

17 March 2016

Address

by Þórunn Guðmundsdóttir, Chairman of the Central Bank of Iceland Supervisory Board, delivered at the 55th Annual General Meeting of the Central Bank of Iceland, 17 March 2016.

Mr. President; Minister of Finance and Economic Affairs, Directors, and Ambassadors; Ladies and Gentlemen: I welcome you to the 55th Annual General Meeting of the Central Bank of Iceland and hereby call the meeting to order.

The principal role of the Bank's Supervisory Board is to oversee operations and to confirm rules and the Governor's proposals. The Board comprises seven members who are elected following each Parliamentary election. I became Chairman of the Board just under a year ago. The Supervisory Board held 15 meetings in 2015.

As is described in the Annual Report, which is available here today, the Central Bank is responsible for a number of regular tasks and various special projects each year. Without doubt, the largest special project for 2015 was the steps taken towards capital account liberalisation, in collaboration with the Government. Further information on this can be found in the Annual Report, which is now available.

As is stated in the Annual Report, the main objective of the Central Bank of Iceland is to promote price stability. The Central Bank is also required to promote financial stability.

At the beginning of 2015, inflation was well below the Bank's inflation target, but rose over the course of the year. By the end of the year, it was slightly below target.

Tasks related to financial stability included assessing how the settlement of the failed banks' estates would affect the liquidity position of operating banks. Stress tests showed that, on the whole, the banks were relatively well prepared to withstand shocks. Households' financial position has improved on the whole; debt levels have fallen and real wages have risen. Businesses' position strengthened as well. 2015 was the first full operational year of the Financial Stability Council and the Systemic Risk Committee, which works for the Council. Central Bank staff members undertake a variety of projects for both the Financial Stability Council and the Systemic Risk Committee.

The Central Bank manages the foreign exchange reserves in order to mitigate the effects of fluctuations in capital flows to and from Iceland and to ensure that the Treasury is able to service foreign-denominated debt. The reserves increased by 123 b.kr. during the year, to an end-2015 total of 653 b.kr.

The Central Bank oversees foreign borrowing for the Treasury, as well as conducting domestic auctions, administering Treasury guarantees, and communicating with international credit rating agencies on behalf of the Government. All of the major rating agencies upgraded Iceland's sovereign ratings during the year. The upgrades were considered to reflect the agencies' expectations concerning the implementation of the capital account liberalisation strategy announced in June.

The Bank operates a Capital Controls Surveillance Unit, which worked on important exemptions in connection with the failed banks' composition agreements, as well as a large number of other exemption requests. The unit received and processed notifications of new investment and confirmations of foreign exchange transactions and conducted investigations based on the Foreign Exchange Act and the Rules on Foreign Exchange. The last foreign currency auction under the Bank's Investment Programme and Treasury Bond Programme was held in 2015.

Another important aspect of the Bank's activities is the collection and processing of statistics and the publication of a wide range of research papers and economics reports. Information on all of these activities can be found on the Bank's website.

And last but not least are two companies that are owned by the Central Bank and focus on specific projects: Greiðsluveitan and ESÍ, the Central Bank of Iceland Holding Company.

According to its profit and loss account, the Central Bank of Iceland recorded a net profit of 5,651 m.kr. in 2015, compared with a profit of 11,220 m.kr. in the previous year. The Bank's profit contracted by 5,568 m.kr. in comparison with the previous year. Net interest income declined by 3,151 m.kr. year-on-year. Interest income on domestic assets declined by 1,431 m.kr., due to a reduction in bond principal and the sale of domestic assets. Interest expense on domestic deposits increased by 4,385 m.kr., owing to the Bank's large-scale foreign currency purchases. Interest expense on foreign debt declined by 2,330 m.kr., due mainly to the retirement of loans from Poland and the International Monetary Fund (IMF).

Other operating income increased by 5,394 m.kr. year-on-year, owing mainly to the revaluation of domestic securities in ESÍ's portfolio. Foreign exchange transactions generated a loss of 119 m.kr. in 2015, owing to an increase in the Bank's foreign exchange market intervention to an all-time high during the year. The Bank's operating expense declined by 301 m.kr. year-on-year, largely due to

a reduction in service charges related to the activities of companies owned by the Bank.

Salaries and related expenses rose by 12.6% between years, primarily because of contractual pay increases. The Bank's assets totalled 916,977 m.kr. at year-end 2015, as opposed to 953,598 m.kr. at the end of 2014. Foreign assets increased by 123,587 m.kr. during the year. The Bank's equity totalled 78,760 m.kr. at year-end 2015, and its capital ratio was 8.6%, as compared with 7.9% at year-end 2014.

It has been decided to allocate the Bank's profit and the balance in the value adjustment reserve fund, a total of 14.9 b.kr., towards strengthening the Bank's capital.

At the end of 2015, the Bank employed 178 members of staff. The gender ratio is still relatively equal, at 53%-47%. Of the Bank's 10 departmental directors, five are men and five are women.

I would like to thank the Bank's entire staff for a job well done during the year. I would also like to take this opportunity to thank the Supervisory Board, the Governor, the Deputy Governor, the Secretary of the Supervisory Board, and the Internal Auditor for extremely satisfying collaboration in recent months. I will now turn the floor over to Bjarni Benediktsson, Minister of Finance and Economic Affairs. Following his speech, Governor Már Guðmundsson will address the meeting.