

Helgi S Guðmundsson: Brief summary of the Central Bank of Iceland's accounts

Address by Mr Helgi S Guðmundsson, Chairman of the Supervisory Board of the Central Bank of Iceland, at the Bank's Annual Meeting, Reykjavik, 30 March 2007.

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Honourable Prime Minister, Ministers of the Government, Speaker of the Althingi, Ladies and Gentlemen:

On behalf of the Supervisory Board of the Central Bank of Iceland I welcome you all to the Bank's 46th annual meeting and declare this meeting open. At the end of my address the Chairman of the Board of Governors, Davíð Oddsson, will deliver his report on behalf of the Board of Governors. The Prime Minister of Iceland, Geir H. Haarde, will then address the meeting. When the meeting has completed its duties, I invite those attending it to a reception.

At a meeting of the Supervisory Board today the Prime Minister ratified the Bank's financial accounts for 2006 with his signature. The Central Bank's Annual Report for 2006 is published today and will be available at the end of this meeting.

The Central Bank's annual accounts are compiled on the basis of rules set by the Prime Minister, most recently in December 2005. According to its profit and loss account, the Central Bank of Iceland made a net profit of 11.8 b.kr. in 2006. The profit is explained almost entirely by exchange rate gain. Excluding this, the Central Bank produced a profit of 48 m.kr. before the transfer to the Treasury. Interest income grew by 162% over the year and interest expense by 178%. In total, interest income increased by 15.6 b.kr. and interest expense by 13.7 b.kr. to leave net interest income of 1.9 b.kr. Operating expenses, i.e. salary and payroll expenses and other operating expenses, were 1.5 b.kr., depreciation 90 m.kr. and a supplementary contribution to the Bank Employees' Pension Fund 386 m.kr., in accordance with an agreement between the Fund and its member organisations. By law, the transfer to the Treasury is calculated as one-third of net profit, i.e. 16 m.kr. Profit after transfer to the Treasury but excluding exchange rate gain therefore amounted to 32 m.kr.

In 2006, the Central Bank's balance sheet total increased by 159 b.kr. to almost 322 b.kr. at the end of the year. The main explanation is that total Treasury deposits in the Central Bank rose by 135 b.kr. over 2006 to 211 b.kr. at the end of the year. The balance on Government current accounts increased by 47 b.kr. and the deposit in the foreign currency account amounted to 94 b.kr. at the end of the year. Most of the foreign currency deposit is accounted for by the €1 billion loan taken by the Treasury towards the end of the year to boost the Central Bank's foreign reserves. Notes and coin in circulation grew by 10% to 14.5 b.kr. and the Central Bank's liabilities towards deposit money banks by just over 10 b.kr. On the asset side, the Central Bank's claims on deposit money banks and other financial institutions increased by 59 m.kr., and its foreign assets by 101 b.kr. The growth in foreign assets was largely the result of the Treasury's euro loan, but partly due to the impact of the depreciation of the króna on the nominal amount of the reserves denominated in domestic currency. At the end of the year, the Central Bank's equity amounted to 48.2 b.kr., an increase of almost 12 b.kr. from the end of the year before. In the budget for 2007, the Treasury was authorised to strengthen the Central Bank's capital position.

The Treasury borrowed €1 billion in international capital markets in 2006 for the sole purpose of boosting the Central Bank's foreign reserves. All the proceeds from the loan were deposited in a foreign currency account in the Central Bank. The Treasury earns interest on the deposit at a rate matching that of the foreign loan.

Here I have briefly summarised the highlights of the Central Bank's accounts. The financial statements for the year are published in their entirety in the annual report with notes, and the Bank's results and changes in its balance sheet during the year are also described in more detail there than I have entered into here.

In June 2006, Jón Sigurðsson stepped down as Governor of the Central Bank of Iceland when he was appointed Minister of Industry and Commerce in the government of Iceland. In formal terms he was on leave from the Central Bank from the middle of June until the end of August. Jón Sigurðsson was appointed Governor from October 1, 2003. He therefore served on the Board of Governors for almost three years. Before that he was a member of the Supervisory Board for just over two years. On behalf

of the Supervisory Board I would like to thank Jón Sigurðsson for our pleasant work together during his terms as both a member of the Board of Governors and a member of the Supervisory Board.

Ingimundur Friðriksson was temporarily appointed Governor from June 15 to August 31, 2006, then appointed Governor for a seven-year term from September 1, 2006. Ingimundur Friðriksson had been Assistant Governor since 1994 and held a temporary appointment as Governor for one year from 2002 to 2003.

A number of changes took place in Central Bank staffing during 2006. Fifteen employees left or retired from the Bank and ten were hired, so their number decreased by five during the year. At the end of 2006 there were 111 employees at the Central Bank of Iceland, while the number of full-time equivalent positions was just over 102. Among the retirees was Sveinn Erling Sigurðsson, Director of the Statistics Department. Lilja Steinþórsdóttir left the post of Chief Auditor during the year. The Chief Auditor is directly accountable to and appointed by the Supervisory Board. On behalf of the Supervisory Board I would like to thank Lilja Steinþórsdóttir for our pleasant work together. In her place, the Supervisory Board appointed Stefán Svavarsson Chief Auditor.

Financial institutions compete fiercely for talented employees, which is not surprising given the pace at which the Icelandic banks' activities have expanded. It is vital for the Central Bank to have as capable employees as possible in its service. It must take prevailing conditions into account to ensure that this is the case.

On the Supervisory Board in 2006, Ólafur G. Einarsson resigned from the post of Chairman which he held since 1998. Helgi S. Guðmundsson was elected Chairman in his place. On behalf of the Supervisory Board I would like to thank Ólafur G. Einarsson for his particularly successful leadership during his years as chairman. The Supervisory Board held 22 meetings during the year. I would like to thank the members of the Supervisory Board for their pleasant cooperation and fine work. I also thank the Board of Governors and employees of the Bank for their very good work during the year and fruitful collaboration with the Supervisory Board.