,088	205,190	329,305	617,378	817,206
Other assets	64,023	150,448	277,659	558,067	1,416,326	293,106	466,858
Assets, total	1,126,906	1,489,356	2,239,544	3,933,324	6,346,303	9,699,049	14,894,463
<i>Liabilities:</i>							
Domestic liabilities, total	606,412	640,189	785,108	1,137,043	1,545,990	2,552,513	3,512,863
Central Bank facilities	69,311	24,062	31,822	77,766	120,388	281,360	455,987
Deposits of residents, total	387,562	455,923	524,686	647,001	774,714	1,217,856	1,413,411
Current accounts	...	99,197	130,811	161,435	184,425	351,059	400,298
Current accounts in foreign currency	...	...	...	850	15,651	47,310	26,951
Money market rate accounts	...	...	...	...	...	173,076	235,989
Sight deposits	...	48,916	56,358	66,296	80,031	111,144	157,521
Indexed deposits	...	136,634	145,352	145,513	148,061	114,572	170,848
Holiday pay accounts	...	...	...	...	...	6,809	4,678
Supplementary pension deposits	...	14,829	20,188	28,448	31,713	36,850	50,488
Other time deposits	...	123,719	126,210	179,540	243,310	250,592	247,299
Foreign currency accounts	...	32,629	45,768	64,920	71,523	126,444	119,339
Deposits from credit institutions	...	...	...	...	...	110,570	58,673
Bond issue	72,800	76,372	95,689	146,243	252,498	409,489	515,960
Subordinated loans	24,457	24,304	25,080	30,392	30,668	39,991	72,640
Direct borrowing	19,656	36,446	72,359	130,997	188,684	234,257	459,242
Derivatives	...	...	...	...	...	51,154	214,417
Other liabilities <sup>3</sup>	32,626	23,081	35,471	104,644	179,038	207,835	322,534
Foreign liabilities, total	440,015	737,097	1,212,415	2,391,125	4,234,096	6,224,485	10,317,329
Deposits from foreign credit institutions	...	...	...	...	...	388,858	1,129,039
Dep. from foreign parties, other than credit instit.	...	18,839	14,501	52,069	364,595	1,297,271	1,709,870

Table 5 Summary of the accounts of deposit money banks (cont.)<sup>1</sup>

M.kr. at year-end	2002	2003	2004	2005	2006	2007	2008 <sup>2</sup>
Derivatives	...	...	...	...	...	125,841	347,325
Bond issue	196,611	478,829	896,934	1,842,123	2,814,959	2,496,270	3,769,446
Subordinated loans	11,749	20,641	71,980	151,125	360,588	418,388	677,541
Direct borrowing	231,655	218,788	229,000	345,808	693,954	1,493,533	2,659,221
Other foreign liabilities	...	...	...	...	...	4,325	24,887
Total equity and minority interest	80,479	112,070	242,021	405,156	566,217	922,051	1,064,259
Total liabilities and equity	1,126,906	1,489,356	2,239,544	3,933,324	6,346,303	9,699,049	14,894,451

1. Lending was reclassified among sectors with the introduction of the ÍSAT 95 standard in September 2003. Kaupþing was licensed to operate as a commercial bank in January 2002 and was thereby reclassified from an investment bank, then merged with Búnaðarbanki in May 2003. Glitnir leasing company merged with Íslandsbanki in May 2003. 2. The latest release of the banking system was in September 2008. 3. Other liabilities are shown net from 2002 to 2006.

Note: See Central Bank of Iceland Statistics pages, [www.sedlabanki.is](http://www.sedlabanki.is).

Table 6 Summary of the accounts of the banking system<sup>1</sup>

M.kr. at year-end	2002	2003	2004	2005	2006	2007	2008 <sup>2</sup>
Foreign assets, total	166,380	365,936	699,201	1,555,761	3,199,547	4,941,595	7,849,960
Foreign credit and equities	83,332	164,457	276,488	766,533	1,405,600	3,006,157	4,769,464
Other foreign assets	83,049	201,479	422,713	789,228	1,793,948	1,935,438	3,080,496
Foreign liabilities, total	458,316	738,956	1,214,118	2,392,759	4,235,969	6,226,198	10,350,342
Foreign bond issue	196,611	478,829	896,934	1,842,123	2,814,959	2,496,270	3,769,446
Other foreign liabilities	261,705	260,127	317,184	550,636	1,421,010	3,729,928	6,580,897
Domestic assets, total	1,077,153	1,210,727	1,646,933	2,539,857	3,468,598	5,234,312	7,921,473
Domestic credit	943,064	1,091,000	1,472,376	2,295,586	3,118,026	4,135,668	5,982,460
Treasury and Government institutions	28,576	22,504	45,911	18,380	24,855	26,531	449
Municipalities	19,129	13,675	13,420	10,600	11,828	11,980	16,529
Non-bank financial companies	89,709	159,478	195,754	212,173	281,719	501,354	429,182
Companies	486,906	632,710	851,174	872,519	1,137,030	1,422,583	2,118,243
Households	194,435	187,886	305,840	544,418	707,531	834,596	1,032,026
Holding companies	...	...	...	443,509	719,829	995,256	1,702,795
Other	124,308	74,746	60,277	193,986	235,233	343,368	788,305
Provisions	...	...	...	...	...	...	-105,068
Derivatives	...	...	...	...	...	266,126	776,467
Share in associates	16,217	8,655	11,159	28,892	21,125	23,352	16,155
Share in affiliated undertakings	10,436	38,184	44,143	67,996	80,329	131,774	180,476
Other domestic assets	107,436	72,888	119,254	147,383	249,118	677,392	965,916
Broad money and bonds (M4)	468,028	540,687	629,521	803,746	1,037,629	1,636,809	1,941,952
Domestic bond issue	72,800	76,372	95,689	146,243	252,498	407,172	515,960
Broad money (M3)	395,228	464,315	533,832	657,503	785,131	1,229,637	1,425,993
Time deposits	235,482	275,184	291,753	353,501	423,084	580,385	709,302
Money and sight deposits (M2)	159,746	189,131	242,079	304,002	362,047	649,253	716,691
Sight deposit	71,990	81,545	102,125	131,216	150,498	238,533	276,860
Money supply (M1)	87,755	107,586	139,953	172,786	211,549	410,720	439,831
Demand deposits	...	99,197	130,811	162,286	200,077	398,282	427,249
Notes and coin in circulation	7,666	8,389	9,142	10,500	11,472	12,438	12,582
Other domestic borrowing	19,656	36,446	72,359	130,997	199,480	4,148	117,937

1. Lending was reclassified among sectors with the introduction of the ÍSAT 95 standard in September 2003. The formation of the summary has changed from former annual report items are no longer shown net and derivatives are now taken into the accounts. 2. The latest release of the banking system was in September 2008.

Table 7 Liquidity and reserve ratios in %<sup>1</sup>

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

1. Percentage of bank total deposits as of June 1, 1979, of domestic disposable funds as of March 1, 1989, and of all disposable funds as of May 21, 1988. 2. Figure in parentheses refers to the reserve ratio for bond issues and time 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 8 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>General interest rates, rates on damage claims and penalty interest, in % per annum</i>		
	<i>General interest on non-indexed loans</i>	<i>General interest on indexed loans</i>	<i>Interest on damage claims</i>
January 1, 2009	21.0	5.90	14.0
February 1	20.0	5.90	13.3
March 1	19.0	5.90	12.7
April 1	19.0	5.90	12.7
May 1	18.0	5.90	12.0
June 1	10.5	5.90	7.0
July 1	10.5	5.80	7.0
August 1	10.5	5.80	7.0
September 1	10.5	4.90	7.0
Október 1	10.5	4.90	7.0
November 1	10.5	4.90	7.0
December 1	9.0	5.30	6.0
Average 2008	17.8	6.2	11.8
Average 2009	14.1	5.6	9.4

Table 9 Selected annual nominal yields of deposit money banks and penalty rates in % per annum

	<i>Non-indexed loans<sup>1</sup></i>		<i>New (long) indexed securities<sup>2</sup></i>		<i>Penalty rates</i>		<i>Credit terms index, 12-month change<sup>3</sup></i>
	<i>Nominal</i>	<i>Real</i>	<i>Nominal</i>	<i>Real</i>	<i>Nominal</i>	<i>Real</i>	
1995	11.9	10.1	10.5	8.7	14.6	12.8	1.6
1996	12.8	10.5	11.1	8.9	15.8	13.5	2.1
1997	13.3	11.1	11.2	9.0	16.3	14.0	2.0
1998	13.2	11.8	10.1	8.8	16.5	15.1	1.3
1999	14.1	8.0	14.7	8.6	17.3	11.1	5.6
2000	17.4	12.7	14.1	9.5	22.0	17.2	4.2
2001	18.8	9.4	19.7	10.2	23.7	13.9	8.6
2002	16.0	13.7	12.3	10.1	21.3	18.9	2.0
2003	12.4	9.4	12.0	9.1	17.3	14.2	2.7
2004	12.6	8.3	10.5	6.3	17.3	12.9	3.9
2005	15.3	10.7	10.3	5.9	20.3	15.5	4.2
2006	18.6	10.9	13.4	6.1	22.5	14.6	6.9
2007	20.2	13.5	12.9	6.6	25.0	18.0	5.9
2008	21.6	4.5	24.7	7.1	25.8	8.1	16.4
2009	20.2	10.6	15.7	6.5	21.2	11.6	8.6

1. Weighted average of DMBs' interest rates. Based on two due dates per year. 2. Weighted average of DMBs' interest rates. 3. January to January.

Table 10 Balance Sheet of the Central Bank of Iceland

M.kr.	End of year					
	2003	2004	2005	2006	2007	2008
<b>Assets:</b>	87.307	106.59	162.294	321.842	476.859	1.185.578
<i>Foreign assets</i>	58.274	65.709	67.506	168.07	163.585	429.626
Foreign accounts	22.74	23.171	21.049	41.65	19.338	207.38
Gold	1.873	1.707	2.074	2.934	3.305	6.653
Foreign bonds and Treasury bills	31.695	39.058	42.702	121.467	138.322	211.863
Foreign assets apart from reserves	-	-	-	-	787	211
Special drawing rights with the IMF	3	8	3	8	11	53
IMF reserve position and SDRs	1.963	1.765	1.678	2.01	1.823	3.467
<i>Domestic assets</i>	29.033	40.881	94.789	153.772	313.273	755.951
<i>Deposit money banks</i>	24.038	31.771	77.772	119.863	258.165	464.826
Securities	-	-	-	-	-	231.024
Repurchase agreements	24.038	31.771	77.772	119.863	258.165	71.966
Short-term loans	-	-	-	-	-	37.982
Foreign-currency receivables	-	-	-	-	-	123.854
<i>Other financial institutions</i>	4.193	8.993	11.902	28.547	50.102	16.193
Listed securities	3.223	3.232	1.832	1.473	1.447	2.757
Repurchase agreements	969	5.762	10.07	27.074	44.554	13.436
Short-term loans	-	-	-	-	4.102	-
<i>Central government</i>	715	32	-	-	-	270.005
Listed securities	715	32	-	-	-	-
Other assets	0	-	-	-	-	270.005
<i>Other sectors</i>	87	84	189	499	131	-
<i>Real estate and other assets</i>	-	-	4.527	4.479	4.52	4.822
Other assets	-	-	399	385	356	105
<b>Liabilities and Capital:</b>	87.307	106.59	162.294	321.842	476.859	1.185.578
Foreign liabilities	1.858	1.703	1.634	1.873	1.712	242.008
Short-term	124	142	150	95	100	134.4
Long-term	-	-	-	-	-	104.171
IMF SDR allocation	1.735	1.561	1.484	1.779	1.613	3.437
IMF deposit linked to quota	-	-	-	-	-	-
<i>Domestic liabilities</i>	45.232	70.689	124.291	271.633	384.143	854.612
<i>Notes and coin</i>	10.583	11.632	13.202	14.513	15.735	24.436
<i>Deposit money banks</i>	11.117	26.926	34.25	45.006	152.112	386.332
Sight deposits	2.786	22.519	31.956	43.228	152.112	90.618
Required reserves	3,830	-	-	-	-	-
Certificates of deposit	4.501	4.404	2.294	1.777	-	167.266
Forward contracts	-	-	-	-	-	16.519
Foreign currency accounts	-	-	-	-	-	111.929
Tied foreign exchange deposits	-	-	-	-	-	-
Insurance accounts	-	3	-	-	-	-
<i>Investment credit funds</i>	31	13.681	145	131	1.425	14.805
Sight deposits	31	13.681	145	131	1.425	4.415
Certificates of deposit	-	-	-	-	-	10.39
<i>Central government</i>	22.901	17.815	75.916	211.036	211.177	393.977
Treasury current account	9.689	16.257	33.573	80.11	93.971	168.723
Government institutions	1.208	519	371	605	536	895
Foreign exchange deposits	487	1.039	9.113	97.235	89.855	2.376
Treasury's tied foreign exchange deposits	-	-	-	-	-	205.501
Tied deposits	11.517	-	32.859	33.085	26.815	16.483
<i>Other liabilities</i>	599	636	778	948	3.694	35.061
<b>Capital</b>	40.217	34.198	36.37	48.336	91.003	88.957



## End of month 2009

Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1,104,177	1,088,958	1,154,580	1,187,376	1,189,419	1,129,336	1,129,559	1,177,342	1,183,130	1,196,135	1,159,356	1,178,083
364,414	341,112	383,248	413,857	426,340	384,252	385,271	432,269	434,920	451,147	402,989	485,131
170,405	154,560	173,638	193,064	199,363	149,566	149,321	195,200	172,224	184,827	137,366	222,895
6,663	6,843	7,136	7,216	7,670	7,571	7,669	7,655	7,867	8,246	9,155	8,664
183,292	176,270	198,702	208,960	215,334	223,015	223,436	225,283	231,902	234,820	234,164	231,573
204	204	206	201	201	201	196	196	195	190	190	190
693	157	173	867	224	232	949	283	19,076	19,377	18,451	18,161
3,157	3,078	3,394	3,548	3,548	3,669	3,699	3,653	3,654	3,687	3,663	3,649
739,763	747,846	771,332	773,519	763,080	745,084	744,289	745,073	748,210	744,988	756,367	692,952
454,939	456,384	481,792	488,364	475,159	454,867	451,361	450,937	452,338	448,118	454,944	28,849
231,024	241,080	328,525	332,041	337,902	323,365	316,084	316,084	316,084	310,253	317,845	6,702
98,314	82,809	17,235	15,628	7,555	7,533	7,474	7,728	7,839	7,979	8,188	9,249
13,911	19,044	1,650	1,650	1,650	1,650	1,650	1,890	1,950	1,950	1,700	1,700
111,690	113,452	134,383	139,045	128,052	122,319	126,153	125,236	126,465	127,936	127,211	11,198
9,835	9,629	5,539	3,721	4,653	3,211	3,239	3,303	2,995	2,961	3,618	3,133
2,750	2,343	2,660	2,477	2,936	2,935	2,943	2,963	2,995	2,961	3,117	3,133
7,085	5,992	1,422	1,194	1,717	277	296	340	-	-	-	-
-	1,294	1,456	49	-	-	-	-	-	-	500	-
270,005	276,836	278,819	276,014	277,828	281,553	284,266	285,353	287,436	288,474	292,381	165,398
-	-	-	-	-	-	-	-	-	-	-	-
270,005	276,836	278,819	276,014	277,828	281,553	284,266	285,353	287,436	288,474	292,381	165,398
-	-	-	-	-	-	-	-	-	-	-	-
4,822	4,822	4,822	4,822	4,822	4,822	4,822	4,822	4,822	4,822	4,822	4,754
161	176	361	600	619	632	602	658	619	614	603	490,817
1,104,177	1,088,958	1,154,580	1,187,376	1,189,419	1,129,336	1,129,559	1,177,342	1,183,130	1,196,135	1,159,356	1,178,083
187,416	185,997	196,417	205,000	189,476	196,150	197,634	243,836	264,754	251,149	174,194	203,990
89,304	89,931	90,908	94,600	79,258	81,997	82,348	130,557	132,442	96,681	21,102	36,752
95,323	93,347	102,511	107,267	107,086	110,914	112,019	110,059	110,300	132,253	131,021	145,267
2,789	2,719	2,998	3,133	3,133	-	3,266	3,220	22,013	22,215	22,071	21,970
-	-	-	-	-	3,239	-	-	-	-	-	-
821,490	813,828	867,051	893,246	905,915	837,780	837,037	838,485	823,470	850,006	887,955	891,456
24,645	22,860	21,952	22,297	23,179	23,778	25,705	25,487	25,048	25,270	25,982	28,958
350,892	319,555	332,771	360,839	333,718	299,090	307,317	263,148	299,955	284,514	311,068	361,147
75,426	69,025	111,269	105,985	85,564	122,040	148,173	131,408	135,661	70,335	58,522	87,587
-	-	-	-	-	-	-	-	-	-	-	-
150,971	142,956	85,306	95,158	84,815	69,815	47,143	18,136	42,360	64,915	74,120	35,566
19,630	17,748	24,942	26,447	11,142	0	10,805	10,865	10,647	10,235	10,337	9,409
104,865	89,826	111,255	133,248	152,197	107,235	101,196	102,740	111,288	120,575	72,457	75,485
-	-	-	-	-	-	-	-	-	18,454	95,632	153,101
-	-	-	-	-	-	-	-	-	-	-	-
7,457	8,516	4,983	5,575	18,461	14,347	22,233	25,514	25,244	30,782	35,333	37,055
4,407	5,556	4,194	4,012	17,813	13,710	21,591	24,866	23,840	29,123	33,661	35,387
3,051	2,960	789	1,563	648	637	643	648	1,403	1,659	1,671	1,669
391,395	420,106	431,993	435,954	457,945	410,913	403,949	448,960	401,891	423,215	402,668	446,705
196,184	210,955	198,338	194,456	210,760	156,993	157,114	202,680	154,688	171,999	151,360	166,052
1,043	730	679	802	621	389	612	511	408	412	369	316
2,128	2,111	8,868	9,224	9,433	9,703	9,781	9,731	9,808	9,961	9,920	49,129
176,007	143,631	164,112	171,480	176,576	182,782	184,791	183,970	186,781	190,390	190,178	179,998
16,033	62,679	59,996	59,992	60,555	61,046	51,650	52,068	50,207	50,453	50,843	51,220
47,101	42,791	75,352	68,583	72,611	89,652	77,832	75,376	71,332	86,226	112,905	17,591
95,270	89,133	91,113	89,130	94,029	95,407	94,889	95,020	94,905	94,980	97,206	82,638

