

CENTRAL BANK OF ICELAND



2022

ANNUAL REPORT

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

Icelandic letters:

ð/Ð (pronounced like th in English this)

þ/Þ (pronounced like th in English think)

In this report, ð is transliterated as d and þ as th in personal names, for consistency with international references, but otherwise the Icelandic letters are retained.

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Objectives and policy



The Central Bank of Iceland is an independent institution owned by the State and operating under the auspices of the Prime Minister. Furthermore, matters relating to financial stability and financial markets are administered by the Ministry of Finance and Economic Affairs. The Act on the Central Bank of Iceland, no. 92/2019, stipulates that the Bank shall promote price stability, financial stability, and sound and secure financial activities. The Bank shall also undertake such tasks as are consistent with its role as a central bank, such as maintaining international reserves and promoting a safe, effective financial system, including domestic and cross-border payment intermediation. The Central Bank is also responsible for the tasks entrusted by law and Governmental directives to the Financial Supervisory Authority.

The Bank is also required under the Act to promote the implementation of the Government's economic policy as long as it does not consider such policy inconsistent with the Bank's objectives.

Price stability

With the approval of the Minister, the Central Bank may declare a quantitative target for inflation. According to the joint declaration issued by the Government of Iceland and the Central Bank of Iceland on 27 March 2001, the Bank shall aim at a rate of inflation, measured as the twelve-month increase in the consumer price index (CPI), of as close to 2.5% as possible.¹ The Act on the Central Bank of Iceland grants the Bank full independence in applying its monetary policy instruments so as to achieve the price stability objective.

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.

The Central Bank's monetary policy instruments are its interest rates, facilities for credit institutions (apart from loans of last resort), minimum reserve requirements, foreign exchange market transactions, and securities transactions.

A five-member Monetary Policy Committee (MPC) takes strategic decisions on the application of the Bank's monetary policy instruments, with the aim of achieving the price stability objective. The Central Bank sets the Bank's Monetary Policy Strategy, which was approved at the MPC's 22 November 2022 meeting and published on the Bank's website. Members of the Committee are the Governor (who acts as chair), the Deputy Governor for Monetary Policy, the Deputy Governor for Financial Stability, and two outside experts appointed by the Prime Minister.

The MPC meets at least six times a year and issues a statement on its decisions following each meeting. The minutes of its meetings are published two weeks after each meeting.

Financial stability

The Financial Stability Committee (FSN) of the Central Bank of Iceland takes decisions on the application of the Bank's financial stability policy instruments. Financial stability means that the financial system is equipped to withstand shocks to the economy and financial markets, to mediate credit and payments, and to diversify risks appropriately. The Committee is tasked with assessing the current situation and outlook for the financial system, systemic risk, and financial stability; defining the measures necessary to ensure financial stability; and deciding which entities, infrastructure elements, or markets shall be considered systemically

important. When warranted, the FSN may make recommendations to the appropriate Governmental authorities concerning the measures needed to strengthen and preserve financial stability. The seven-member FSN takes decisions on the application of the Central Bank's financial stability policy instruments. Members of the Committee are the Governor (who acts as chair), the Bank's three deputy governors, and three outside experts appointed by the Minister of Finance and Economic Affairs. The Permanent Secretary or an appointed official from the Ministry responsible for financial stability also participates in Committee meetings as a non-voting member with the right to address the meeting and present proposals.

The official Financial Stability Policy was updated in October 2022 and approved at a meeting of the Financial Stability Council.

The FSN meets at least four times a year and issues a statement on its decisions following each meeting. The minutes of its meetings are published within a month after each meeting.

Sound and secure financial activities

The purpose of financial supervision is to ensure that the activities of supervised entities comply with the laws, regulations, rules, and articles of association governing these activities at any given time.

The Financial Supervision Committee (FMEN) takes decisions entrusted to the Financial Supervisory Authority by law or Governmental directives. The Central Bank sets a Financial Supervision Policy, which was approved at the FMEN's 24 November 2022 meeting and published on the Bank's website. The Committee is authorised to entrust the Deputy Governor for Financial Supervision with taking non-major decisions. As is provided for in the Act on the Central Bank, the Committee is chaired by the Governor or the Deputy Governor for Financial Supervision, depending on circumstances. When the FMEN takes decisions on the adoption of rules of procedure and on the transfer of authority to the Deputy Governor for Financial Supervision, as well as decisions pertaining to systemically important financial institutions' capital, liquidity, and funding, the Governor takes a seat on the FMEN as its chair and the Deputy Governor for Financial Supervision acts as vice-chair. In other instances, the Deputy Governor for Financial Supervision chairs the Committee and the Deputy Governor for Financial Stability acts as vice-chair.

In addition to the Governor and two deputy governors, the FMEN comprises three outside experts

appointed by the Minister of Finance and Economic Affairs.

This *Annual Report* presents the highlights of the Bank's activities in these three main areas of operation and the developments taking place during the year. Additional topics covered include international reserve maintenance, payment intermediation, Government debt management, international cooperation, and other activities. The Bank's annual accounts can be found at the end of the *Annual Report*.

Monetary policy



The Central Bank of Iceland is required by law to promote price stability. According to the joint declaration issued by the Central Bank and the Government on 27 March 2001, the price stability objective is defined as a 2½% rise in the consumer price index (CPI) over a twelve-month period. The Act also stipulates that the Monetary Policy Committee (MPC) shall take decisions on the application of the Bank’s monetary policy instruments with the aim of achieving this objective.

Developments in inflation, interest rates, and exchange rate in 2022

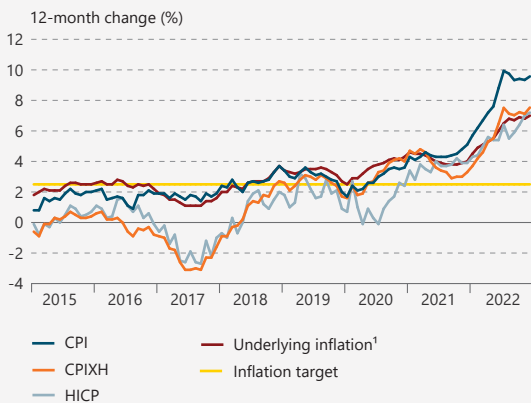
Inflation averaged 8.3% in 2022, as compared with 4.4% in 2021. It measured 5.7% at the beginning of the year but rose swiftly as the year advanced and measured

9.9% in July. By year-end, it had declined marginally to 9.6%. Inflation excluding housing measured 6.1% in 2022, and the difference between inflation including and excluding housing held relatively stable during the year. Underlying inflation rose as well, and in December 2022 it measured 7% according to the average of various measures, as compared with 4% a year earlier.

The main drivers of inflation were house prices and imported goods prices, although inflation was very widespread. In December 2022, the cost of owner-occupied housing was up 19.4% year-on-year. By the end of the year, however, clearer signs of change in the real estate market had come to the fore, and prices had begun to rise more slowly.

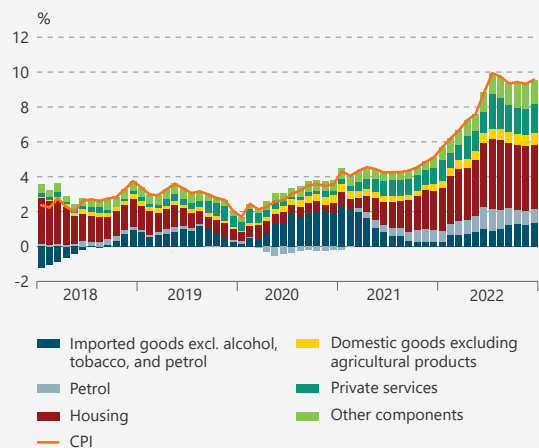
Global commodities, food, and fuel prices surged after Russia invaded Ukraine, and COVID-related sup-

Chart II-1
Various measures of inflation
January 2015 - December 2022



1. Underlying inflation shows the average of five different measures.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart II-2
Components of CPI inflation
January 2021 - December 2022



Sources: Statistics Iceland, Central Bank of Iceland.

ply chain bottlenecks were still persistent. As a consequence, inflation surged worldwide. After the increase in H1, imported inflation remained broadly unchanged in H2 but increased in December. Imported goods prices were up 6.7% year-on-year in December, as compared with a year-on-year increase of 2.9% in December 2021. After climbing steeply early in the year, fuel prices began to fall in H2. Nevertheless, domestic petrol prices were still nearly one-fourth higher in December 2022 than in the same month of 2021. Domestic goods and services prices also rose markedly as the year advanced.

In February 2022, the MPC raised the Bank's interest rates by 0.75 percentage points, to 2.75%. In May and June, the Committee decided to increase rates still further, raising them by 1 percentage point on each occasion. In August, the Committee decided to raise rates by 0.75 percentage points, and in October and November it raised them by 0.25 percentage points each time. At the end of 2022, the Bank's key interest rate (the rate on seven-day term deposits) was 6% and had been raised by 4 percentage points over the course of the year.

The grounds for the rate hikes were that the inflation outlook had deteriorated markedly, and inflation expectations were high by all measures and had grown less firmly anchored to the target. As a result, it could take longer to bring inflation back to target than would otherwise be the case. Underlying inflation had continued to rise, and price increases were very widespread. Domestic demand had proven stronger than expected, and private consumption had grown much more than previously assumed. The GDP growth outlook for 2023 had improved markedly, and the positive output gap was expected both to be wider in 2023 than previously assumed and to narrow more slowly.

The monetary stance in terms of the Central Bank's real rate eased in H1 but began to tighten in H2. The Bank's real rate in terms of the average of various measures of inflation and one-year inflation expectations measured -0.3% at the year-end, after rising by 1.5 percentage points since July, when inflation reached its highest rate during the year. The real rate in terms of twelve-month inflation rose by 1.4 percentage points over the same period, to -3.3% at the end of the year.

Expectations of a strong recovery of tourism and the relaxation of public health measures played a major role in the appreciation of the króna during the initial months of the year. The exchange rate rose by over 5% in trade-weighted terms in H1. Developments in H2 differed greatly, however, with growing imports and a widening deficit on the goods account contributing to a marked depreciation of the króna. At the year-end, the króna was about 7% weaker than at mid-year and about 2% weaker than at the end of 2021.

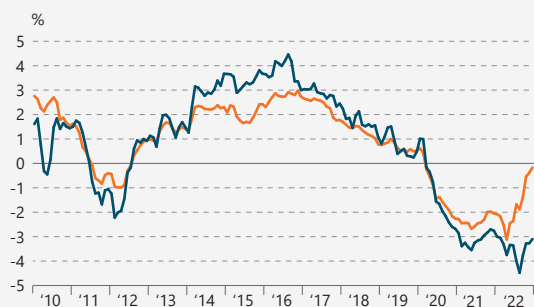
In 2022 as a whole, the Bank bought currency for 33.9 b.kr. and sold currency for 20.7 b.kr. Thus, the Bank's net foreign currency purchases totalled 13.2 b.kr. during the year. The Bank's transactions accounted for 14.6% of interbank market turnover in 2022, as compared with 21% in 2021. Most of the intervention took place in the first half of the year. Total turnover in the market rose by 5.2% relative to 2021.

Chart II-3
Central Bank of Iceland key interest rate¹
3 January 2001 - 30 December 2022



1. The Central Bank's key interest rate is defined as follows: the 7-day collateralised lending rate (until 31 March 2009), the rate on deposit institutions' current accounts with the Central Bank (1 April 2009 - 30 September 2009), the average of the current account rate and the rate on 28-day certificates of deposit (1 October 2009 - 20 May 2014), and the rate on 7-day term deposits (from 21 May 2014 onwards).
Source: Central Bank of Iceland.

Chart II-4
Real Central Bank of Iceland interest rates¹
January 2010 - December 2022

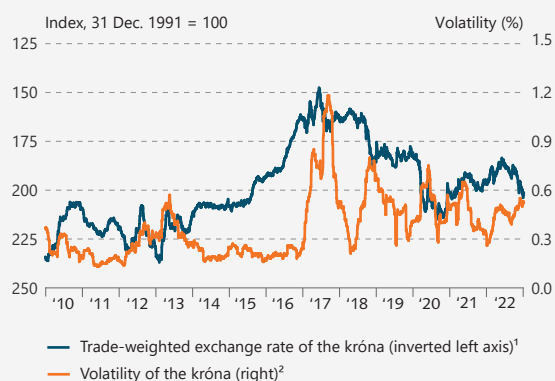


— Real Central Bank of Iceland interest rate in terms of twelve-month inflation
— Real Central Bank of Iceland interest rate in terms of various measures of inflation and inflation expectations²

1. From 2010 to May 2014, the nominal policy rate was the average of the current account rate and the maximum rate on 28-day CDs. From May 2014, the policy rate has been the seven-day term deposit rate. 2. Until January 2012, according to twelve-month inflation, one-year business inflation expectations, one-year household inflation expectations, the one-year breakeven inflation rate, and the Central Bank forecast of twelve-month inflation four quarters ahead. From February 2012 onwards, according to the above criteria, plus one-year market inflation expectations based on a quarterly Central Bank survey.
Sources: Gallup, Statistics Iceland, Central Bank of Iceland.

Chart II-5

Exchange rate and volatility of the króna
4 January 2010 - 30 December 2022



1. Price of foreign currency in terms of the króna. Inverted axis shows a stronger króna as a rise. 2. Volatility is measured by the standard deviation of daily changes in the past 3 months.
Source: Central Bank of Iceland.

Nominal Treasury bond yields rose during the year. By the year-end, the yield on five-year nominal Treasury bonds was 6.6% and had risen by 2.6 percentage points since end-2021. Indexed yields behaved similarly: the yield on five-year indexed Treasury bonds was 1.9% at the end of 2022, as compared with 0% a year earlier.

To pursue forward-looking monetary policy, a central bank needs models for assessing the economic outlook, especially inflation. The Bank is constantly developing models for use in assessing the economic outlook and analysing the impact of monetary policy. As an element in this, the Bank publishes its main forecasting model and database on its website.

Further discussion of developments in the global economy, domestic monetary policy, exchange rate and currency matters, and the Bank's policies and actions in these areas during the year can be found in the minutes of MPC meetings and in the Bank's quarterly *Monetary Bulletin*, which are both published on the Central Bank website.

Monetary Policy Committee

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

At the beginning of 2022, MPC members were Governor Ásgeir Jónsson, who chairs the Committee by law; Rannveig Sigurdardóttir, Deputy Governor

for Monetary Policy and vice-chair of the Committee; Gunnar Jakobsson, Deputy Governor for Financial Stability; Gylfi Zoëga, professor at the University of Iceland; and Katrín Ólafsdóttir, Associate Professor at Reykjavík University. In March 2022, Herdís Steingrimsdóttir, Associate Professor at Copenhagen Business School, was appointed to replace Katrín Ólafsdóttir, who had served the maximum ten-year term on the Committee.

The Committee held six regularly scheduled meetings in 2022 and issued a statement on its decision after each meeting. It also held an extraordinary meeting in January. Furthermore, two weeks after the announcement of each interest rate decision, the Committee published the minutes of its meetings, containing the rationale for its decisions and the assumptions on which they were based. The minutes included the Committee's assessment of economic and monetary developments and prospects, the rationale for members' position, and information on individual members' votes. As is provided for in the Central Bank Act, the MPC reported to Parliament on its activities twice during the year.

Central Bank interest rate decisions 2022

The MPC's decisions on the application of the Bank's monetary policy instruments were as follows:

12 January (extraordinary meeting): The MPC held an extraordinary meeting and presented proposals to open a new liquidity window, cancel the special temporary COVID-19-related credit facilities, and make seven-day term deposits redeemable, subject to a redemption fee. The liquidity window and the changes in terms and conditions for term deposits had already been approved at a meeting of the Financial Stability Committee (FSN) in December 2021. After having discussed these matters, the MPC declared itself in agreement with the changes and concurred with the FSN that it was appropriate to close the temporary collateralised lending framework.

9 February: The Governor proposed that the Bank's interest rates be raised by 0.75 percentage points. All Committee members voted in favour of the proposal.

4 May: The Governor proposed that the Bank's interest rates be raised by 1 percentage point. All Committee members voted in favour of the proposal.

13 June: The Governor proposed that the Bank's interest rates be raised by 1 percentage point. All members voted in favour of the Governor's proposal, although Gylfi Zoëga would have preferred to raise rates by 1.25 percentage points.

24 August: The Governor proposed that the Bank's interest rates be raised by 0.75 percentage points. All members voted in favour of the Governor's proposal, although Gylfi Zoëga would have preferred to raise rates by 1 percentage point.

5 October: The Governor proposed that the Bank's interest rates be raised by 0.25 percentage points. All Committee members voted in favour of the proposal.

23 November: The Governor proposed that the Bank's interest rates be raised by 0.25 percentage points. All members voted in favour of the Governor's proposal, although Gylfi Zoëga would have preferred to raise rates by 0.5 percentage points.



The Monetary Policy Committee at year-end 2022, together with the Committee secretary. Seated, from left: Ásgeir Jónsson Governor, (Chairman) and Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy. Standing, from left: Herdis Steingrimsdóttir, Associate Professor in economics at Copenhagen Business School, Gylfi Zoëga, Professor in economics at the University of Iceland, Gunnar Jakobsson, Deputy Governor for Financial Stability and Karen Áslaug Vignisdóttir, (Secretary).

Financial stability



General information

One of the Central Bank of Iceland's tasks is to promote financial stability. Financial stability means that the financial system is resilient enough to withstand shocks to the economy and financial markets, to mediate credit and payments, and to diversify risks appropriately.

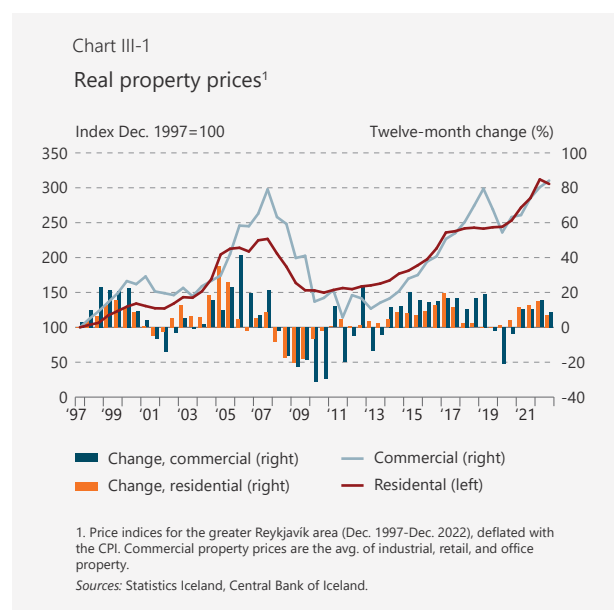
The Bank monitors and analyses the position of the financial system and responds as needed to counteract developments that could undermine its stability. The Bank also closely monitors individual financial institutions, financial markets, financial market infrastructure, households and businesses, the external position of the economy, capital flows, and the refinancing risk faced by domestic participants in foreign credit markets. The Central Bank Financial Stability Committee (FSN) takes decisions on the application of the Bank's policy instruments in order to ensure and preserve financial stability.

The official Financial Stability Policy was updated in October 2022 and approved at a meeting of the Financial Stability Council. The policy takes into account the Council's changed role following the merger of the Central Bank and the Financial Supervisory Authority. It covers financial stability monitoring, measures of systemic risk, responses to elevated systemic risk, and the assessment of the efficacy of macroprudential tools.

The Central Bank's goal is to promote security, efficiency, and efficacy of systemically important financial market infrastructure.

The state of financial stability

At the beginning of 2022, the battle with the COVID-19 pandemic was still raging due to the arrival of the Omicron variant of the disease. Case numbers peaked in February, but by the end of the month all domestic public health measures had been lifted, both within Iceland and at the border. Aggressive Government support measures, coupled with accommodative monetary and macroprudential policies, mitigated the economic fallout from the pandemic and supported households and businesses. The abolition of public quarantine measures in Iceland and abroad had a highly positive impact on the domestic economy, particularly tourism, which regained much of its previous strength. Owing



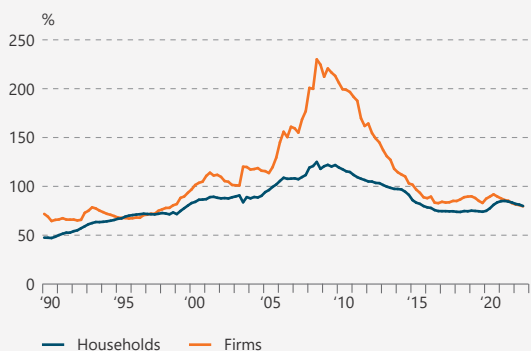
largely to the rapid recovery of tourism and robust private consumption, GDP growth soared to its strongest since 2007 and unemployment fell below the pre-pandemic level. The economic rebound and the tighter macroprudential stance had a positive impact on financial stability, but high inflation and higher interest rates pulled in the opposite direction.

The commercial banks recorded solid operating profits during the year despite strongly negative developments in financial markets and losses on financial activities. High interest rates, increased fees and commissions, credit growth, and cost control measures boosted returns on the banks' core operations to their strongest ever. The effects of the pandemic on the position of the banks and their customers can be said to have tapered off during the year, and the banks reversed nearly all of the precautionary contributions they had made to their impairment accounts. Simultaneously, the banks' non-performing loan ratios declined to their lowest level since the 2008 financial crisis. In most cases, customers who had needed payment mitigation measures began to repay their loans again.

Because of adverse developments in foreign markets and growing uncertainty, conditions in capital markets deteriorated during the year. The banks' access to foreign credit grew tighter, and credit spreads on their foreign-denominated bonds surged. By the end of the year, the banks' funding terms were close to their most unfavourable ever. About one-sixth of the banks' foreign funding matures in 2023.

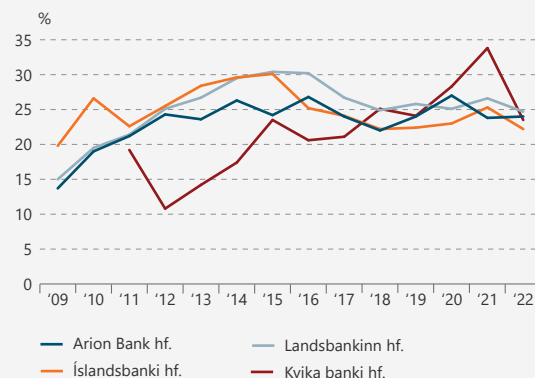
Despite sizeable dividend payments and share buybacks in 2021 and 2022, the banks' capital and liquidity were strong at the end of 2022, and well above

Chart III-2
Credit to households and firms as percentage of GDP¹



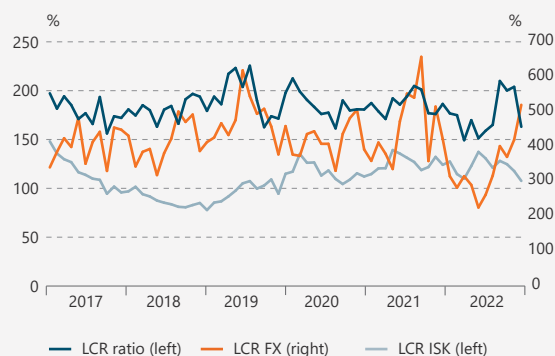
1. Total claim value credit to households and nonfinancial firms, excluding holding companies, divided by the GDP of the last four quarters. From Q1-1990 to Q3-2022.
Sources: Statistics Iceland, Central Bank of Iceland.

Chart III-3
Commercial banks' capital adequacy ratios¹



1. Consolidated figures. Capital base as % of risk-weighted base.
Sources: Commercial banks' annual accounts.

Chart III-4
The three large commercial banks' liquidity coverage ratio¹



1. Consolidated figures.
Source: Central Bank of Iceland.

Central Bank requirements. As a result, the banks were highly resilient, which is of pivotal importance in maintaining a smoothly functioning financial system and safeguarding financial stability.

The global economic outlook deteriorated during the year, and inflation among Iceland's main trading partners skyrocketed to its highest in decades. In response, central banks raised policy interest rates steeply in order to dampen inflationary and demand pressures. Russia's invasion of Ukraine pushed energy prices sharply upwards and had a negative impact on the global economic outlook. Markedly higher interest rates, energy prices, and inflation caused private sector financial conditions to tighten significantly in trading partner countries. This had – and still has – a negative effect on the Icelandic economy, and developments in the future are highly uncertain. Risks to financial stability in Iceland therefore increased in 2022.

Cybersecurity and international cooperation

Cybersecurity has been in the spotlight in the recent term. Cyberattacks have increased in number, and the methods used to carry them out are constantly changing, making it ever harder for victims to guard against them. The Central Bank held a cybersecurity conference in 2022, with a focus on cybersecurity from the perspective of financial stability and national security. The conference was the fifth in a series of annual cybersecurity conferences held by Nordic central banks with the objective of raising awareness and enhancing knowledge of cybersecurity issues, particularly among those working within the financial system.

Operating under the auspices of the Central Bank is a collaborative forum on the operational security of financial market infrastructure, called SURF. In October 2022, SURF and CERT-IS held a contingency exercise with the participation of key financial sector entities. The aim of the exercise was to test communications, processes, and responses during an imminent threat to the financial system.

The Central Bank oversees systemically important financial market infrastructure, and during the year it participated, together with oversight units from the Baltic central banks, in a detailed appraisal of the cybersecurity framework for the Nasdaq CSD SE securities system against ECB's cyber resilience oversight expectations (CROE).

Payment intermediation

As is noted above, one of the Central Bank's roles is to promote a safe and effective financial system, including domestic payment intermediation. One element in an effective payment intermediation system is to ensure that the costs of system operation and use of payment instruments are transparent, and that usage fees accurately reflect the costs of the underlying operations. During the year, the Central Bank engaged Gallup to carry out an extensive survey of individuals' payment behaviour. The summarised survey results were published in the autumn 2022 issue of *Financial Stability*. Gallup also conducted a survey for the Central Bank on merchants' attitudes towards payment instruments and the use of payment instruments in business transactions. The survey findings are among the data used by a task force on payment instruments to analyse the cost of using various means of payment. The results of the analysis are to be presented in H1/2023.

Greidsluveitan ehf.

The Central Bank and its wholly owned subsidiary Greidsluveitan ehf. administer three types of special projects in the area of payment intermediation: the Forum for the Future, the Rulebook Council, and the Payment Council. The Rulebook Council decided to publish an Icelandic version of the European Payments Council (EPC) Rulebook on instant credit transfers for use in the domestic market. At the end of 2022, the Payment Council established a task force on trade and service providers' response to a crisis in payment intermediation in Iceland.

Resolution Authority

The Resolution Authority is a part of the Central Bank of Iceland; cf. the Act on Resolution of Credit Institutions and Investment Firms, no. 70/2020 (the Resolution Act), no. 70/2020. The Resolution Act empowers the Resolution Authority to take decisions on resolution and to apply resolution tools in the case of a financial undertaking that cannot honour its obligations or is unlikely to be able to.

In 2022, the structure of the Resolution Fund was provided for with amendments to the Act on Deposit Guarantees and Investor Compensation Scheme, no. 98/1999. The Resolution Fund will be a separate division of the Icelandic Financial Institutions' Guarantee Fund (TVF), which, with the passage of the Act, was fully funded in accordance with the requirements laid down in the EU Bank Recovery and Resolution Directive (BRRD). The entry into force of the amended Act completed the implementation of BRRD I in Iceland. Also in 2022, considerable work was done towards the implementation of the second Bank Recovery and Resolution Directive (BRRD II), which is set to be a part of Icelandic law in H1/2023. The main substance of BRRD II centres on the minimum requirement for own funds and eligible liabilities (MREL). The impact of the Directive has already been discussed in the Resolution Authority's MREL policy, published in December 2021. The provisions of BRRD II relate in part to the provisions of the second Capital Requirements Regulation (CRR II), including those on new requirements for eligible liabilities and conditions for granting permission to redeem eligible liabilities. Therefore, concurrent with preparations for BRRD II, the Resolution Authority participated in the implementation of the second EU Capital Requirements Regulation (CRR II), which was incorporated into Icelandic law in mid-2022. Furthermore, the

Rules on the Practice of the Resolution Authority of the Central Bank of Iceland, no. 1733/2021, were approved at the end of 2021 and published at the beginning of 2022. The Rules focus in particular on the separation of the Resolution Authority's activities from other Central Bank activities.

The Resolution Authority prepares resolution plans for financial undertakings. The resolution plans, which are accessible only to the Resolution Authority itself, are prepared based on data from the Bank's financial supervisory staff and the undertakings concerned. Resolution plans are based on a strategic business analysis that entails an overview of all critical functions and core business lines of financial undertakings. They must lay down the preferred resolution strategy, describe possible versions of the preferred resolution strategy as well as other strategies, and specify the measures that the Resolution Authority will take if a given financial undertaking is deemed to be failing or likely to fail. The first resolution plans for the three systemically important banks were approved in spring 2022 and then, in late September, updated to reflect more recent data and financial information. For the future, the aim is to update the resolution plans annually, in the third quarter of each year.

Amendments to Rules

New Rules on General Reporting Requirements pursuant to the Foreign Exchange Act, no. 861/2022, took effect during the year, superseding the Rules on the Obligation to Provide Information in respect of Foreign Exchange Transactions and Cross-Border Capital Movements, no. 13/1995. The new Rules focus primarily on domestic commercial banks' reporting to the Central Bank on the foreign exchange transactions they undertake and the cross-border transfers of funds they send or receive.

The Central Bank's new Rules on Credit Institutions' Liquidity Ratios, no. 1520/2022, which were published in 2022 and took effect on 1 January 2023, supersede the previous rules from 2017 on the same topic. The new Rules introduce an 80% minimum liquidity ratio in euros for credit institutions whose euro-denominated liabilities equal 10% or more of their total liabilities. With these new Rules, the provision in the previous ones requiring a 100% liquidity ratio for all currencies combined has been deleted. The minimum 100% liquidity requirement for all currencies combined remains in effect under the new Rules, however, in accordance with Regulation (EU) 2015/61. In addition,

credit institutions are still required to satisfy at least 50% of their liquidity requirement in Icelandic krónur.

Financial Stability Committee

The Financial Stability Committee (FSN) of the Central Bank of Iceland takes decisions on the application of the Bank's financial stability policy instruments. The Committee is tasked with assessing the current situation and outlook for the financial system, systemic risk, and financial stability; defining the measures necessary to ensure financial stability; and deciding which entities, infrastructure elements, or markets shall be considered systemically important. When warranted, the FSN may make recommendations to the appropriate Governmental authorities concerning the measures needed to strengthen and preserve financial stability. In addition, the FSN is required to approve Governmental directives and take the decisions entrusted to it by law.

The FSN comprises the Governor, all three Deputy Governors, and three outside experts. The Permanent Secretary or an appointed official from the Ministry responsible for financial stability also participates in Committee meetings as a non-voting member with the right to address the meeting and present proposals. Members of the FSN in 2022 were Governor Ásgeir Jónsson, who chaired the Committee; Gunnar Jakobsson, Deputy Governor for Financial Stability and vice-chair; Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy; Unnur Gunnarsdóttir, Deputy Governor for Financial Supervision; Axel Hall, Assistant Professor at Reykjavík University; Bryndís Ásbjarnardóttir, Director of the BSc Programme in Business and Economics at Reykjavík University; and Gudmundur Kristján Tómasson, former Director of Financial Market Infrastructure at the Central Bank of Iceland.

The FSN met four times during the year. The Committee makes its decisions public by issuing a statement after each meeting, thereby explaining the application of financial stability policy instruments and presenting its assessment of developments and prospects for the financial system, systemic risk, and financial stability. The minutes of FSN meetings are posted on the Central Bank website. Further discussion of financial stability and the Bank's policy and actions in this area can be found in the FSN minutes and in the Bank's semi-annual *Financial Stability* reports.

As provided for in the Central Bank Act, the FSN reported to Parliament on its activities during the year.

Financial Stability Committee decisions in 2022

The Committee made no changes to capital buffers on financial institutions in 2022. In March 2022, the FSN decided to hold the systemic risk buffer unchanged at 3% for all deposit-taking institutions' domestic exposures. The systemic risk buffer is applied on the basis of persistent systemic risk relating to homogeneity and underlying risk in the Icelandic economy. Such systemic risk is considered non-cyclical, or built-in, and the buffer rate is reviewed every two years.

In accordance with the Act on Financial Undertakings, the FSN reviews the value of the countercyclical capital buffer (CCyB) on a quarterly basis. The CCyB is intended to address cyclical systemic risk. At its meetings in 2022, the Committee held the CCyB unchanged at 2%, as its September 2021 decision to increase the buffer rate from 0% to 2% took effect a year later, in September 2022. According to the minutes of the FSN's meetings, the systemically important banks are highly resilient, as can be seen, for example, in their strong capital and liquidity. The FSN completed its annual review of systemically important financial institutions and the capital buffer for systemic importance (O-SII buffer) in December. It confirmed the systemic importance of Arion Bank, Íslandsbanki, and Landsbankinn. It decided to hold the O-SII buffer unchanged at 2% of the systemically important financial institutions' total exposures.

The Committee discussed the real estate market in detail at all of its meetings in 2022. In its March statement, the Committee noted that it considered the borrower-based measures appropriate, as the full effect of previous decisions had not yet come to the fore. In this context, the FSN made reference to the entry into effect in December 2021 of rules capping debt service-to-income (DSTI) ratios on consumer mortgages at 35% of the borrower's disposable income (40% for first-time buyers), while exempting 5% of residential mortgage loans issued each quarter so as to afford lenders the flexibility to accommodate differences in households' situation. The rules also included an exemption for financial distress. Property prices had soared in June, deviating even more from fundamentals such as wage growth, building costs, and rent prices. Although house prices had surged in the recent term, the increase was generally not driven by excessive leverage. Members noted, however, that debt levels were still rising, particularly among first-time buyers. In order to preserve borrowers' and lenders' resilience, the FSN had decided

at its June meeting to lower the maximum loan-to-value (LTV) ratio for first-time buyers from 90% to 85% but to hold it unchanged at 80% for other buyers. The Committee also decided to amend the Rules on Maximum Debt Service-to-Income Ratios for Mortgage Loans to Consumers to include minimum reference interest rates of 3% for indexed loans and 5.5% for non-indexed loans. Furthermore, the Committee decided to shorten the maximum loan period used to calculate debt service on indexed loans to 25 years.

In March, the FSN approved amendments to the Rules on Derivatives Transactions that exclude transactions between domestic commercial banks from the restrictions on derivatives trading. The restriction on domestic commercial banks' derivatives transactions involving the Icelandic króna is unchanged from the previous Rules, and the total permissible exposure in such transactions is still restricted. In the interest of safeguarding financial stability, the Rules impose limits on the total amount of individual commercial banks' derivatives transactions. The gross forward foreign currency position may not at any time exceed 50% of the capital base of the commercial bank in question, and the position vis-à-vis each counterparty is limited to 10% of the capital base. After the amendments, transactions between two domestic commercial banks are not considered part of the forward foreign currency position. Furthermore, the maximum amount triggering the requirement that commercial banks submit special notification of derivatives transactions to the Central Bank has been increased. The FSN considered the experience of the Rules to have been positive. The derivatives market was more active than before and there were more diverse possibilities for derivatives trading, which had led to an increase in the number of both counterparties and trades.

Furthermore, in its statements, the FSN has strongly emphasised that the Government and the Bank should work towards enhancing security in domestic payment intermediation and should expedite the implementation of an independent retail payment solution, partly because of growing cyberthreats. The Committee discussed that retail payment intermediation in Iceland is characterised by widespread use of payment cards and reliance on international card conglomerates' foreign infrastructure. This entails risk – for instance, if overseas internet connections are disrupted or if the owners of the systems in question decide to stop doing business with Iceland.

At the FSN's meetings in 2022, it emerged that reported cyberattacks had grown in number and were

increasingly directed at important infrastructure. The Committee noted that it might prove necessary to strengthen the statutory framework for financial market infrastructure still further and expand the Bank's authorisations to adopt rules. It was necessary to guarantee information flows and consultation among all stakeholders in this area. The FSN agreed that it was important for the Government and the Bank to place strong emphasis on taking the lead in policy setting and bringing about the changes necessary to ensure effective and secure payment intermediation. In December, the Committee was informed that the Central Bank's Forum for the Future, which includes

representatives from domestic deposit institutions, the Ministry of Finance and Economic Affairs, and the Bank, would soon discuss and decide on proposals for the next steps towards implementing a domestic retail payment solution.

After having discussed the report from the appraisal committee tasked with assessing the experience gained from the work of the Central Bank's three standing committees, it was decided to amend the FSN's Rules of Procedure so that the Committee would no longer be involved in decisions pertaining to the Resolution Authority.



Financial Stability Committee, as composed in 2022. Seated, from left: Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy; Ásgeir Jónsson, Governor (Chairman); Gunnar Jakobsson, Deputy Governor for Financial Stability; and Unnur Gunnarsdóttir, Deputy Governor for Financial Supervision. Standing, from left: Rósa Björk Sveinsdóttir (Secretary); Axel Hall, Assistant Professor, Reykjavik University; Bryndís Ásbjarnardóttir, Director of the BSc Programme in Business and Economics at Reykjavik University; Gudmundur Kristján Tómasson, former Director of Financial Market Infrastructure, Central Bank of Iceland; and Guðrún Thorleifsdóttir, Director General, Ministry of Finance and Economic Affairs, with the right to address the meeting but without voting rights.

Financial supervision

IV

The Central Bank of Iceland is tasked with promoting sound and secure financial activities. It is responsible for the tasks entrusted by law and Governmental directives to the financial supervisory authority. The Bank monitors supervised entities to ensure that their activities are in compliance with the law and with Governmental directives, and that they are in other respects consistent with sound and appropriate business practices; cf. the Act on Official Supervision of Financial Activities. The Bank also ensures that supervised entities are attentive to consumer protection in their activities.

Financial Supervision Committee

The Financial Supervision Committee (FMEN) takes decisions entrusted to the financial supervisory authority by law or Governmental directives. The Committee is authorised to entrust the Deputy Governor for Financial Supervision with taking non-major decisions.

In 2022, the FMEN held nine meetings, in addition to handling four cases outside meetings, as it is authorised to do.

Members of the Financial Supervision Committee are Ásgeir Jónsson, Governor; Unnur Gunnarsdóttir, Deputy Governor for Financial Supervision; Gunnar Jakobsson, Deputy Governor for Financial Stability; Ásta Thórarinsdóttir, economist; Guðrún Thorleifsdóttir, Director General at the Ministry of Finance and Economic Affairs; and Gunnar Thór Pétursson, Professor at Reykjavík University, appointed to replace Andri Fannar Bergthórsson, Assistant Professor at Reykjavík University, who stepped down from the Committee in autumn 2022. As is provided for in the Act on the Central Bank, the Committee is chaired by the Governor or the

Deputy Governor for Financial Supervision, depending on circumstances. When the FMEN takes decisions on the adoption of its rules of procedure and on the transfer of authority to the Deputy Governor for Financial Supervision, as well as decisions pertaining to systemically important financial institutions' capital, liquidity, and funding, the Governor takes a seat on the FMEN as its chair and the Deputy Governor for Financial Supervision acts as vice-chair. In other instances, the Deputy Governor for Financial Supervision chairs the Committee and the Deputy Governor for Financial Stability acts as vice-chair.

The Bank's annual *Financial Supervision* report contains further information about the bank's work in the area of financial supervision. As is provided for in the Central bank Act, the FMEN reported to Parliament on its activities during the year.

Supervision of financial institutions

The Central Bank's supervision of financial institutions includes supervision of commercial banks, savings banks, credit institutions, investment firms, payment institutions, and electronic money institutions. Regular supervision of financial institutions is carried out in accordance with the Bank's risk-based supervision model, which defines the frequency with which key risk factors in the companies' operations are examined. It entails a review of data regularly submitted by the institutions concerned, as well as an examination of key metrics and business plans. Proactive checks and analyses are carried out as well, and interviews are taken with key employees of supervised entities. The Bank's Financial Stability Committee (FSN) has designated

three commercial banks – Arion Bank hf., Íslandsbanki hf., and Landsbankinn hf. – as domestic systemically important banks (D-SIB).

The composition of the D-SIBs' loan portfolio has changed markedly in recent years. Lending to households increased sharply, with the result that household loans constituted a majority of the portfolio. More recently, however, household lending has tapered off significantly. Because of the large stock of non-indexed loans and the changed interest rate environment, the Central Bank has urged banks to monitor and assess the risk associated with these factors. The economic situation and Russia's invasion of Ukraine have exacerbated uncertainty about loan quality worldwide, and monitoring of credit risk has been accorded greater weight, prompting more frequent on-site inspections and other responses. Furthermore, the Central Bank has monitored loan quality in connection with factors such as changes in interest rates and the scope of pandemic-related payment measures. In most cases, loans to borrowers who have taken advantage of these measures are classified as forborne and performing. The share of forborne loans has been on the decline and is expected to continue falling. The D-SIBs' non-performing loan ratios according to the European Banking Authority (EBA) definition continued to fall during the year, to approximately 1.5% by the year-end. Impairment ratios are now below the pre-pandemic level, owing partly to the increased weight of residential mortgages.

During the year, continued emphasis was placed on operational risk in assessing risk in the financial market, with particular attention given to outsourcing, in accordance with financial supervision priorities. In view of the EBA's focus on cyberdefence, and owing to the growing threat stemming from cyberattacks, continued emphasis was placed on examining financial institutions' cyberdefences and cyber-resilience.

Supervisory review and evaluation process (SREP)

Every year, the Bank carries out a detailed supervisory review and evaluation process (SREP) on the D-SIBs. In the SREP, the Bank evaluates the key risks entailed in the banks' operations and the methods they use to handle those risks, including risk management and monitoring. The Bank also assesses and determines the banks' capital requirement under Pillar II-R, which indicates how much capital the bank in question must hold in view of the risks it faces or could face. The Pillar II-R capital requirement is in addition to the minimum capital requirement provided for under Pillar I. The SREP is

carried out in accordance with the *Guidelines for common procedures and methodologies for the supervisory review and evaluation process* (SREP Guidelines). The guidelines are revised regularly and are consistent with the EBA guidelines on the same topic.

In September 2021, the Central Bank's Financial Stability Committee (FSN) decided to increase the countercyclical capital buffer (CCyB) rate to 2%, whereas it had previously been set at 0% of domestic exposures. In the FSN's opinion, the combination of rapidly rising asset prices and increased household debt had already raised cyclical systemic risk to at least the pre-pandemic level. As a result, the Committee concluded that the scope previously granted to financial institutions in March 2020, with the reduction in the buffer, was no longer needed. The increase in the CCyB took effect on 29 September 2022.

The systemically important banks' SREP results were published in July 2022. The results pertained to additional capital requirements over and above the basic capital requirement and the combined capital buffer requirement. According to the FMEN's decision, the additional capital requirement for systemically important banks at the group level lies in the 2.6-3.5% range, bringing the overall capital requirement to 19.9-20.7% at the year-end. The banks' capital ratios were well above these thresholds at the end of 2022. For less significant financial institutions, the SREP is carried out less often than for the systemically important banks; i.e., every second or third year, unless circumstances call for greater frequency. In intervening years, less extensive annual risk analyses are carried out for these institutions. This accords with the fundamental principle of risk-based supervision: that primary emphasis should be placed on supervision of institutions that could jeopardise financial stability or expose a large group of customers to severe inconvenience or loss.

Recovery plans

The Bank completed its review of the four commercial banks' recovery plans in 2022. It also completed its review of the simplified recovery plans for four savings banks and one credit undertaking. The Bank has concluded that in most instances, the recovery plans now satisfy the formal requirements made of them as regards content and substance. Therefore, when it conducts its next reviews, the Bank plans to place greater emphasis on more thorough analysis of individual aspects of the recovery plans and on the plans' effectiveness as policy instruments in financial institutions' activities.

Supervision of insurance activities

In 2022, the Bank emphasised analysing business models, governance practices, and operational risks in its supervision of the insurance market.

Ongoing supervision of insurance companies centres on their solvency margins and their ability to cover financial obligations. The Central Bank reviews regularly submitted reports and takes interviews with CEOs, executives responsible for key functions, and external auditors. Furthermore, the Bank carries out an annual assessment of risks relating to insurance companies' operations in accordance with its *General criteria and methodology for supervision of insurance companies*. Cooperation with the European Insurance and Occupational Pensions Authority (EIOPA) is an important aspect of ongoing monitoring of insurance companies. EIOPA's priorities are reflected in the Central Bank's supervisory timetable, for example, and EIOPA prepares the regulatory framework for the insurance market. The Bank keeps close track of this work.

During the year, the Bank did some follow-up on year-2021 checks and inspections, including an examination of the activities of key functions with an eye to regulatory requirements such as compliance and risk management. Efforts have also been made to ensure data quality in regular submittals.

Supervision of pension funds and pension savings custodians

The Central Bank supervises pension funds and third-pillar pension savings custodians. This entails, on the one hand, regular monitoring in accordance with the Bank's risk-based supervision model, which defines the frequency with which key risk factors in the pension funds' operations are examined, and on the other hand, proactive checks carried out based on the circumstances in each given instance. The Bank analyses key risks and developments in the markets; furthermore, it monitors closely to ensure that the entities concerned satisfy the requirements for their operating licences, that their operating practices are in compliance with regulatory provisions, and that appropriate measures are taken at all times. Furthermore, the pension funds' risk assessments are examined, and interviews are taken with selected key employees.

Ongoing monitoring of pension funds and third-pillar pension savings custodians entails monitoring their compliance with regulatory provisions and assessing the risk in their operations. In 2022, particular

emphasis was placed on governance, operational risk, and outsourcing. The Bank reviewed the pension funds' own risk assessments and took interviews with managing directors, risk officers, internal auditors, and board members. Comments and recommendations were communicated to the pension funds following these checks.

Supervision of the securities market

Equity market transactions increased marginally in number, but total turnover was broadly unchanged between years. The number of shareholders in companies listed on the Nasdaq Iceland exchange continued to increase. There were just under 22,000 shareholders in 2018 but roughly 73,000 by year-end 2022.

Supervision of the securities market contributes, among other things, to a more effective and secure market. This is accomplished in a number of ways, such as ongoing supervision of information disclosures made by securities issuers, supervision of market participants' business conduct – including potential insider misconduct and market abuse – and examination of reports submitted to the Bank by supervised entities. Furthermore, the Bank supervises the activities of securities exchanges (one party) and central securities depositories (two parties).

In 2022, the Bank opened investigations into 33 cases stemming from the securities market, 16 of which resulted from tips submitted by Nasdaq Iceland. As in previous years, most of the cases involved alleged insider misconduct and issuers' information disclosure requirements. Of the cases investigated, 12 were concluded in 2022, and as in previous years, most of them (9 cases in 2022) were closed without a determination that a violation had been committed. Three cases were concluded by settlement between the parties.

The Central Bank concluded on-site inspections of TRS II notifications by Arion Bank hf., investment bank Fossar fjárfestingarbanki hf., and Íslandsbanki hf. concerning transactions with financial instruments. On 1 July 2022, Verðbréfamidstöð Íslands hf.'s application to renew its operating licence pursuant to the Act on Central Securities Depositories and Settlement and Electronic Registration of Financial Instruments, no. 7/2020, was deemed complete by the Bank, and the licence was granted at the end of December 2022. Notifications of short positions increased marginally year-on-year, and the number of confirmed prospectuses declined between years. Even though the number of prospectuses fell, there were several new company listings. Nova klúbburinn hf. and Ölgerdin Egils

Skallagrímssonar hf. were listed on the Main Market, while Alvotech Holdings S.A. and Amaroq Minerals Ltd. were listed on First North. Alvotech Holdings S.A. moved to the Main Market towards the end of the year.

Supervision of business conduct

To a large degree, financial services and customer interactions have been digitised, and new options for cross-border operations have opened up. Under these circumstances, it is challenging to maintain a satisfactory overview of the service available to consumers in Iceland and of the methods used to reach customers. There is increased risk of mis-selling, which is the practice of selling products or services that are unsuitable for the customer or of providing customers with incorrect or misleading information.

The Central Bank conducts monitoring to ensure that supervised entities' business conduct is sound and appropriate. This entails, among other things, proactive checks and checks carried out in response to tips submitted to the Bank. The Bank also carries out analytical work, including analysis of investments by retail investors. The Bank's objectives in this regard are to promote improved financial market conduct and strengthen consumer protection. Business conduct includes all types of communications between supervised entities and their current and prospective customers in connection with the sale of goods and services; i.e., provision of information to customers, advisory services, pricing transparency, marketing, and handling of complaints. During the year, the Bank published regular notifications on its website concerning matters relating to consumers and/or market agents.

In 2022, the Bank received 137 comments pertaining to business conduct and consumer affairs in the financial market, and it concluded various investigations relating to business conduct and consumer affairs during the year. The Bank also initiated wide-ranging investigations of domestic sellers and arrangers in Icelandic State Financial Investments' offering of a 22.5% stake in Íslandsbanki hf., held by the Government. The offering took place on 22 March 2022. These investigations were still ongoing at the end of the year. On-site investigations were carried out at Afkoma váttryggingamidlun ehf. and Tryggingavernd ehf., in which the Bank examined the companies' measures to prevent conflicts of interests, information disclosures, needs analyses, and data storage in connection with the distribution of insurance-linked investment products. It investigated marketing by Stefmir hf.

in order to determine whether an advertisement published by Stefmir on social media and television satisfied the requirements made of marketing materials for UCITS and alternative investment fund managers pursuant to the Act on Markets in Financial Instruments, no. 115/2021. Investigations were conducted of three acquirers in connection with the unblending of interchange fees for card-based payments.

Furthermore, Bank employees who carry out supervision of business conduct devoted considerable time to the incorporation of EU regulations and directives into Icelandic law during the year, as well as participating in various committees established by European supervisory bodies.

Supervision of UCITS management companies, UCITS funds, and alternative investment fund management companies

The Central Bank carries out supervision of UCITS management companies, UCITS funds, and alternative investment fund management companies, or AIFMs. Such supervision centres mainly on whether or not the funds in question invest in accordance with statutory authorisations and their own internal rules. It also includes monitoring risk management, conflicts of interests, and liquidity management at the funds and the associated fund custodians. In 2022, the Bank received several applications from third-country (i.e., non-EEA) AIFMs seeking authorisation to market products to professional investors in Iceland. In addition, a joint European investigation, known as a *common supervisory action*, was conducted on the execution of asset valuations by UCITS funds and open-ended alternative investment funds that invest in relatively illiquid assets. The supervisory action extended to selected management companies. The Bank also examined the activities of UCITS and alternative investment fund custodians, with particular emphasis on adherence to the custodian's role as provided for in the then-current Act on Mutual Funds, Investment Funds, and Institutional Investment Funds, no. 128/2011, and the Act on Alternative Investment Fund Management Companies, no. 45/2020. The objectives included gaining an overview of the structure and activities of companies that act as custodians for UCITS and alternative investment funds, and verifying that the specified regulatory provisions were satisfied.

Supervision of anti-money laundering and terrorist financing measures

The Central Bank carries out risk-based supervision of entities subject to notification requirements (obliged entities) in accordance with the Act on Measures Against Money Laundering and Terrorist Financing. There were 97 such obliged entities at the end of 2022.

The Bank carried out a number of supervisory actions, including six on-site inspections and other follow-up checks focusing on risk assessments, risk-based measures taken by supervised entities, and other matters.

The Central Bank published a best practice report on money laundering and terrorist financing risk assessments during the year. Furthermore, it issued a list of occupations classified as high-level public positions in connection with its assessment of politically exposed persons and, as it has done in the past, updated the list of high-risk and uncooperative countries three times to accord with changes made to comparable lists issued by the Financial Action Task Force (FATF) and the European Union. Moreover, the Bank implemented three sets of EBA guidelines, including guidelines on the integration of prudential supervision and supervision of measures to combat money laundering and terrorist financing. A conference on measures against money laundering and terrorist financing was held during the year, bringing together domestic and foreign experts in the field. Afterwards, wide-ranging informational materials were published online, and a number of educational meetings were held for obliged entities, including meetings on the targeted sanctions against Russian entities following Russia's invasion of Ukraine.

On-site inspections

On-site inspections are conducted in support of regular monitoring of supervised entities. They are among the methods the Central Bank uses to carry out its legally mandated role. The aims of on-site inspections include identifying and assessing underlying risks in supervised entities' activities and evaluating their governance practices and framework for internal controls. Decisions about on-site inspections are based on the supervised entity's impact category, the results of risk assessments, and the Central Bank's priorities at the time in question. They also take account of the supervised entity's size, activities, and risk profile.

A total of 27 on-site inspections were completed in 2022. Continued emphasis was placed on assessing supervised entities' anti-money laundering and terrorist financing measures, as well as carrying out checks on credit risk, operational risk, governance practices, and internal controls in supervised entities' activities.

Suitability assessments, qualifying holdings, and operating licences

Assessment of board members' and senior executives' fitness and suitability

The Central Bank assesses the suitability and qualifications of supervised entities' board members and managing directors. A suitability assessment is carried out when board members and managing directors begin work for supervised entities, although the Bank may conduct repeated assessments if necessary. However, the entities concerned are always responsible for ensuring that their board members and managing directors satisfy the regulatory requirements for eligibility.

The Bank assessed the suitability of 97 board members and managing directors in 2022. As before, most of the assessments focused on board members. Nearly all of the assessments that had been postponed in previous years because of the pandemic were completed in 2022.

Qualifying holdings

The Central Bank assesses the eligibility of parties intending to acquire qualifying holdings in supervised entities. Notifications of qualifying holdings in two supervised entities were processed during the year, one in connection with the grant of an operating licence for indó sparisjóður hf. and the other for Valitor hf.

Licensing and related matters

There were numerous changes relating to supervised entities' operating licences in 2022. The Bank granted indó sparisjóður hf. a licence to operate as a savings bank. Fossar fjárfestingarbanki hf. was granted an expanded licence to operate as a credit undertaking, and securities depository Verðbréfamiðstöð Íslands hf. received a renewed operating licence. Leitar Capital Partners ehf., Óðinn Capital ehf., Seigla eignastýring ehf. and Viska Digital Assets ehf. were registered as new alternative investment fund managers, and Íslensk verðbréf hf. and Akta sjóðir hf. received expanded operating authorisations. Moreover, Skilum ehf. was granted a new collections licence, and Rafmyntasjóður

Íslands ehf. was registered as a new virtual asset service provider. Finally, registrations for one virtual asset service provider, Skiptimynt ehf., and one currency exchange provider, FX Iceland ehf., were revoked.

Cases concluded with imposition of penalties in 2022

In 2022, the Central Bank concluded five cases involving violations by reaching a settlement with the parties

concerned. When a settlement is reached, the party involved acknowledges having violated statutory provisions or decisions taken by the Bank, provides full information on the violation, and makes an agreement with the Bank on payment of a fine to the Treasury. In the five cases concluded by settlement, the fines ranged from 900,000 kr. to 44.3 m.kr. More detailed discussion of penalties and other related matters can be found in the Bank's annual *Financial Supervision* report.



Financial Supervision Committee, as of year-end 2022. Seated, from left: Unnur Gunnarsdóttir, Deputy Governor for Financial Supervision; Ásgeir Jónsson, Governor; and Gunnar Jakobsson, Deputy Governor for Financial Stability. Standing, from left: Guðrún Thorleifsdóttir, Director General, Ministry of Finance and Economic Affairs; Gunnar Thor Pétursson, Professor, Reykjavík University; Ásta Thórarinsdóttir, Economist; and Guðrún Finnborg Thórdardóttir, Committee secretary. Governor Ásgeir Jónsson takes a seat on the FMEN as its chair when the Committee takes decisions on the adoption of rules of procedure and on the transfer of authority to the Deputy Governor for Financial Supervision, as well as decisions pertaining to systemically important financial institutions' capital, liquidity, and funding. In those cases, Deputy Governor Unnur Gunnarsdóttir serves as vice-chair. Otherwise, Unnur Gunnarsdóttir chairs the Committee and Gunnar Jakobsson serves as vice-chair.

Other tasks



International reserves

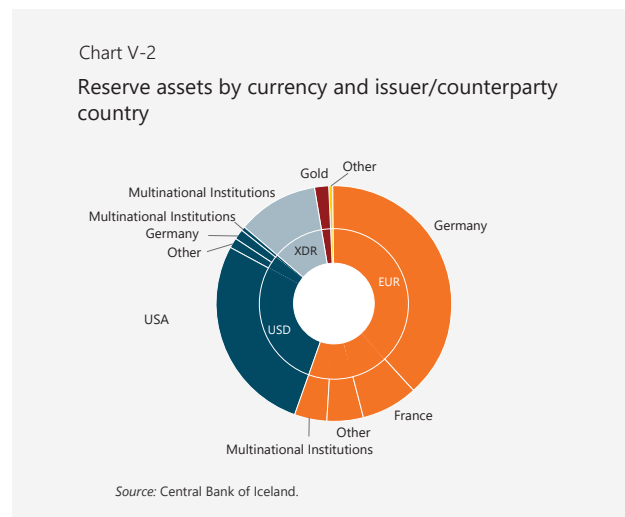
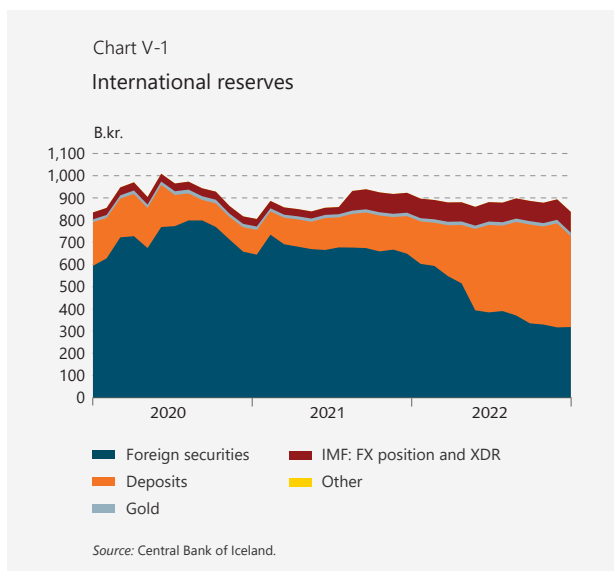
Role of the reserves

The Central Bank of Iceland maintains international reserves in accordance with its objectives and role as described in Act no. 92/2019. The international reserves comprise the Bank's holdings in foreign currencies; i.e., foreign bank deposits, bonds, special drawing rights and deposits with the International Monetary Fund (IMF), gold, and other foreign assets.

The role of the reserves is fourfold: first, to mitigate volatility in Iceland's balance of payments; second, to reduce the likelihood that movement of capital to and from Iceland will compromise financial stability; third, to play a part in the Treasury and Central Bank's management of assets and liabilities, so that the Icelandic Government can service its foreign debt,

pay foreign expenses, and honour other international obligations; fourth, to serve as a reserve fund that can be tapped in the event of shocks.

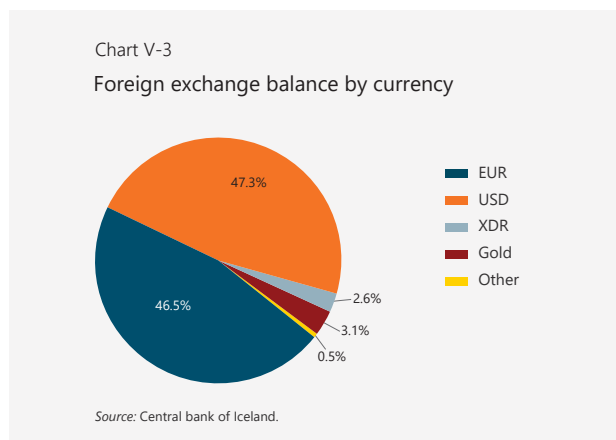
At any given point in time, the optimum size of the international reserves is determined by Iceland's external debt, monetary policy, financial system structure and position, scope of international trade, and capital flows to and from the country.



Developments in the reserves in 2022

At the end of 2022, the international reserves totalled 837 b.kr., the equivalent of 5.9 billion US dollars. The reserves had shrunk by 86 b.kr. during the year. Two foreign Treasury bond issues totalling 88.5 b.kr. matured during the year, which explains most of the reduction in the reserves. In addition, intervention in the interbank foreign exchange market and other foreign exchange transactions reduced the reserves by 5.4

b.kr. At the end of the year, the international reserves totalled 23% of year-2022 GDP and 33% of broad money holdings (M3), and they covered six months' worth of goods and services imports.



Returns and interest income

The Bank's income from reserve management was positive in the amount of 11.8 b.kr. in 2022. Changes in market prices reduced the reserves by 33.0 b.kr., while exchange rate movements increased them by 39.8 b.kr. Interest income on the reserves totalled 5.0 b.kr. during the year. The return on bonds and deposits was negative by 3.6%, excluding the effects of exchange rate differences.

Reserve maintenance

The Rules on Reserve Maintenance are adopted with reference to Article 3, Paragraph 3 and Article 30, Paragraph 1 of Act no. 92/2019 and are set by the Governor and Deputy Governors. The Rules con-

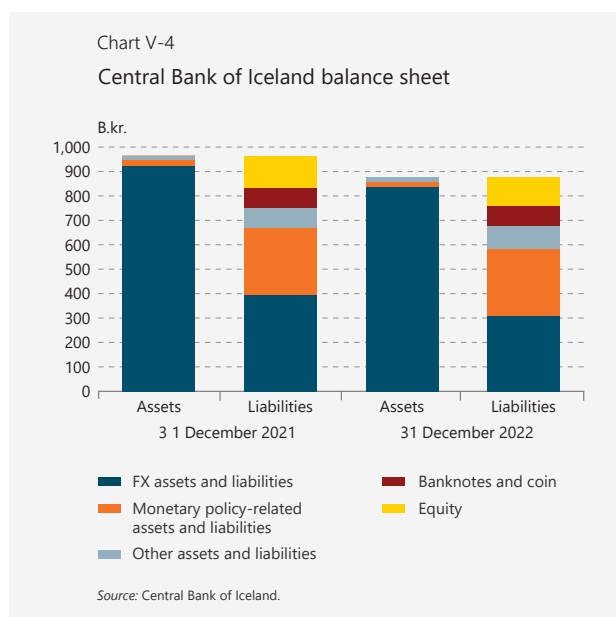
tain provisions on key points concerning reserve maintenance, including purpose, structure, investment authorisations, and outside limits of acceptable risk.

In maintaining and investing the international reserves, the Central Bank takes risks that must be managed. The most important risk lies in the possibility that the Bank will be unable to use the reserves to achieve its objectives or carry out its role as a central bank. Foreign exchange risk, on the other hand, is the risk that has the greatest impact on the Bank's balance sheet. The reserves are in foreign currencies, while a large share of the Bank's liabilities are in Icelandic krónur. As a result, exchange rate movements strongly affect the Bank's income and expenses, as well as the value of assets and liabilities calculated in krónur. However, the value in krónur terms is of minor importance in comparison with the above-described risk and given the role of the reserves.

Foreign securities accounted for roughly 38% of the reserves at the end of 2022, and deposits comprised 49%, the vast majority of them held in central banks. The Bank's gold holdings, which were unchanged year-on-year in volume terms, were valued at 16.5 b.kr., or about 2.0% of the reserves, at the end of 2022. The Bank's foreign exchange balance – i.e., its foreign-denominated assets net of foreign-denominated liabilities – was positive by 529 b.kr., the equivalent of 3.7 billion US dollars, at the end of 2022.

Issuers must have a credit rating of at least AA in order for their securities to be classified as highly liquid assets. For the purposes of reserve management, highly liquid assets include bonds denominated in US dollars or euros and issued by the state in the state's own currency, and deposits with the central banks in these countries/regions or the Bank for International Settlements. Highly liquid assets accounted for 64% of the Central Bank's foreign exchange reserves at the end of 2022.

Chart V-2 gives a breakdown of reserve assets by country and currency as of end-2022. Further discussion of the management of the Bank's financial risk can be found in the notes to the financial statements.



Government debt management

Agreement on Treasury debt management

The Central Bank administers Government debt management on behalf of the Treasury pursuant to an agreement with the Ministry of Finance and Economic Affairs. This role includes overseeing foreign borrowings and conducting auctions of domestic Treasury

securities, handling buybacks and redemption of Treasury securities, preparing primary dealer agreements, and overseeing securities lending to primary dealers. The Bank handles risk management, debt management, and information disclosure on Treasury debt. It also carries out tasks relating to Treasury guarantees and relending, including bond issuance relating to Treasury relending.

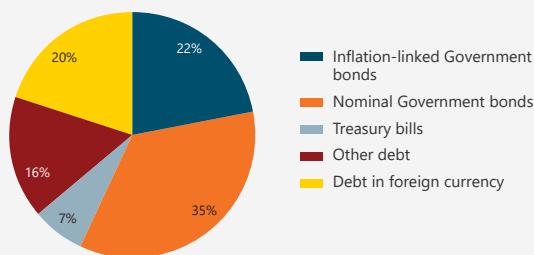
Domestic debt management

At the end of December 2021, the Central Bank, on behalf of the Treasury, published its annual Government Debt Management *Prospect* for 2022. According to the *Prospect*, the aim was to issue Treasury bonds with a market value of 160 b.kr. during the year. The target was met, and all sales took place by auction.

In line with the *Prospect*, a new twenty-year nominal Treasury series, RIKB 42 0217, was issued during the year, together with a new fifteen-year indexed series, RIKS 37 0115. The issues were well received, and by the end of the year the nominal series had grown to 44. b.kr. and the indexed series to nearly 30 b.kr. Treasury bond series RIKB 22 1026 matured during the year, with an outstanding amount of 73 b.kr.

The Treasury holds buybacks and switch auctions for series approaching maturity as a means of reducing refinancing risk. In all, the Treasury bought just over 33 b.kr. nominal value in RIKB 22 1026 and RIKB 23 0515 during the year.

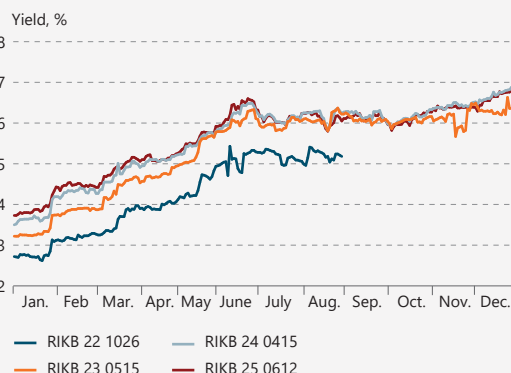
Chart V-5
Breakdown of Central Government debt
31 December 2022



Source: Central Bank of Iceland.

The domestic bond market was characterised by pronounced uncertainty at the beginning of the year, owing to rising inflation and Russia's invasion of Ukraine. The war upended global commodity markets and threw trade relationships and supply chains into disarray. Severe supply-chain disruptions, higher shipping costs, rising energy and commodity prices, and soaring house prices pushed inflation higher during

Chart V-6
Nominal Government bonds
Shorter than 5 years



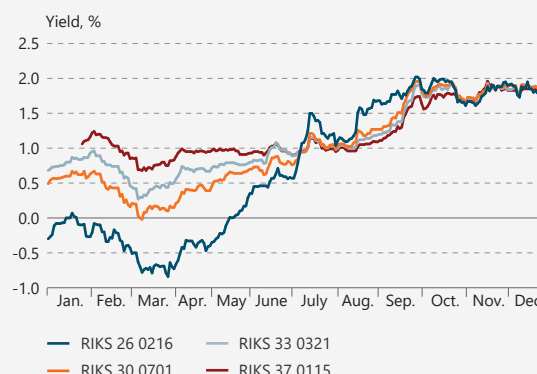
Source: Central Bank of Iceland.

Chart V-7
Nominal Government bonds
Longer than 5 years



Source: Central Bank of Iceland.

Chart V-8
Inflation-linked Government Bonds



Source: Central Bank of Iceland.

the year. Inflation measured 9.6% at the end of 2022, as compared with 5.1% at the beginning of the year. The Central Bank's key interest rate was raised, pushing nominal Treasury bond yields upwards. The indexed yield curve also shifted upwards at the same time.

Foreign debt management

At the end of 2022, Treasury foreign debt totalled just under 315 b.kr., a reduction of nearly 30 b.kr. between years. According to the *Medium-Term Debt Management Strategy* for 2022-2026, new Treasury loans taken in foreign currencies are used primarily to expand the Central Bank's international reserves, refinance outstanding market issues, and maintain domestic entities' access to foreign credit markets.

A marketable bond issued in May 2012 in the amount of 1 billion US dollars matured in 2022. Because of Treasury buybacks carried out in 2017, the outstanding balance at maturity was only 92 million dollars. Also maturing during the year, in December, was a bond issued in 2017 in the amount of 500 million euros. That same month, the Treasury took a foreign loan in the amount of just over 49 b.kr. in connection with its acquisition of Landsnet hf.

State guarantees

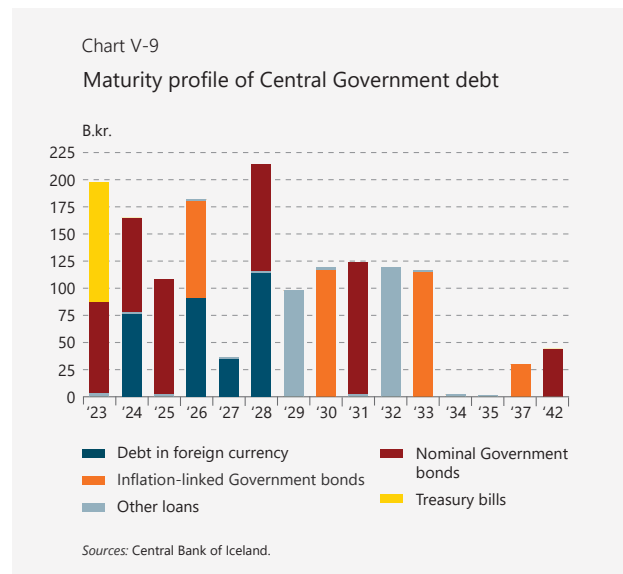
The Central Bank of Iceland handles tasks relating to Treasury guarantees and the State Guarantee Fund. The State Guarantee Fund oversees State guarantees and is tasked with keeping abreast of the activities of entities that have received State guarantees and maintaining a record of the obligations bearing such guarantees. The majority of Treasury guarantees derive from bonds issued by the ÍL Fund. Treasury guarantees totalled 837 b.kr. at the end of 2022, as opposed to 845 b.kr. at year-end 2021.

International co-operation

The Central Bank of Iceland communicates and conducts transactions with international institutions in its field, as well as cooperating actively with a large number of central banks, primarily in Europe.

International Monetary Fund

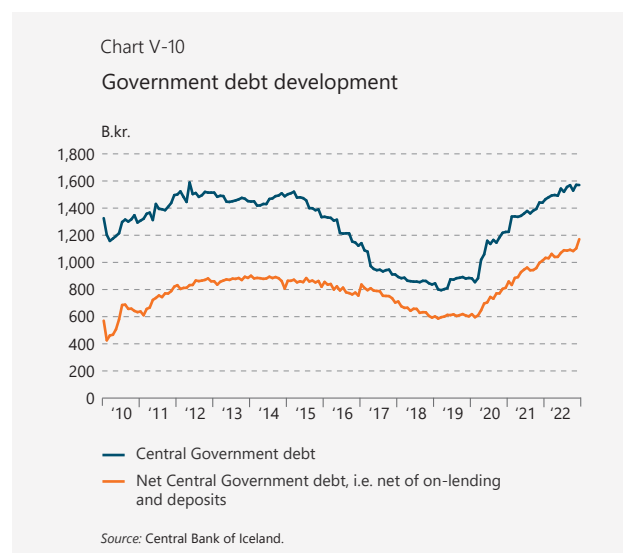
The Central Bank formally represents Iceland at the International Monetary Fund (IMF). In May, a mission from the IMF held annual discussions with Government authorities and other stakeholders on the current situation and future prospects for the Icelandic economy. The mission's annual report on Iceland was discussed

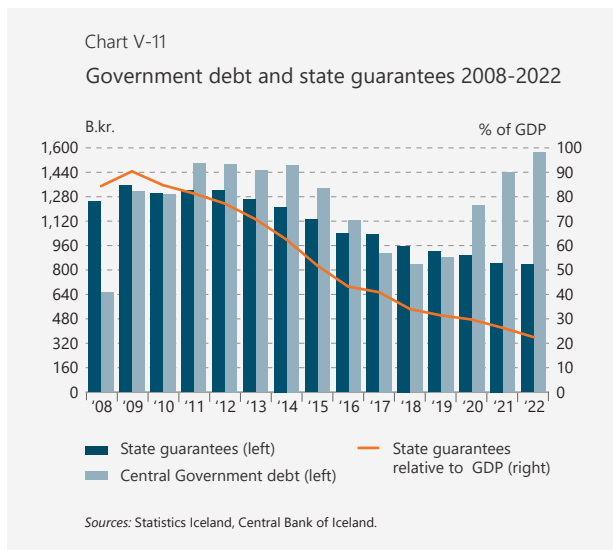


by the Fund's Executive Board and published in June. All of the IMF's reports on its regular monitoring of the Icelandic economy are published on the Fund's website and that of the Central Bank.

Iceland collaborates with the Nordic and Baltic countries at the IMF and forms a Constituency with them. These countries together elect one permanent representative to the Executive Board, which comprises 24 members. The Constituency's representative on the Executive Board in 2022 was Mika Pösö from Finland. Each year, the Nordic-Baltic office compiles a report on the salient issues on the agenda of the Fund and the Executive Board during the year, including the Constituency's views on them. These reports are published on the Central Bank website.

The Fund's International Monetary and Financial Committee (IMFC), which generally holds two meetings a year, met twice in 2020. The Governor of the Central





Bank is Iceland's representative on the IMF Board of Governors, which convenes each year at the Fund's annual meetings.

Bank for International Settlements

The Central Bank is a shareholder in the Bank for International Settlements (BIS) in Basel, Switzerland, and participates in a range of collaborative work through the BIS. The BIS is a forum for international collaboration among central banks and financial supervisors, as well as a research institution and a bank serving central banks around the world. During the year, the Governor participated in both the BIS annual meeting and the regular governors' meetings, which are held every other month.

The Central Bank participates in the work of the BIS Innovation Hub Nordic Centre, established in 2021 by the BIS in cooperation with the central banks of Iceland, Norway, Sweden, and Denmark. The Central Bank contributes one employee to the Centre, which is located in Stockholm. The BIS Innovation Hub Nordic Centre's role is to act as a forum for innovation in the fintech sector, research on fintech trends and currents of significance for central bank activities, and the furtherance of international cooperation aimed at bolstering global financial system efficacy.

Organisation for Economic Co-operation and Development (OECD)

The Central Bank of Iceland participates in the work of the Organisation for Economic Co-operation and Development (OECD). Experts from the OECD also visit Iceland regularly in order to acquaint themselves with economic developments, and they issue a biennial report on economic developments and prospects for

Iceland. The last OECD report was published in July 2021.

Network for Greening the Financial System

The Central Bank of Iceland is a member of the Network for Greening the Financial System (NGFS) and participates actively in its work. The NGFS is a worldwide network of central banks and financial supervisors that have declared their willingness and commitment to working together to promote and develop best practices for managing climate- and environment-related risk in the financial sector and to promote sustainable and environment-friendly investment.

Collaboration in connection with financial supervision

The Central Bank of Iceland participates in the work of European financial supervisory bodies, including the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA). In these fora, the Bank has the same rights and responsibilities as the supervisory authorities in EU member countries but does not have voting rights. Participation in the Board of Supervisors, standing committees, and work groups of European supervisory bodies enables the Bank to keep abreast of legislative amendments and participate in developing European financial market legislation. With its participation, the Central Bank also does its part to ensure harmonised implementation of European financial market legislation in the EEA. Participation also underpins the implementation of new European legislation in Iceland, facilitates it, and contributes to more effective supervision after implementation is complete.

The Bank participated actively in international cooperation on measures to combat money laundering and terrorist financing, including through EBA committees and a task force representing the Nordic and Baltic financial supervisory authorities.

The Central Bank also collaborates with other Nordic supervisory bodies in a task force entrusted with harmonising supervision of the Nasdaq securities exchanges in the Nordic region. The task force's chief role, in addition to conducting proactive investigations, is to assess and monitor key risks in the exchanges' operations.

Cooperation in connection with financial stability

The Central Bank participates in the work of the European Systemic Risk Board (ESRB) and subgroups

on its behalf, and thus has access to European analyses of systemic risk. The Governor attends meetings of the ESRB as an auditing member.

Furthermore, the Central Bank participates in the work of the Financial Stability Board (FSB), the world's foremost harmonisation body in the field of financial stability.

The Bank also takes active part in Nordic-Baltic cooperation, including through the Nordic-Baltic Macroprudential Forum, where the countries in the region exchange information on developments in systemic risk and the application of macroprudential tools. Moreover, the Bank participates with the Ministry of Finance and Economic Affairs in the activities of the Nordic-Baltic Cross-Border Stability Group, whose role is to coordinate responses to financial shocks affecting more than one country and to share information on financial stability among the institutions in the Nordic-Baltic region.

As in previous years, the Bank participated actively in international cooperation on developments in payment intermediation, including on interbank systems, digital cash, and cybersecurity.

Cash

At the end of 2022, cash issued by the Central Bank of Iceland amounted to 80.7 b.kr., as compared with 82.0 b.kr. in 2021. The 2022 total included 76.1 b.kr. in banknotes (77.6 b.kr. in 2021) and 4.5 b.kr. in coin (4.4 b.kr. in 2021). Cash issued by the Central Bank is recorded on the liabilities side of the Bank's balance sheet. Table 3 in the Appendix shows the breakdown by banknote and coin denomination.

Discussions of cash in circulation usually refer to cash outside deposit institutions and the Central Bank. The difference between this figure and the total in Table 3 in the Appendix, called the overnight cash balance, consists of cash on the assets side of deposit institutions' balance sheets at the close of business. At the end of 2022, deposit institutions' overnight cash balance was 7.8 b.kr., up from 7.7 b.kr. in 2021. Cash in circulation outside deposit institutions and the Central Bank (i.e., held by companies, individuals, etc.) therefore totalled 72.8 b.kr. at the end of 2022, as opposed to 74.3 b.kr. in 2021, a decrease of 1.5 b.kr., or 2%, between years.

In 2022, the Bank destroyed 1.6 million notes that were considered unfit for use, as opposed to 1.9 million in 2021 and 2.9 million in 2020.

At the end of 2022, there were 19.1 million banknotes in circulation in Iceland, as compared with 18.8 million in 2021.

Jóhannes Nordal cultural heritage grants

The eleventh allocation of the cultural heritage grant in the name of former Central Bank Governor Jóhannes Nordal took place on 19 May 2022. Sixteen applications were submitted, and it was decided to award grants to four projects.

The work group behind the project *Sálmabækur 16. aldar* [Sixteenth-Century Hymnals] received a grant of 1 m.kr. for the publication of hymnals by Marteinn Einarsson and Gísli Jónsson, bishops at Skálholt, and a hymnal by Guðbrandur Þorláksson, Bishop at Hólar. The publication will make all of the printed hymns from a major turning point in Iceland's literary and ecclesiastical history available to the public.

Sigurþór Sigurðsson received a grant of 1 m.kr. for the book *Saga bókbands á Íslandi* [The History of Bookbinding in Iceland]. The book will explore the creation of bound editions of Iceland's oldest manuscripts and discuss bookbinding at Hólar, Skálholt, Hrappsey, and Leirárgarðar from their heyday until the present time. It will cover the evolution of bookbinding, materials and tools used, and bookbinders who were active during the period in question.

Music publisher Töfrahurð received a grant of 1 m.kr. for the project *Dimmalímm – tónlistarævintýri* [Dimmalímm – a musical adventure]. The year 2024 marks the centenary of the death of Muggur, the author of the adventure story of Dimmalímm. An illustrated edition of the tale will be published to mark the occasion, and a new musical based on the story will be premiered during the year, giving new generations the chance to acquaint themselves with the tale of Dimmalímm.

Dream Voices ehf. received a grant of 1 m.kr. for the project *Skáldið og biskupsdóttirin 2022* [The Poet and the Bishop's Daughter 2022], a sound recording of the eponymous opera about the friendship between poet Hallgrímur Pétursson and bishop's daughter Ragnheiður Brynjólfsdóttir. The work was well received at its 2014 premiere, and an orchestral recording was made in Kyiv in January 2022, followed by further recordings later in the year.

Management, and organisation, and human resources



Central Bank management

During the year, Ásgeir Jónsson served as Governor of the Central Bank. He was appointed for a term of five years beginning on 20 August 2019. The Governor directs and is responsible for the Bank's activities and operations and is authorised to take decisions on all matters not entrusted to others by law.

In 2022, Rannveig Sigurdardóttir was Deputy Governor for Monetary Policy, Unnur Gunnarsdóttir was Deputy Governor for Financial Supervision, and Gunnar Jakobsson was Deputy Governor for Financial Stability. The Deputy Governors oversee the Bank's affairs in the areas they are appointed to lead, under the direction of the Governor.

Decisions on reserve management and the grant of guarantees or loans to credit institutions in liquidity difficulties are taken jointly by the Governor and Deputy Governors at a meeting called by the Governor, as is provided for in Article 3, Paragraph 3 of the Act on the Central Bank of Iceland, no. 92/2019. Decisions on setting rules on protective measures under extraordinary circumstances, on rules on special reserve requirements for new foreign currency inflows on the basis of the Foreign Exchange Act, decisions on setting rules on the operation of regulated foreign exchange markets, and decisions on organisation and the adoption of rules on the Bank's activities are taken in the same manner.

Supervisory Board

The Supervisory Board monitors the Bank's compliance with the statutory provisions applying to its activities. In other respects, the Board undertakes such tasks as are

outlined in Article 8 of the Central Bank Act. The Board must be elected after each Parliamentary election.

A new Supervisory Board was elected in 2022. At the year-end, the Bank's Supervisory Board was chaired by Gylfi Magnússon. Other Board members were Thórunn Gudmundsdóttir (vice-chair), Arnar Bjarnason, Sigríður Andersen, Kirstín Th. Flygenring, Sigurjón Arnórsson, and Thorsteinn Víglundsson. Alternates were Adalheidur Sigursveinsdóttir, Thórlindur Kjartansson, Kristín Thoroddsen, Hildur Traustadóttir, Vilhjálmur Thorsteinsson, Oddný Árnadóttir, and Jarthrúður Ásmundsdóttir. The Supervisory Board held 13 meetings over the course of the year.

Central Bank committees

The Monetary Policy Committee (MPC) takes decisions on the application of the Bank's monetary policy instruments. These decisions must be based on the Bank's price stability objective and a thorough assessment of economic and monetary developments and prospects. The Committee takes interest rate decisions in support of the Bank's monetary policy objectives. It also takes decisions on transactions with credit undertakings other than loans of last resort. Furthermore, the Committee takes decisions on minimum reserve requirements, foreign exchange market transactions, and securities transactions undertaken with the aim of achieving the Bank's price stability objectives.

In 2022, MPC members were Governor Ásgeir Jónsson, who chairs the Committee; Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy and vice-chair; Gunnar Jakobsson, Deputy Governor for Financial Stability; Gylfi Zoëga, professor at the University

of Iceland; and Katrín Ólafsdóttir, Associate Professor at Reykjavik University, who served until March. In March, the Prime Minister appointed Herdís Steingrimsdóttir, Associate Professor at the Copenhagen Business School, to the Committee to replace Katrín Ólafsdóttir, who had served the maximum term of ten years.

The Central Bank Financial Stability Committee (FSN) takes decisions on the application of the Bank's financial stability policy instruments. Decisions taken by the Financial Stability Committee must be based on the law and on a thorough assessment of the current situation and outlook for the financial system. The tasks of the FSN are: (a) to assess developments and prospects for the financial system, systemic risks, and financial stability; (b) to define and discuss the measures deemed necessary at any given time to affect the financial system so as to strengthen and preserve financial stability, and submit comments to the relevant authorities when warranted; (c) to approve Government directives and take decisions with which the Committee is entrusted by law; and (d) to determine which supervised entities, infrastructure elements, and markets shall be designated as systemically important and of such a nature that their activities could affect financial stability.

Members of the Financial Stability Committee in 2022 were Governor Ásgeir Jónsson, who chaired the Committee; Gunnar Jakobsson, Deputy Governor for Financial Stability, who served as vice-chair; Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy; Unnur Gunnarsdóttir, Deputy Governor for Financial Supervision; Axel Hall, Assistant Professor at Reykjavik University; Bryndís Ásbjarnardóttir, Director of the BSc Programme in Business and Economics at Reykjavik University; and Gudmundur Kristján Tómasson, former Director of Financial Market Infrastructure at the Central Bank of Iceland. The Permanent Secretary or an appointed official from the Ministry responsible for financial stability, currently the Ministry of Finance and Economic Affairs, also participates in Committee meetings and has the right to address the meeting and present proposals.

The Financial Supervision Committee (FMEN) takes decisions entrusted to the Bank's financial supervisory authority by law or Governmental directives. The Committee is also authorised to entrust the Deputy Governor for Financial Supervision with taking non-major decisions.

During the year, members of the FSN were Ásgeir Jónsson, Governor; Unnur Gunnarsdóttir, Deputy Governor for Financial Supervision; Gunnar Jakobsson, Deputy Governor for Financial Stability; Andri Fannar Bergthórsson, Assistant Professor at Reykjavik

University; Ásta Thórarinsdóttir, Economist; and Guðrún Thorleifsdóttir, Director General at the Ministry of Finance and Economic Affairs. In the autumn, the Minister of Finance and Economic Affairs appointed Gunnar Thór Pétursson to replace Andri Fannar Bergthórsson, who stepped down from the Committee. When decisions specified in Article 15, Paragraph 2 of the Act on the Central Bank of Iceland are taken, Governor Ásgeir Jónsson takes a seat on the Committee as its chair. In those cases, Unnur Gunnarsdóttir, Deputy Governor for Financial Supervision, acts as vice-chair. In other instances, Unnur Gunnarsdóttir chairs the Committee and Gunnar Jakobsson, Deputy Governor for Financial Stability, acts as vice-chair.

Organisational structure

The Bank had seven core departments during the year: Economics and Monetary Policy; Treasury and Market Operations; Financial Stability; Banking; Pensions and Insurance; Markets and Business Conduct; and Compliance and Inspections. There are four support departments: Operations, Information Technology and Statistics, Finance, and Human Resources. In addition to these is the centralised General Secretariat. Each department is overseen by a departmental director.¹

The Supervisory Board oversees internal audit for the Bank and engages the Internal Auditor, as is provided for in Article 8, Item (d) of the Central Bank Act.

Departmental tasks during the year

The General Secretariat oversaw the Bank's affairs and provided assistance with policy formulation and matters of joint concern. The Secretariat was responsible for implementation of rules, policies, and management systems during the year. The General Secretariat supports the Bank's overall activities by providing advice and assistance to the Governor, Deputy Governors, standing committees, Supervisory Board, and other Central Bank departments; i.e., through legal services, drafting of rules, project management, information disclosure, sustainability issues, and monitoring of risk in the Bank's activities. It also handled communications with ministries, Parliament, and other domestic institutions; processing and follow-up of communications and queries received by the Bank; oversight of presentations and information disclosure by the

1. The Central Bank's new organisational chart took effect on 12 January 2023, reducing the number of departments responsible for financial supervision from four to two.

Bank; and editorial and oversight work on the Bank's *Annual Report*, website, and social media accounts. Risk management was part of its activities as well. The General Secretariat also handled international cooperation, including with the International Monetary Fund. Furthermore, it oversaw the publication of *Kalkofn*, a web-based publication containing papers and articles by Bank staff members.

The Economics and Monetary Policy Department carried out economic and monetary research, prepared macroeconomic and inflation forecasts, participated in formulating monetary and exchange rate policy, and analysed developments in domestic and foreign economic and monetary affairs, including the macroeconomic elements of financial stability. The Department oversaw the issuance of various Bank publications, including *Peningamál/Monetary Bulletin*, *Hagvísar/Economic Indicators*, and *Working Papers*. In addition, the department oversaw a range of projects relating to the work of the Bank's Monetary Policy Committee.

The Markets Department oversaw the domestic money market and foreign exchange market, as well as handling transactions with domestic financial institutions. It managed the Bank's balance sheet; handled the custody and investment of the international reserves; and oversaw Government debt, Treasury guarantees, and Treasury relending. Furthermore, the department oversaw communications with the foreign financial institutions with which the Central Bank and the Treasury conduct business. It handled securities administration, payments for securities transactions, and payments in connection with borrowing and swap agreements. Moreover, it administered the Bank's interbank payment system and SWIFT system, as well as overseeing domestic and cross-border payments for the Bank, the Treasury, and State enterprises.

The Financial Stability Department analysed financial system risks, monitored credit institutions' liquidity and foreign exchange balance, and participated in formulating prudential rules for the financial system. It oversaw supervision of the Foreign Exchange Act as well. In addition, it monitored the position of credit institutions, households, and businesses; payment flows to and from Iceland; and the external position of the economy. It also monitored systemically important financial market infrastructure. Furthermore, the Resolution Authority was part of the department. The Financial Stability Department oversaw the publication of the Bank's *Financial Stability* reports and oversaw a variety of projects relating to the work of the Bank's Financial Stability Committee.

The Banking Department monitored the activities of commercial banks, savings banks, credit institutions, investment firms, electronic money institutions, and payment institutions. Its primary tasks centred on the supervisory review and evaluation process. This includes assessments of capital and liquidity requirements; reviews of recovery plans; analysis and assessment of risks in supervised entities' operations; and communications with boards of directors, senior management, and external auditors. The Banking Department also worked with the Financial Stability Department on systemic risk assessments.

The Pensions and Insurance Department monitored the activities of insurance companies, pension funds, and private pension savings custodians. This entailed, on the one hand, regular monitoring of insurance companies in accordance with the Bank's risk-based supervision model, which defined the frequency with which key risk factors in the companies' operations were examined; and on the other hand, proactive checks carried out based on the circumstances in each given instance. The department analysed key risks and developments in the markets and monitored closely to ensure that the entities concerned satisfied the requirements for their operating licences, that their business practices were in compliance with regulatory provisions, and that appropriate measures were taken at all times. It reviewed insurers' own risk and solvency assessments (ORSA) and pension funds' own risk assessments, for example, and took interviews with key employees.

The Markets and Business Conduct Department supervised entities in the securities market, including issuers of financial instruments, securities exchanges, central securities depositories, fund managers and management companies, and alternative investment funds. The department also oversaw transactions and conduct in the securities market (market abuse, insider trading, and issuers' information disclosures), using, among other things, an automated monitoring system to analyse transactions based on data submitted by financial institutions. Markets and Business Conduct also oversaw consumer affairs, investor protection, and the business practices of supervised financial market entities. Monitoring of business practices and investor protection entailed, among other things, ensuring that the practices of sellers and arrangers in auctions were in compliance with the law, that supervised entities' customers were sold appropriate products and services, that information provided to them was neither misleading nor deceptive, and that action was taken to address potential conflicts of interests.

The Compliance and Inspections Department worked across other Bank departments involved in financial supervision. It conducted fitness and suitability assessments of supervised entities' managing directors and board members, granted and revoked operating licences, and processed notifications of qualifying holdings and applications for approval of mergers. The department also carried out on-site inspections with the aim of thoroughly analysing risks in supervised entities' activities and evaluating their internal controls, business plans or governance practices. Furthermore, it monitored obliged entities' anti-money laundering and terrorist financing measures.

The Operations Department carried out tasks involving the Bank's internal operations and the service it provides. Among these tasks were operation and administration of the Bank's real estate and oversight of renovations and modifications to the Bank's premises; oversight of and responsibility for specified security matters; purchasing for all Bank departments; expenditure control, including budget preparation; cafeteria and catering; management of the Bank's records in compliance with the Act on Public Archives; implementation of a digital work environment; and operation of the Bank's library and numismatic collection.

The Finance Department oversaw the Bank's financial information and that of companies owned by the Bank, as well as handling accounting for the National Festival gift from Norway and the Greenland Fund, which are administered by the Bank. It entered, processed, and disclosed information in accordance with required accounting and financial reporting practices and handled payroll processing for the Bank. The department also handled the administration of banknotes and coin and operated the Bank's vaults.

The Information Technology and Statistics Department oversaw and was responsible for the development, architecture, and operation of the Bank's information systems. It also handled the gathering, entry, and processing of statistics collected by the Bank, both for its own activities and for official statistical reporting. The Bank systematically collected information on the domestic credit market, the balance of payments, and the external position of the economy. These data formed the basis for the Bank's assessment of important aspects of monetary developments and the financial system, and for regular disclosure of statistical information, both on its website and in its publications. The Bank published statistical information on the *Statistics pages* of its website.

The Human Resources Department was responsible for formulating human resources policy and supporting the Bank's human resources policy at all times. The department's objective was to ensure harmonised implementation of personnel policies and provide targeted advice to management and employees so as to build up a workplace characterised by trust, professionalism, expertise, and progressiveness. The main tasks of Human Resources were to manage staff recruitment and hiring, termination of employment, staff training, job development, workplace analysis and other analytical work, feedback interviews, decisions on remuneration, employee health and well-being, and equal rights. The four above-mentioned supervisory departments oversaw the publication of the Financial Supervision report.

The Internal Auditor worked under the auspices of the Supervisory Board. The objective of Internal Audit was to provide impartial, objective confirmation and advice with the aim of bringing about improvements in the Bank's operations. Through systematic, disciplined work, the Internal Auditor assessed the efficacy of governance practices, risk management, and internal controls, thereby helping the Bank to achieve the objectives set for it. This was done with a risk-oriented audit plan that reflected the Bank's objectives and policies.

Internal audit and risk management

The Central Bank's activities entail financial and operational risk of various types, including risks that could make it more difficult, or even impossible, to carry out its role and achieve its legally mandated objectives satisfactorily, and risks stemming from the fact that these objectives take priority over profit considerations and the Bank's own financial interests. The Bank's risk policy aims to define more fully the risk the Bank faces, enhance understanding of that risk, gain an overview of it, and manage or minimise it without sacrificing the Bank's ability to achieve its legally mandated goals. Bank officers, the Risk Management team, and Internal Audit form three lines in terms of internal monitoring, as can be seen in Chart VI-1.

The Governor appoints a Financial Risk Council and an Operational Risk Council, which are responsible for the risk management framework, as well as acting as advisors to the Governor and helping the Governor to carry out his role in ensuring effective risk management.

The Governor hires a Chief Risk Officer who is tasked with leading the independent Risk Management team within the General Secretariat and is responsible for ensuring that the Bank operates in accordance with the risk management framework set by the Financial Risk Council and the Operational Risk Council.

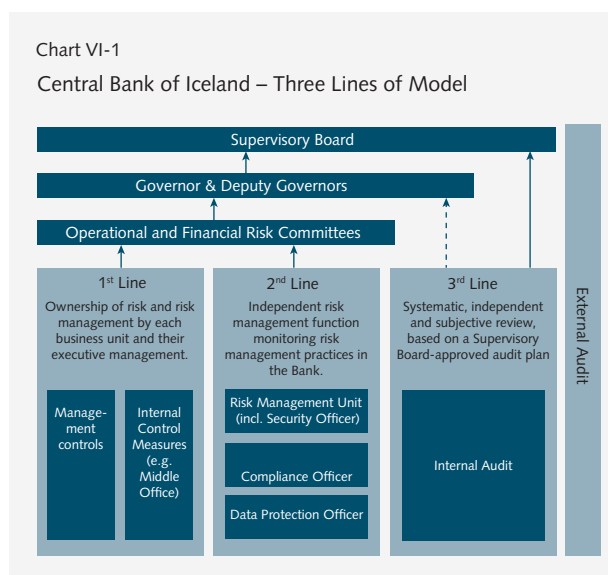
Departmental directors are responsible for risk in their own departments and for managing such risk.

The Internal Auditor, who operates under the auspices of the Supervisory Board, provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management. It achieves this through the competent application of systematic and disciplined processes, expertise, and insight. It reports its findings to management and the Supervisory Board to promote and facilitate continuous improvement.

Financial risk consists of market risk, liquidity risk, and claims risk. Market risk is due mainly to exchange rate and interest rate risks deriving from revaluation of securities owned by the Bank, as well as interest rate mismatches between assets and liabilities. Changes in exchange rates and market yields directly affect equity, and both the composition of interest-bearing assets and liabilities and developments in the associated interest rates affect future income. In order to understand this risk, the Bank carries out scenario analyses and stress tests, among other things, so as to assess the sensitivity of assets and liabilities to various market events. The Financial Risk Council carries out monitoring to ensure that risk in the Bank's balance sheet is consistent with its risk appetite. The Council also advises on measures to mitigate risk and enhance the balance sheet's resilience to decisions relating to the Bank's legally mandated objectives. The Council sets limits on overall risk in the Bank's international reserves. Furthermore, the Council reviews the Bank's environmental, social, and governance (ESG) priorities.

Operational risk is the risk of financial or non-financial losses stemming from inadequate internal processes and systems, human error, or external events. Such risk accompanies the Central Bank's activities as a central bank and as the operator of systemically important financial market infrastructure; i.e., the interbank payment system. The Operational Risk Council oversees the operational risk management system and conducts monitoring to ensure that there are documented procedures for the Bank's most important tasks, that risk assessments are carried out on key procedures and computer systems, and that remedial action is taken swiftly when deviations from set procedures occur.

The Bank's Security Officer is an employee of the Risk Management unit. The Security Officer participates in formulating policy relating to physical security and information security at the Bank, supports best practice and security reforms, administers the framework for contingency exercises to ensure business continuity, and participates in crisis management teams to respond to major incidents that jeopardise operational continuity at the Bank.



Human resources

At the end of 2022, the Central Bank employed 296 members of staff – 139 women and 157 men – in 294.6 full-time position equivalents. There were 13 departmental directors: six women and seven men. In addition, there were 27 deputy directors and unit heads:

Table VI-1. Number of employees, by department (table next to Human Resources subchapter)

Department	Number
Banking	19
Governors	4
Finance	11
Financial Stability	26
Economics and Monetary policy	22
Internal Audit	3
Compliance and Inspections	26
Pensions and Insurance	14
Human Resources	6
Markets and Business Conduct	17
Markets	33
Operations	33
General Secretariat	33
Information Technology and Statistics	49
Total	296

12 women and 15 men. At the year-end, 88% of the Bank's staff were university-educated. Twenty-three new employees were hired during the year, and 21 left the Bank. There were 20 summer employees in 2022.

At the end of the year, the Central Bank-owned company Greiðsluveitan ehf. employed four members of staff: three women and one man.

Construction and renovation

Work continued on moving all of the Bank's activities into its premises at Kalkofnsvegur in Reykjavík, following the merger with the Financial Supervisory Authority at the beginning of 2020. Renovation and maintenance continued, with the aim of opening up space to make it available for more efficient use. Renovations were completed on the fourth and fifth floors of the main premises, as well as a portion of the first floor and the ground floor. Work on the second and third floors had previously been completed. Temporary facilities at Kalkofnsvegur 2 were still being leased out for the duration of the renovation project.

Reduced impact of COVID-19

The COVID-19 pandemic affected operations in 2022, for the third year in a row, but to a far lesser degree, and only in the early part of the year.

Senior management, supervisory Board and departmental directors 31 December 2022

Governor

Ásgeir Jónsson

Deputy Governors

Gunnar Jakobsson

Rannveig Sigurdardóttir

Unnur Gunnarsdóttir

Supervisory Board

Principal members

Gylfi Magnússon, chair

Thórunn Guðmundsdóttir, vice-chair

Arnar Bjarnason

Sigríður Andersen

Kirstín Th. Flygenring

Sigurjón Arnórsson

Thorsteinn Víglundsson

Alternates

Adalheidur Sigursveinsdóttir

Thórlindur Kjartansson

Kristín Thoroddsen

Hildur Traustadóttir

Vilhjálmur Thorsteinsson

Oddný Árnadóttir

Jarþrúður Ásmundsdóttir

Principal officers

General Secretariat:

Rannveig Júníusdóttir, Director

Finance:

Erla Guðmundsdóttir, Director

Financial Stability

Haukur C. Benediktsson, Director

Economics and Monetary Policy:

Thórarinn G. Pétursson, Chief Economist

Human Resources:

Íris Guðrún Ragnarsdóttir, Director

Markets:

Sturla Pálsson, Director

Operations:

Einar Már Hjartarson, Acting Director

Information Technology and Statistics:

Logi Ragnarsson, Director

Compliance and Inspections:

Björk Sigurgísladóttir, Director

Pensions and Insurance:

Rúnar Guðmundsson, Director

Banking:

Gísli Óttarsson, Acting Director

Markets and Business Conduct:

Páll Fríðriksson, Director

Internal Auditor:

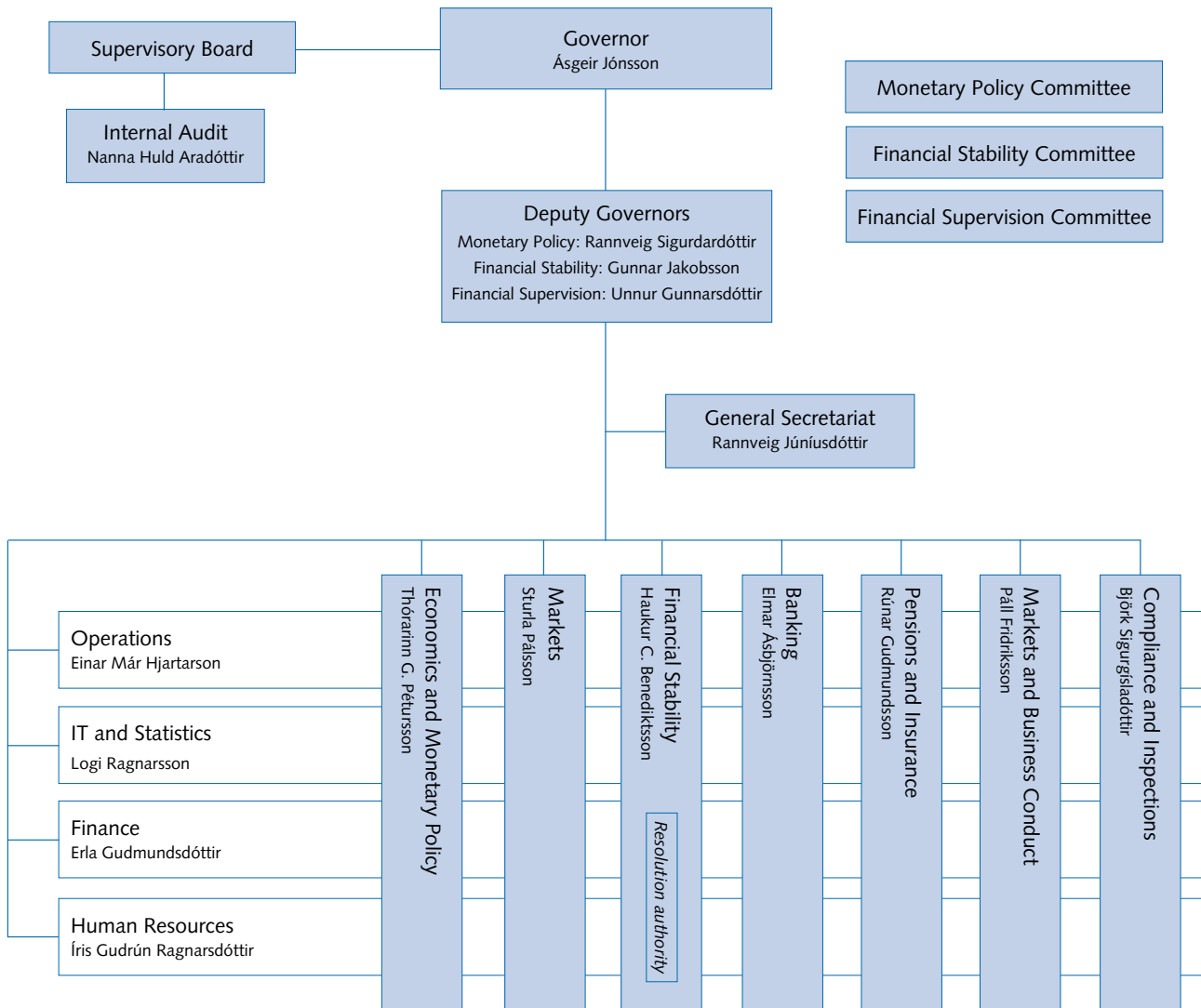
Nanna Huld Aradóttir

Company owned by the Central Bank of Iceland

Greiðsluveitan ehf.:

Sigríður Dís Guðjónsdóttir, Director

Central Bank of Iceland — organisational chart



Sustainability

VII

The Central Bank of Iceland aims to be an exemplary institution in the areas of sustainability and climate issues and took important steps in this direction during the year. Sustainability is not only a matter of environmental affairs but also one involving welfare, health, social justice, and governance practices that promote sustainability. Environmental, social, and governance criteria, often referred to collectively by the acronym ESG, are often mentioned in this context. The underpinnings of sustainability are a society, environment, and economy that support one another and, among other things, lay the foundations for the United Nations Sustainable Development Goals. The UN defines sustainability as meeting the needs of the present without compromising the ability of future generations to meet their own needs.

For the Central Bank, sustainability entails fostering sound governance practices and taking environmental and social factors into consideration in its activities and operations.

Environmental factors

The aim of the Central Bank's environmental and climate policy is to systematically reduce greenhouse gas emissions from the Bank's operations, thereby ensuring that the Bank contributes to Iceland's fulfilment of its climate obligations. In its operations, the Bank shall endeavour to set an example in its approach to environmental and climate issues.

The Bank is committed to reducing the greenhouse gas emissions from its operations by 40% between 2019 and 2030. Efforts to meet the targets specified in the Bank's action plan have been success-

ful, and 53% of the measures in the plan are currently being implemented. The Bank's environmental and climate policy and action plan are examined annually. No changes were deemed necessary after the most recent annual review.

Efforts to introduce the Green Steps in Government Operations programme at the Bank have been successful. In 2022 the Bank implemented the fourth Green Step, which included specially labelled parking spaces outside the Bank for eco-friendly vehicles. The Bank is working towards implementing the fifth Green Step with the adoption of a special environment management system.

The Central Bank of Iceland practises green accounting and keeps track of its purchases and waste from the standpoint of sustainability targets. The environment management platform Klappir, launched during the year, produces a real-time overview of the Bank's carbon footprint. The Bank conducts an annual travel habit survey among its employees and uses the results in the calculation of its carbon footprint.

Cooperation on climate issues and climate risk

During the year, the Central Bank cooperated with the other central banks in the Nordic-Baltic region in connection with climate issues and climate risk. The Bank also met with a number of domestic stakeholders in areas relating to climate and climate risk, in order to enhance Bank staff members' knowledge of climate issues and create a forum for cooperation in the field.

The Bank is a member of the Network for Greening the Financial System (NGFS), which it joined in 2020. It has representatives on four NGFS task forces and participated in the Network's annual meeting. In

connection with NGFS cooperation, an advisory group operating within the Bank is tasked with addressing and following up on matters relating to the Network.

The Bank has continued its work on preparing a climate risk scenario analysis based on both NGFS scenarios and scenarios used by other central banks and international institutions. Its most recent *Financial Stability* report contained a Box on the impact of climate risk on the Icelandic banks' credit risk, which is based on the European Systemic Risk Board (ESRB) and European Central Bank's (ECB) published scenario analysis. The objective is to develop the Bank's scenario analysis further in 2023 and thereafter.

Social factors

Equal rights

The Central Bank attempts to support equal rights, equal treatment, and respect for staff members. The Bank adheres to an equal rights policy in accordance with the Act on Gender Equality, no. 150/2020, and the Act on Equal Treatment in the Labour Market, no. 86/2018.

The policy states, among other things, that the Bank shall make it easier for employees to harmonise their obligations towards their work and their family, that employees shall be treated equally in terms of hiring and professional advancement, and that no harassment of any kind will be tolerated within the Bank. The Bank operates an Equal Rights Committee, which maintains an overview of regulatory instruments on equal rights and equal treatment of employees. The Committee works on the regular renewal of the Bank's equal rights plan, monitors its implementation, and evaluates the validity of tips and pointers on equal rights and equal treatment of staff members.

According to the Central Bank's equal pay policy, all employees shall receive equal pay and enjoy equal terms of employment and rights for the same jobs or jobs of equal value, so as to ensure that there is no gender-based pay gap within the Bank. The Bank's equal pay certification was renewed in the autumn. For the fourth year in a row, an equal pay analysis showed that there was no unexplained wage gap between the sexes at the time.

Human resources

Human resources are the key to effective, sustainable operations at the Central Bank. The Bank's human resources policy aims to build up a strong team spirit,

with emphasis on respect, mental and physical well-being, equal rights, expertise, professionalism, and progressiveness. The Bank's work environment is based on flexibility and trust, and it supports employee well-being, job satisfaction, an improved balance between employees' work and private life, equal rights, and reduced greenhouse gas emissions.

In September 2022, the Bank held a special workday aimed at strengthening the team spirit among staff members following the merger with the Financial Supervisory Authority and the protracted period of home-based work necessitated by the COVID-19 pandemic.

The Bank also adheres to a special transportation policy that encourages employees to use eco-friendly, economical, and healthy modes of transport. At the end of 2022, a total of 89 transportation agreements between employees and the Bank were in effect. Under these agreements, employees pledge to use eco-friendly methods of transport to and from the workplace.

Education on sustainability

During the spring, the Bank held a series of monthly climate seminars and invited guest speakers to give talks on various projects relating to climate affairs. Among the speakers were Prime Minister Katrín Jakobsdóttir; Environment, Energy, and Climate Minister Guðlaugur Thór Thórdarson; and Sabine Mauderer, member of the Executive Board of Deutsche Bundesbank and Vice-Chair of the NGFS. Topics discussed included the Government's climate-related objectives and actions and the Central Bank's role in this context; sustainable businesses and responsible investment; the European energy crisis; and many others. Two articles on climate- and sustainability-related issues and one on managing financial institutions' climate risk were published in the Bank's web-based publication *Kalkofninn* in 2022.

The Central Bank and the Icelandic Pension Funds Association held a well attended joint symposium on sustainable finance and investment. Following the scheduled talks, two workshops were held: one on pension funds' obligations vis-à-vis sustainability, and another on incorporating ESG perspectives into investment processes and ownership strategies.

In the area of education and training, emphasis has been placed on expanding staff members' professional expertise and personal skills. Furthermore, employees are invited regularly to attend lectures on topics aimed at fostering physical and emotional well-being.

Governance

The Central Bank prioritises responsible governance practices. Work was done during the year to strengthen and formalise the framework for the Bank's governance practices. Furthermore, the Bank's senior officers received management training aimed at strengthening the management team and formulating the Bank's vision and values in the wake of the merger between the Bank and the Financial Supervisory Authority. The Governor, Deputy Governors, and departmental directors received comparable training in 2021.

In April, an employee symposium was held on the Bank's values – integrity, decisiveness, humility, and professionalism – which are to be used as guideposts in staff members' work and interactions. The Bank's values reflect its professional practices, form the foundation for confidence in the Bank, and foster the achievement of the Bank's objectives. The Bank's Code of Conduct was signed during the year. Its objectives are to promote integrity, professionalism, impartiality, and

credibility among employees, thereby safeguarding the Bank's reputation and independence and enhancing confidence and faith in its operations.

During the year, senior Central Bank officers discussed the challenges and risks associated with climate matters and other aspects of sustainability, and their impact on the Bank's management, operations, and sphere of responsibility. Each year, all departmental directors submit a summary of their objectives for their departments during the upcoming year, together with special targets relating to sustainable development. The Bank also keeps abreast of its suppliers' sustainability obligations, with the aim of encouraging and supporting them in improving their performance if necessary.

The Bank issues a *Sustainability Report* each year. The report contains a more detailed discussion of sustainability targets and the ways in which environmental and climate issues will continue to be incorporated into the Bank's core activities and risk analyses.



The Supervisory Board as of year-end 2022, together with the Governor and the Board secretary. Seated, from left: Guðrún Sóley Gunnarsdóttir (Secretary), Gylfi Magnússon (Chairman), Þórunn Guðmundsdóttir, and Ásgeir Jónsson (Governor). Standing, from left: Oddný Árnadóttir (Alternate), Arnar Bjarnason, Kirstín Th. Flygenring, Thorsteinn Víglundsson, and Sigríður Andersen. Absent from the photo is principal member Sigurjón Arnórsson.

Operating results and balance sheet



According to its profit and loss account, the Central Bank of Iceland recorded a net operating loss of 18,364 m.kr. in 2022, compared with a loss of 15,834 m.kr. in the previous year. The loss on the Bank's activities during the year is largely attributable to asset valuation adjustments and interest expense. The loss on financial instruments before exchange rate differences was 45,332 m.kr. in 2022, as compared with 11,201 m.kr. in 2021. The tables in the margin show the year-on-year changes in key items in the profit and loss account and balance sheet.

Net interest expense totalled 9,610 m.kr. at the end of 2022, compared with 453 m.kr. in 2021. Interest income on domestic assets and liabilities increased year-on-year by 405 m.kr., or 61.9%, whereas interest income on foreign assets rose by 2,815 m.kr., or 67.7%. Interest income from domestic assets and liabilities increased primarily because the Bank began to collect negative interest on domestic foreign currency accounts and because of an increase in income from the Treasury bond portfolio. The increase in interest income on foreign assets is due to rising foreign interest rates and an increase in deposit balances. Interest expense on domestic liabilities increased by 11,666 m.kr., and interest expense on foreign liabilities and assets increased by 712 m.kr. The increase in interest expense on domestic liabilities stems from policy rate increases in 2022, and the rise in interest expense on foreign liabilities and assets is due to rising interest rates abroad.

Exchange rate gains totalled 31,436 m.kr. in 2022, whereas exchange rate losses totalled 819 m.kr. in 2021. Asset valuation adjustments were negative in the amount of 35,733 m.kr. in 2022 but were negative by 10,846 m.kr. in 2021.

Table VIII-1 Profit and loss accounts highlights

<i>M.kr.</i>	2022	2021	<i>Change</i>
Net interest income (interest expense)	-9,610	-453	-9,157
Changes in asset value	-35,773	-10,846	-24,927
Revenues from shareholdings	52	98	-46
Exchange rate difference	31,436	-819	32,255
Gains on financial instruments	-13,895	-11,201	-2,694
Operating revenues	3,475	3,335	140
Operating expenses	-8,285	-7,397	-888
Effects of affiliated companies	341	247	94
Outcome for the year	-18,364	-15,834	-2,530

Table VIII-2 Balance sheet highlights

<i>M.kr.</i>	31.12.2022	31.12.2021	<i>Change</i>
Assets			
Gold	16,526	15,212	1,314
Foreign-den. claims against non-residents	820,559	907,828	-87,269
Foreign-den. claims against residents	6	1	5
Monetary policy-related claims against residents	20,287	23,646	-3,359
Króna-den. claims against residents	4,640	5,981	-1,341
Other assets	12,610	11,516	1,094
Assets, total	874,628	964,183	-89,556
Equity and liabilities			
Equity	115,512	134,105	-18,593
Issued banknotes and coin	80,687	82,047	-1,360
Foreign-den. debt to non-residents	80,308	89,371	-9,063
Foreign-denominated debt to residents	228,206	304,575	-76,369
Króna-den. debt to non-residents	1,667	5,546	-3,879
Monetary policy-related debt to domestic credit institutions	271,704	274,526	-2,822
Króna-denominated debt to residents	95,102	72,634	22,468
Other liabilities	1,441	1,379	62
Equity and liabilities, total	874,628	964,183	-89,556

The Bank's assets totalled 874,628 m.kr. at year-end 2022, as opposed to 964,183 m.kr. at the end of 2021. The Bank's capital totalled 115,512 m.kr. at year-end 2022, and its capital ratio was 13.2%, as compared with 13.9% at year-end 2021. The Bank's foreign assets constituted 96% of total assets at the end of 2022, the same as at the end of 2021.

The Central Bank's accounts are presented later in this report, together with explanatory notes on individual items.

Outlook and capital adequacy benchmark

The Central Bank is required by law to have the financial strength needed to enable it to carry out its legally mandated role. In keeping with this, each year the Bank must determine capital adequacy benchmark that reflect its need for capital and interest-bearing assets. The capital adequacy benchmark is based on the Bank's operating expenses and the risks and uncertainties it faces at any given time. The decision on capital adequacy benchmark is endorsed by the Supervisory Board. The capital benchmark was set at 150 b.kr. in 2022.

The Bank's operating results deteriorated during the year, owing mainly to the revaluation of securities in the reserves due to increased foreign yields and a negative interest rate differential. The Bank's capital deteriorated as a result, and at the end of 2022 it totalled 115.5 b.kr., which is below the benchmark endorsed by the Supervisory Board. In comparison, it was 134.1 b.kr. at the end of 2021 and 150.8 b.kr. at the end of 2020. The Bank did not call in capital from the Treasury during the year, despite the statutory authorisation providing for callable capital ranging up to 68.7 b.kr. at the 2022 price level.

The economic outlook is highly uncertain at present, not least because of the war in Ukraine, persistently high global inflation, and unrest in the financial markets due to difficulties facing several banks in the US and Europe. The Central Bank's long-term operating performance is therefore uncertain as well.

A scenario analysis of developments in the Bank's performance and capital over the next three years broadly suggests continued operating losses and therefore declining capital, owing to negative carry. The estimate of the Bank's capital needs therefore does not give cause to change the capital adequacy benchmark set in 2022, which has been endorsed unchanged by the Supervisory Board at 150 b.kr.

Each year, a decision is taken on the disposition of the Bank's profit, in accordance with a method described in the Act on the Central Bank of Iceland. The Bank's profit, net of allocations made to the reserve fund, is transferred to the Treasury, to the extent that it is not used to strengthen the Bank's capital. In accordance with Article 40, Paragraph 2 of the Act on the Central Bank of Iceland, no dividend will be paid to the Treasury for 2022, owing to operating losses and a capital position below the capital adequacy benchmark.

Annual Accounts 2022

IX

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Independent auditor's report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Central Bank of Iceland ("the Bank") for the year 2022, which comprise the balance sheet as of 31 December 2022, the income statement, statement of cash flows, and changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2022, and of its financial performance and its cash flows for the year then ended, in accordance with the Icelandic Annual Accounts Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Supervisory Board and the Governor of the Central Bank are responsible for the other information. The other information comprises the Annual Report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or

the knowledge we obtained in our audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. The Annual Report is not available on our reporting date but is expected to be made available to us after that date.

Responsibilities of the Supervisory Board and the Governor of the Central Bank for the Financial Statements

The Supervisory Board and the Governor are responsible for the preparation and fair presentation of the financial statements in accordance with the Icelandic Annual Accounts Act, and for such internal control as they deem necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Supervisory Board and the Governor are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to dissolve the Bank or to cease operations, or have no realistic alternative but to do so.

The Supervisory Board and the Governor of the Central Bank are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material

misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Reykjavík, 16 March 2022

KPMG ehf.

Hrafnhildur Helgadóttir

Confirmation of the Annual Accounts of the Central Bank of Iceland

The Supervisory Board and Governor of the Central Bank of Iceland hereby confirm the Bank's annual financial statements for the year 2022 with their signatures.

Reykjavík, 15 March 2023

Confirmation by the Supervisory Board

Gylfi Magnússon
chair

Pórunn Guðmundsdóttir
Arnar Bjarnason
Sigríður Andersen

Kirstín Þ. Flygenring
Oddný Árnadóttir
Þorsteinn Víglundsson

Confirmation by the Governor

Ásgeir Jónsson

Confirmation by the Prime Minister

With reference to the statements by the auditors, the Supervisory Board, and the Governor, I hereby ratify these financial statements.

Reykjavík, 30 March 2023

Katrín Jakobsdóttir

Profit and Loss Account 2022

	Notes	2022	2020
Interest income on domestic assets	4	1,059,274	654,261
Interest income on foreign assets	4	6,971,725	4,157,099
Interest expense on domestic liabilities	5	(14,777,964)	(3,112,166)
Interest expense on foreign liabilities and assets	5	(2,863,438)	(2,151,909)
Net interest expense		<u>(9,610,403)</u>	<u>(452,715)</u>
Changes in foreign asset values		(32,957,385)	(10,376,547)
Changes in domestic asset values		(2,815,991)	(469,186)
Changes in asset value, total	6	<u>(35,773,376)</u>	<u>(10,845,733)</u>
Revenues from shareholdings	7	51,716	97,933
Losses on financial instruments before exchange rate difference		(45,332,063)	(11,200,515)
Exchange rate difference	8	31,436,492	(818,978)
Losses on financial instruments		<u>(13,895,571)</u>	<u>(12,019,493)</u>
Supervisory revenues	9	2,445,261	2,209,804
Service revenues	10	855,155	856,045
Other revenues		174,227	269,487
Other revenues, total		<u>3,474,643</u>	<u>3,335,336</u>
Salaries and related expenses	11	(5,034,671)	(4,751,184)
Other operating expenses	12	(2,506,721)	(1,870,368)
Service expenses	13	(476,783)	(541,661)
Depreciation of property and equipment	19.1	(173,969)	(143,465)
Depreciation of software	19.2	(92,304)	(90,667)
Operating expenses, total		<u>(8,284,448)</u>	<u>(7,397,345)</u>
Effect of subsidiaries	19.3	341,205	247,022
Loss for the year		<u>(18,364,171)</u>	<u>(15,834,479)</u>

Balance Sheet 31 December 2022

	Notes	31.12.2022	31.12.2021
<i>Assets</i>			
Gold	14	16,525,930	15,211,571
Foreign-denominated claims against non-residents	15	820,558,739	907,827,623
Foreign bank deposits	15.1	408,419,546	169,478,923
Balance with IMF	15.2	93,779,091	89,747,098
Foreign securities and other reserve assets	15.3	318,356,404	648,601,088
Non-reserve assets	15.4	3,698	514
Foreign-denominated claims against residents	16	6,195	781
Monetary policy-related claims against residents	17	20,287,010	23,646,485
Treasury	17.1	18,661,235	21,834,841
Deposit institutions	17.2	1,625,775	1,811,644
Króna-denominated claims against residents	18	4,639,840	5,980,855
Deposit institutions	18.1	226,510	302,014
Other entities	18.2	4,413,330	5,678,841
Other assets	19	12,610,427	11,515,881
Fixed operational assets	19.1	9,280,359	8,396,352
Software	19.2	735,972	827,459
Other assets	19.3	2,594,096	2,292,070
Assets, total		<u>874,628,141</u>	<u>964,183,196</u>

	Notes	31.12.2022	31.12.2021
<i>Equity and liabilities</i>			
<i>Equity</i>			
Capital		100,243,273	94,240,804
Uncalled capital		(68,742,273)	(62,739,804)
Value adjustment reserve		-	29,310,057
Revaluation of real estate and liquid assets		6,792,589	7,117,895
Unrealised share in profit of associates		565,893	224,688
Other equity		76,652,959	65,951,792
Total equity	20	<u>115,512,441</u>	<u>134,105,432</u>
<i>Liabilities</i>			
Issued banknotes and coin	21	80,686,721	82,046,661
Foreign-denominated debt to non-residents	22	80,308,410	89,371,007
Deposits	22.1	166,239	12,601,875
Counterpart to IMF	15.2	80,142,171	76,769,132
Foreign-denominated debt to residents	23	228,206,373	304,575,082
Króna-denominated debt to non-residents	24	1,667,424	5,546,351
Monetary policy-related debt to domestic credit institutions	25	271,703,594	274,525,854
Deposits	25.1	82,401,985	78,666,995
Reserve requirements	25.2	29,824,777	26,818,504
Term deposits	25.3	159,476,832	169,040,355
Króna-denominated debt to residents	26	95,102,491	72,634,258
Treasury and Government institutions	26.1	90,221,353	67,817,391
Other entities	26.2	4,881,138	4,816,867
Other liabilities	27	1,440,687	1,378,551
Liabilities, total		<u>759,115,700</u>	<u>830,077,764</u>
Equity and liabilities, total		<u>874,628,141</u>	<u>964,183,196</u>

Statement of Changes in Equity

	<i>Capital</i>	<i>Uncalled capital</i>	<i>Value adjustment reserve</i>	<i>Real estate revaluation</i>	<i>Unrealised share in profit of associates</i>	<i>Other equity (negative)</i>	<i>Equity, total</i>
2022							
Equity 1 January 2022	94,240,804	(62,739,804)	29,310,057	7,117,895	224,688	65,951,792	134,105,432
Indexation of uncalled capital	6,002,469	(6,002,469)	-	-	-	-	-
(Loss) for the year 2022	-	-	(29,310,057)	-	341,205	10,604,681	(18,364,171)
Real estate revaluation 2022	-	-	-	(228,819)	-	-	(228,819)
Depreciation of revalued assets 2022	-	-	-	(96,487)	-	96,487	-
Equity 31 December 2022	<u>100,243,273</u>	<u>(68,742,273)</u>	<u>0</u>	<u>6,792,589</u>	<u>565,893</u>	<u>76,652,959</u>	<u>115,512,441</u>
2021							
Equity 1 January 2021	91,160,430	(59,659,430)	67,056,063	7,330,069	26,896	44,942,998	150,857,026
Indexation of uncalled capital	3,080,374	(3,080,374)	-	-	-	-	-
Restricted dividend paid	-	-	-	-	-	(802,109)	(802,109)
(Loss) for the year 2021	-	-	(37,746,006)	-	197,792	21,713,735	(15,834,479)
Real estate revaluation 2021	-	-	-	(115,006)	-	-	(115,006)
Depreciation of revalued assets 2021	-	-	-	(97,168)	-	97,168	-
Equity 31 December 2021	<u>94,240,804</u>	<u>(62,739,804)</u>	<u>29,310,057</u>	<u>7,117,895</u>	<u>224,688</u>	<u>65,951,792</u>	<u>134,105,432</u>

Note 20 discusses the accounting treatment of equity items, gives an itemisation of changes in the revaluation reserve, and shows developments in the Bank's capital ratio in recent years.

Statement of Cash Flows

	Notes	2022	2021
<i>Operating activities</i>			
Collected interest income		11,046,235	7,994,445
Paid interest expense		(13,175,262)	(3,695,628)
Paid interest net		<u>(2,129,027)</u>	<u>4,298,817</u>
Collected supervisory revenues		2,445,261	2,209,804
Collected service revenues and other revenues		930,612	2,023,006
Paid service expense		(470,485)	(666,977)
Paid-in dividends on shareholdings	7	51,716	97,933
Paid operating expense		(7,309,599)	(6,979,106)
Net cash from operating activities		<u>(6,481,522)</u>	<u>983,477</u>
<i>Investment activities</i>			
Securities purchased in international reserves		(82,131,485)	(206,569,486)
Securities sold and collected in international reserves		388,561,034	188,514,890
Changes in foreign non-reserve assets		-	65,829
Treasury securities purchased	17.1	-	(15,481,336)
Collected króna-denominated instalments on securities		760,925	373,275
Other assets		345,699	(339,879)
Operational assets purchased	19.1	(1,286,796)	(731,982)
Software purchased	19.2	(818)	(46,991)
Share capital reduction, subsidiary	19.3	-	350,000
Investment activities, total		<u>306,248,559</u>	<u>(33,865,680)</u>
<i>Financing activities</i>			
Issued banknotes and coin	21	(1,359,940)	584,550
Foreign-denominated deposits		(95,328,879)	111,579,813
Króna-denominated deposits		11,760,607	1,327,947
Certificates of deposit		-	(13,896,629)
Dividend paid to the Treasury		-	(802,109)
Other liabilities		370,272	2,595
Financing activities, total		<u>(84,557,940)</u>	<u>98,796,167</u>
Foreign bank deposits, increase (decrease)		215,209,096	65,913,964
Exchange rate difference on foreign bank deposits	8	23,731,527	(6,321,655)
Foreign cash balance at beginning of year		169,478,923	109,886,615
Foreign cash balance at end of year	15	<u>408,419,546</u>	<u>169,478,923</u>

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General

Note 1 – Information on the Central Bank of Iceland

The Central Bank of Iceland is an independent institution owned by the State and operating under the auspices of the Prime Minister. Its objective is to promote price stability, financial stability, and sound and secure financial activi-

ties. The Bank shall also undertake such tasks as are consistent with its role as a central bank, such as maintaining international reserves and promoting a safe, effective financial system, including domestic and cross-border payment intermediation.

Note 2 – Basis for accounting methods

The Central Bank of Iceland's annual accounts for the year ended 31 December 2022 are prepared in accordance with the Act on the Central Bank of Iceland, no. 92/2019, and the Annual Accounts Act, no. 3/2006. The annual accounts are based on cost-price accounting methods, except for financial assets held for trading and real estate, which are entered at

fair value. Financial assets held for trading include marketable bonds and derivatives. The annual accounts have been prepared in Icelandic krónur. All amounts are presented in thousands of Icelandic krónur. Information on the accounting methods can be found in Note 41.

Changes in presentation of the annual accounts

During the year, Greidsluveitan ehf. did not have a material impact on the Bank's operations and balance sheet because of its small size. The company is therefore held outside the accounts, and the holding is instead recognised with

holdings in subsidiaries and affiliates under Other assets. As a consequence, the Central Bank of Iceland's annual accounts for 2022 are not prepared on a consolidated basis. Comparison amounts have been updated accordingly.

Note 3 – Accounting estimates and decisions

In preparing the annual accounts, management must take decisions, make estimates, and draw conclusions that affect the application of accounting principles, as well as affecting the presented amounts of assets and liabilities, and income and expenses. The final results may differ from these estimates.

Management reviews estimates and underlying assumptions and makes changes as is deemed necessary. Changes in accounting estimates are recognised in the period in which they take place.

Notes to the profit and loss account

Note 4 – Interest income

	2022	2021
<i>Interest income from domestic assets and liabilities</i>		
Interest income on overnight loans	1,009	321
Interest income on collateralised loans	73,467	21,603
Interest income on non-indexed securities	643,933	496,022
Interest income on indexed securities	136,589	134,038
Other interest income	204,276	2,277
	<u>1,059,274</u>	<u>654,261</u>
<i>Interest income on foreign assets</i>		
Interest income on balance with IMF	1,073,832	28,258
Interest income on bank accounts	3,552,355	7,462
Interest income on securities	2,345,538	4,121,379
	<u>6,971,725</u>	<u>4,157,099</u>

Interest income on domestic assets and liabilities rose by 405 m.kr. from the year 2021, or by 62%.

Interest income on overnight loans increased in accordance with the increase in the policy interest rate. Overnight loans were taken in the amount of 4.5 b.kr. in 2022, as compared with 4.2 b.kr. in 2021.

Interest income on collateralised loans in 2022 is due to support loans, which bear a 100% Treasury guarantee.

Interest income on non-indexed securities increased because 2022 marked a full year with the current asset portfolio. At the beginning of May 2020, the Bank began purchasing króna-denominated Treasury securities in the secondary market. The Bank's bondholdings increased from 7.8 b.kr. at the end of 2020 to 21.8 b.kr. by mid-2021, when the bond purchase programme was discontinued.

The increase in other interest income is due primarily to negative interest on foreign currency accounts, which the Bank began to collect during the year. The Bank bought a

euro-denominated Treasury bond, and the change in interest income is due in part to that bond.

Interest income on domestic assets rose by 2.8 b.kr. from the year 2021, or by 68%.

Interest income on foreign bank accounts increased year-on-year, owing to rising foreign interest rates and an increase in deposits. Some of the deposits bore negative interest, which is expensed. Net interest on foreign bank accounts after adjusting for accounts bearing negative interest was positive by 2.9 b.kr. in 2022, as compared with net interest amounting to 575 m.kr. in 2021. Net interest on foreign bank accounts was therefore 3.5 b.kr. higher in 2022 than in 2021.

Interest income on foreign securities fell by 1.8 b.kr. year-on-year, or 43%. The decrease is more or less consistent with securities holdings, which declined by 51% year-on-year. Interest on bonds with negative yields is recognised as interest expense. Net interest on foreign bondholdings was 1.1 b.kr. in 2022, a year-on-year decline of 1.5 b.kr., or 58%, from the prior year.

Note 5 – Interest expense

	2022	2021
<i>Interest expense on domestic liabilities</i>		
Interest expense on term deposits	6,775,788	1,712,199
Interest expense on current accounts	6,775,657	1,330,914
Interest expense on FX-accounts	918,841	78
Interest expense on other domestic liabilities	307,678	68,975
Interest expense on domestic liabilities, total	<u>14,777,964</u>	<u>3,112,166</u>
<i>Interest expense on foreign liabilities and assets</i>		
Interest expense on balance with IMF	928,920	21,480
Interest expense on foreign bank accounts	687,517	582,194
Interest expense on foreign securities in international reserves	1,247,001	1,548,235
Interest expense on foreign liabilities and assets, total	<u>2,863,438</u>	<u>2,151,909</u>

Interest expense on domestic liabilities rose by 11.7 b.kr. between years, owing mainly to policy rate increases in 2022.

Interest expense on term deposits totalled 6.8 b.kr. in 2022, as opposed to 1.7 b.kr. in 2021, an increase of 5.1 b.kr.

Interest expense on current accounts rose by 5.4 b.kr.

During the year, the Bank began paying/collecting interest on foreign currency accounts that were previously non-interest-bearing. Interest expense on foreign currency accounts totalled 918.8 m.kr., as compared with 78,000 kr. in 2021.

Negative interest on foreign currency accounts was recognised with interest income. Net interest expense on foreign currency accounts totalled 726 m.kr. in 2022.

Interest expense on foreign assets increased by 702 m.kr.

Interest expense on foreign bank accounts increased by 108.7 m.kr., or 18%, owing to negative interest on deposit balances.

Interest expense on foreign reserve securities derives from negative bond interest.

Note 6 – Changes in asset value

	2022	2021
<i>Realised revaluation</i>		
Foreign securities and securities funds	(7,367,874)	1,908,952
Realised revaluation, total	<u>(7,367,874)</u>	<u>1,908,952</u>
<i>Unrealised revaluation</i>		
Domestic securities	(2,815,991)	(469,186)
Foreign securities and securities funds	(25,589,511)	(12,285,499)
Unrealised revaluation, total	<u>(28,405,502)</u>	<u>(12,754,685)</u>
Changes in asset value, total	<u>(35,773,376)</u>	<u>(10,845,733)</u>

Note 7 – Revenues from shareholdings

Revenues from shareholdings are due to dividends from the Bank for International Settlements (BIS).

Note 8 – Exchange rate difference

	2022	2021
<i>Realised exchange rate difference</i>		
Foreign bank deposits	23,731,527	(6,321,655)
Foreign securities and funds	19,151,371	11,413,826
Domestic foreign-denominated bank deposits	(5,992,748)	18,493,971
Derivatives	(173,670)	11,783
Other	635,843	124,478
Realised exchange rate difference, total	<u>37,352,323</u>	<u>23,722,403</u>
<i>Unrealised exchange rate difference</i>		
Gold	1,314,359	(192,144)
International Monetary Fund	514,986	(95,920)
Foreign securities and funds	(7,752,251)	(24,257,303)
Other	7,075	3,986
Unrealised exchange rate difference, total	<u>(5,915,831)</u>	<u>(24,541,381)</u>
Exchange rate difference, total	<u>31,436,492</u>	<u>(818,978)</u>

	<i>Average exchange rate for the year</i>		<i>Year-end exchange rate</i>		<i>Change in year-end exchange</i>
	2022	2021	2022	2021	%
Euro (EUR)	142.3	150.2	151.5	147.6	2.6%
US dollar (USD)	135.5	127.1	142.0	130.4	8.9%
Pound sterling (GBP)	166.9	174.7	170.8	175.7	-2.8%
Japanese yen (JPY)	1.03	1.16	1.08	1.13	-4.9%
Danish krone (DKK)	19.1	20.2	20.4	19.8	2.6%
Norwegian krone (NOK)	14.1	14.8	14.4	14.8	-2.5%
Swedish krona (SEK)	13.4	14.8	13.6	14.4	-5.4%
Swiss franc (CHF)	141.8	139.0	153.9	142.8	7.7%
Canadian dollar (CAD)	104.0	101.3	104.9	102.4	2.4%
Chinese yuan (CNY)	20.1	19.7	20.6	20.5	0.3%
Special drawing rights (XDR)	181.0	180.9	189.7	182.5	3.9%
Gold (XAU)	243,502	228,445	259,084	238,478	8.6%

Total foreign-denominated assets and liabilities, in ISK thousands

	31.12.2022		31.12.2021	
	Assets	Liabilities	Assets	Liabilities
Euro (EUR)	493,036,544	243,175,112	518,941,143	340,663,951
US dollar (USD)	299,192,019	43,327,803	308,062,722	32,194,482
Pound sterling (GBP)	8,976,006	6,030,596	53,560,841	6,277,089
Japanese yen (JPY)	7,705,843	6,160,857	15,691,537	6,435,881
Other currencies	11,708,207	9,847,239	11,678,389	8,383,240
Gold (XAU)	16,525,930	-	15,211,571	-
Total	837,144,549	308,541,607	923,146,203	393,954,643

A further itemisation of total foreign-denominated assets and liabilities can be found in Note 39. Special drawing rights (SDR) are a currency basket determined by the IMF. The basket comprises five currencies: US dollar, euro, Chinese yuan, pound sterling, and Japanese yen. The Bank's only asset

denominated in SDR is its balance with the IMF, and its only SDR-denominated liability is the counterpart to the IMF. The Bank's SDR-denominated assets and liabilities are converted to the currencies comprising the currency basket, using the weight of each at the year-end.

Note 9 – Supervisory revenues

	2022	2021
Ongoing monitoring	2,415,800	2,180,000
Revenues according to the tariff for proactive supervisory checks	29,461	29,804
Supervisory revenues, total	2,445,261	2,209,804

Supervised entities and other entities subject to fees as specified in the Act on the Payment of Costs for Official Supervision of Financial Activities and Resolution, no. 99/1999,

shall pay the cost of operating the Central Bank financial supervisory authority by means of a special supervision fee.

Note 10 – Service revenues

	2022	2021
Payment intermediation	679,702	681,801
Market transactions	175,453	174,244
Service revenues, total	855,155	856,045

Note 11 – Salaries and related expenses

	2022	2021
Wages and salaries	4,071,658	3,922,493
Pension fund	593,657	574,411
Salary-related expenses	336,651	320,429
Contribution to pension obligations	32,705	(66,149)
Salaries and related expenses, total	<u>5,034,671</u>	<u>4,751,184</u>
Number of man-years	288	291

Note 12 – Other operating expenses

	2022	2021
Operation of assets and liquid assets	379,331	553,379
Information technology	632,617	424,051
Outsourced services	332,500	274,572
Office expense	379,252	309,007
Sundry operational items	527,528	287,502
Expense due to banknotes and coin	355,493	21,857
Operating expenses, total	<u>2,506,721</u>	<u>1,870,368</u>

New 10,000 kr. banknotes were printed during the year. This printing explains in full the increase in expense due to banknotes and coin between 2021 and 2022.

Remuneration to auditors

	2022	2021
<i>Auditing of annual accounts</i>		
KPMG ehf.	10,329	8,390
<i>Consultancy and other services</i>		
Deloitte ehf.	3,435	2,554
Fees paid to auditing firms, total	<u>13,764</u>	<u>10,944</u>

The Icelandic National Audit Office outsources the audit of the Central Bank of Iceland's annual accounts to KPMG ehf.

Note 13 – Service expenses

	2022	2021
Payment intermediation	398,318	435,260
Expense due to custodial fees	33,243	66,546
Portfolio investment	45,222	39,855
Service expenses, total	<u>476,783</u>	<u>541,661</u>

Notes to the balance sheet

Note 14 – Gold

	2022	2021
Balance at beginning of year	15,211,571	15,403,715
Exchange rate difference	1,314,359	(192,144)
Balance at end of year	<u>16,525,930</u>	<u>15,211,571</u>
Gold holdings at the year-end, in ounces	63,797	63,797

Note 15 – Foreign-denominated claims against non-residents

Note 15.1 – Foreign bank deposits

	31.12.2022	31.12.2021
Deposits with foreign central banks	407,491,487	167,773,216
Balance with other foreign banks	928,059	1,705,707
Foreign bank deposits, total	<u>408,419,546</u>	<u>169,478,923</u>
Deposits available for withdrawal	185,991,013	157,001,557
Term deposits, available within three months	222,428,533	12,477,366
Foreign bank deposits, total	<u>408,419,546</u>	<u>169,478,923</u>

Note 15.2 – International Monetary Fund

Iceland's quota with the International Monetary Fund (IMF) totalled SDR 321.8 million at year-end 2022 (31.12.2021: SDR 321.8m). The Bank's end-2022 foreign currency balance with the Fund totalled SDR 69.8 million (31.12.2021: SDR 69.8m), which is the difference between the quota and the Fund's

króna-denominated deposits with the Bank, adjusted for the balance on the IMF's current account with the Bank. The SDR allocation totalled SDR 422.5 million at the end of 2022 (31.12.2020: SDR 420.7m).

	31.12.2022		31.12.2021	
	SDR	ISK	SDR	ISK
<i>Assets</i>				
Central Bank of Iceland quota	321,800	61,039,024	321,800	58,728,500
IMF deposit with Central Bank of Iceland	(252,002)	(47,799,739)	(252,002)	(45,990,412)
IMF current acc. with Central Bank of Iceland	6	1,138	6	1,207
Central Bank foreign currency balance with IMF	69,804	13,240,423	69,804	12,739,295
Central Bank foreign currency balance with IMF	69,804	13,240,423	69,804	12,739,295
Central Bank deposit balance with IMF	422,408	80,122,367	421,917	76,999,682
Accrued interest	2,233	416,301	44	8,122
Assets, total	494,445	93,779,091	491,765	89,747,098
<i>Liabilities</i>				
Counterpart to IMF allocations	422,546	80,142,171	420,654	76,769,132
IMF current acc. with Central Bank of Iceland	6	1,138	6	1,207
Liabilities, total	422,552	80,143,309	420,660	76,770,339

Note 15.3 – Foreign securities and other reserve assets

	31.12.2022	31.12.2021
Foreign securities	318,356,404	646,934,672
Foreign securities funds	-	1,666,416
Foreign securities and other reserve assets, total	318,356,404	648,601,088

Changes in foreign securities and securities funds

	2022	2021
Balance at beginning of year	648,601,088	657,805,606
Purchases during the year	82,131,485	206,569,486
Sold and collected during the year	(376,317,325)	(175,192,112)
Change in accrued interest	(285,206)	(343,690)
Changes in premiums and discounts	(2,431,876)	(3,695,401)
Unrealised value adjustments	(25,589,511)	(12,285,499)
Exchange rate difference	(7,752,251)	(24,257,303)
Balance at end of year	318,356,404	648,601,088

Note 15.4 – Non-reserve assets

Non-reserve assets consist of short-term claims against non-residents.

Note 16 – Foreign-denominated claims against residents

Foreign-denominated claims against residents at the end of 2022 consisted solely of one euro-denominated account with a domestic commercial bank, as was the case at the end of 2021.

Note 17 – Monetary policy-related claims against residents

Note 17.1 – Treasury

Monetary policy-related claims against the Treasury consist solely of Treasury securities

Changes in foreign securities and securities funds

	2022	2021
Balance at beginning of year	21,834,841	7,770,361
Purchases during the year	-	15,481,336
Collected during the year	(581,090)	(200,000)
Change in accrued interest	(29,095)	(3,569)
Changes in premiums and discounts	(567,559)	(468,257)
Unrealised value adjustments	(1,995,862)	(745,030)
Balance at end of year	<u>18,661,235</u>	<u>21,834,841</u>

Note 17.2 – Deposit institutions

Monetary policy-related claims against deposit institutions consist of support loans.

Note 18 – Króna-denominated claims against residents

Note 18.1 – Deposit institutions

Claims against deposit institutions denominated in domestic currency consist of loans granted for participation in the cost of implementing the Central Bank of Iceland's interbank payment system.

Note 18.2 – Other entities

Króna-denominated claims against other residents consist solely of housing bonds.

Note 19 – Other assets

According to the Annual Accounts Act, the Bank's real estate must be reappraised annually, as it has been in the past. A reappraisal of the Bank's real estate was carried out

at the beginning of 2023. That appraisal, which was conducted by an impartial real estate agent, led to a reduction of 228.9 m.kr.

Note 19.1 – Fixed operational assets

2022	Real estate	Liquid assets	Libraries and collections	Total
<i>Cost price and valuation</i>				
Cost price at beginning of year	5,585,067	451,056	310,572	6,346,695
Valuation at beginning of year	3,238,451	-	-	3,238,451
Special revaluation	(228,819)	-	-	(228,819)
Capitalised during the year	1,077,932	206,927	1,937	1,286,796
Balance at end of year	<u>9,672,631</u>	<u>657,983</u>	<u>312,509</u>	<u>10,643,123</u>
<i>Depreciation</i>				
Balance at beginning of year	978,076	210,719	-	1,188,795
Depreciation for the year	113,407	60,562	-	173,969
Balance at end of year	<u>1,091,483</u>	<u>271,281</u>	<u>-</u>	<u>1,362,764</u>
Book value at beginning of year	<u>7,845,442</u>	<u>240,337</u>	<u>310,572</u>	<u>8,396,352</u>
Book value at end of year	<u>8,581,147</u>	<u>386,702</u>	<u>312,509</u>	<u>9,280,359</u>
Annual depreciation rate	0-3%	10-33%	0%	

The official end-2022 property valuation of tangible operational assets was 6.8 b.kr.

The year-end insurance valuation of fixed operational assets was 10.9 b.kr.

2021	Real estate	Liquid assets	Libraries and collections	Total
<i>Cost price and valuation</i>				
Cost price at beginning of year	4,929,088	375,053	310,572	5,614,713
Valuation at beginning of year	3,353,457	-	-	3,353,457
Special revaluation	(115,006)	-	-	(115,006)
Capitalised during the year	655,979	76,003	-	731,982
Balance at end of year	<u>8,823,518</u>	<u>451,056</u>	<u>310,572</u>	<u>9,585,146</u>
<i>Depreciation</i>				
Balance at beginning of year	875,808	169,522	-	1,045,330
Depreciation for the year	102,268	41,197	-	143,465
Balance at end of year	<u>978,076</u>	<u>210,719</u>	<u>-</u>	<u>1,188,795</u>
Book value at beginning of year	<u>7,406,737</u>	<u>205,531</u>	<u>310,572</u>	<u>7,922,840</u>
Book value at end of year	<u>7,845,442</u>	<u>240,337</u>	<u>310,572</u>	<u>8,396,352</u>
Annual depreciation rate	0-3%	10-20%	0%	

The official end-2021 property valuation of tangible operational assets was 6.2 b.kr.
The year-end insurance valuation of fixed operational assets was 9.5 b.kr.

Note 19.2 – Software

	2022	2021
<i>Cost price</i>		
Balance at beginning of year	1,087,451	1,040,460
Capitalised during the year	818	46,991
Balance at end of year	<u>1,362,592</u>	<u>1,296,783</u>
<i>Depreciation</i>		
Balance at beginning of year	259,992	169,325
Depreciation for the year	92,304	90,667
Balance at end of year	<u>352,296</u>	<u>259,992</u>
Book value at beginning of year	<u>827,459</u>	<u>871,135</u>
Book value at end of year	<u>735,972</u>	<u>827,459</u>

The depreciation rates for software are 10-20% for the Bank.
The Bank does not begin to depreciate software until it is brought into use.

Note 19.3 – Other assets

	31.12.2022	31.12.2021
Holdings in subsidiaries	1,765,810	1,424,605
Shareholdings in Bank for Int'l Settlements	184,486	184,486
Payment intermediation claims	401,639	375,605
Pre-paid expenses	129,384	182,904
Accounts receivable	111,468	78,633
Other assets	1,309	45,837
Other assets, total	<u>2,594,096</u>	<u>2,292,070</u>

Shareholdings in subsidiaries

Subsidiaries are companies under the control of another undertaking, the parent company. Control exists if the parent company bears the risk, is entitled to enjoy the variable benefits of its participation in the company, and can, through its decision-making power, affect the returns on the investment. The Central Bank's subsidiaries are Greidsluveitan ehf. and F fasteignafélag ehf. The accounts of real estate company F fasteignafélag ehf. have been held outside the Bank's accounts in recent years because they do not have a material impact on the Bank's operations and balance sheet. On the

other hand, Greidsluveitan ehf. has been part of the group until now. In order to achieve greater synergy in the operation of joint financial market infrastructure, Reiknistofa bankanna hf. has acquired Greidsluveitan ehf.'s ARK system and SWIFT services, and its activities have declined considerably as a result. Because of this, Greidsluveitan ehf., like F fasteignafélag ehf., does not have a material impact on the Bank's operations and balance sheet; therefore, its accounts have been separated from the Bank's accounts. The Central Bank no longer prepares its accounts on a consolidated basis, and holdings in the two subsidiaries are recognised using the equity method.

	Ownership share	Activities
Greidsluveitan ehf., Kalkofnsvegi 1, Reykjavík	100%	Advisory services
F fasteignafélag ehf., Ránargötu 18, Reykjavík	100%	Holding company
	2022	2021
Balance at beginning of year	1,424,605	1,527,583
Share capital reduction	-	(350,000)
Share in earnings	341,205	247,022
Balance at end of year	<u>1,765,810</u>	<u>1,424,605</u>

Shareholdings in Bank for Int'l Settlements

Shareholdings in the Bank for International Settlements (BIS) are entered at cost price. The Central Bank owned 1,070 shares at the end of 2022. Each share has a nominal value of SDR 5,000. Payment has been made for 25% of the nominal value, or SDR 1,250 per share. The book value at year-end 2022 was 184.5 m.kr., and the nominal value of the portion

that has been paid is SDR 1.3 million. The Central Bank of Iceland is obliged to pay for a subscription for capital shares to the Bank for International Settlements (BIS) upon request. 25% of the subscription has already been paid. The 75% share could come due for payment and totalled 761.1 m.kr. (SDR 4 million) at the end of 2022.

Note 20 – Equity

Callable capital

At the beginning of 2015, the Central Bank of Iceland and the Government entered into an agreement providing for callable capital for the Bank. With the agreement, the Treasury pledges, based on the authority contained in the National Budget, to contribute capital to the Central Bank in the form of marketable assets if the Bank calls in such capital so as to satisfy the minimum requirement for paid-in capital. The balance of callable capital is adjusted at each year-end to reflect the rise in the consumer price index.

Value adjustment reserve and transfer to the Treasury

The Bank's profit from the prior fiscal year, adjusted for unrealised calculated revenues and expenses, shall revert to the Treasury to the extent that it is not used to strengthen the Bank's capital position. The Bank is authorised to keep separate accounts in the equity accounts for unrealised revenues and expenses. The Bank has such an account, called the Value adjustment reserve, in its equity accounts. Unrealised revenues due to the share in the profits of subsidiaries in excess of dividends received are recognised in the equity item *Unrealised share in profit of associates*.

The main objective of maintaining the value adjustment reserve is to ensure that only realised gains are used as the basis for the transfer to the Treasury or for the strengthening of the Bank's equity. Unrealised profits are entered to the value adjustment reserve. Unrealised losses in excess of previously entered unrealised gains are used to reduce the profit available for disposition.

The revaluation consists of updated market prices and currency exchange rate movements, and it extends to financial assets and liabilities, derivatives, and gold. Financial instruments denominated in domestic and foreign currencies are appraised individually.

Both realised and unrealised gains are recognised in the profit and loss account. Contributions to the value adjustment reserve consist of the difference between cost price and recorded market price.

The value adjustment reserve specifies as follows:

	2022	2021
Balance at beginning of year	29,310,057	67,056,063
Unrealised value adjustment of foreign securities	(24,929,720)	(16,348,410)
Value adjustment of domestic securities	(2,536,469)	(722,827)
Exchange rate difference on foreign assets	(5,921,384)	(35,399,622)
Exchange rate difference on gold	1,314,359	(192,144)
Realised during the year (transferred from value adjustment reserve to other equity)	2,763,158	14,916,997
Balance at end of year	-	29,310,057

Disposed of the following:

	2022	2021
Loss for the year	(18,364,171)	(15,834,479)
Reduction in value adjustment reserve	29,310,057	37,746,006
Increase in restricted earnings	(341,205)	(197,792)
Allocation of profit for the year	10,604,681	21,713,735

In 2022, the Bank's capital adequacy benchmark was set at 150 b.kr. The Bank's equity at the end of 2022 was 115.5 b.kr.

By law, the Central Bank of Iceland shall be financially strong. In order to ensure that this goal is met, the Bank's profit is transferred to the Treasury, to the extent that it is not used to strengthen the Bank's capital. The loss for the year according to the annual accounts is 18.4 b.kr. The value adjustment reserve decreased by 29.3 b.kr., and the restricted earnings account increased by 341.2 m.kr. The allocation for the year 2022 is 10.6 b.kr. The Bank's year-end capital was below the specified benchmark.

Real estate revaluation

The Bank's real estate is designated at fair value. A fair value assessment is carried out annually. Valuation changes are entered to a separate value adjustment reserve account among equity items. The value adjustment reserve is reduced by an amount equivalent to the annual depreciation of the difference between the restated price and the cost price.

Restricted earnings

If the share in the earnings of a subsidiary exceeds dividends received from that company, the difference is entered as restricted earnings.

Developments in the Bank's capital ratio

	31.12.2022	31.12.2021	31.12.2020	31.12.2019
Equity (excl. value adjustments)	108,719,852	126,987,537	143,472,039	74,440,977
Revaluation of assets	6,792,589	7,117,895	7,330,069	7,540,925
Equity	115,512,441	134,105,432	150,802,108	81,981,902
Equity ratio	13.2%	13.9%	18.0%	10.9%

Note 21 – Issued banknotes and coin

	31.12.2022	31.12.2021
<i>Banknotes</i>		
10,000 krónur	49,787,580	51,287,500
5,000 krónur	17,435,915	17,818,500
2,000 krónur	209,000	210,000
1,000 krónur	6,948,825	6,608,500
500 krónur	1,767,426	1,699,250
Banknotes, total	76,148,746	77,623,750
<i>Coin</i>		
100 krónur	2,906,600	2,811,300
50 krónur	753,990	736,040
10 krónur	623,110	620,400
5 krónur	132,669	133,259
1 króna	121,606	121,912
Coin, total	4,537,975	4,422,911
Issued banknotes and coin, total	80,686,721	82,046,661

Note 22 – Foreign-denominated debt to non-residents

Foreign-denominated debt to non-residents consists of deposits and the counterpart to the IMF. Note 15.2 contains an explanation of matters relating to the IMF.

Note 22.1 – Deposits

Foreign-denominated deposits with non-resident entities consist solely of euro-denominated deposits with international institutions.

Note 23 – Foreign-denominated debt to residents

	31.12.2022	31.12.2021
Deposits – Treasury and Government institutions	228,195,201	304,564,191
Deposits – Other entities	11,171	10,891
Total	<u>228,206,373</u>	<u>304,575,082</u>

Note 24 – Króna-denominated debt to non-residents

Króna-denominated debt to non-residents consists entirely of deposits held by international institutions.

Note 25 – Monetary policy-related debt to domestic credit institutions

Note 25.1 – Deposits

	31.12.2022	31.12.2021
Real-time gross settlement accounts	81,627,985	77,783,576
Collateral accounts	774,000	883,419
Deposits, total	<u>82,401,985</u>	<u>78,666,995</u>

Note 25.2 – Reserve requirements

Minimum reserve requirements consist of two parts: a fixed non-remunerated reserve requirement and an average reserve requirement, which is included with deposits under Monetary policy-related debt to domestic credit institutions.

In 2022, the average reserve requirement was 0%, and the fixed reserve requirement was 1%.

Note 25.3 – Term deposits

	31.12.2022	31.12.2021
Seven-day term deposits	156,528,225	166,128,457
Term deposits, > 1 month	2,948,607	2,911,899
Term deposits, total	<u>159,476,832</u>	<u>169,040,355</u>

Note 26 – Króna-denominated debt to residents

Note 26.1 – Treasury and Government institutions

	31.12.2022	31.12.2021
Deposits	89,618,879	67,636,731
Other liabilities	602,474	180,660
Total	<u>90,221,353</u>	<u>67,817,391</u>

Note 26.2 – Other entities

Foreign-denominated debt to residents consists solely of deposits.

Note 27 – Other liabilities

	31.12.2022	31.12.2021
Vacation pay obligation	704,208	632,672
Unpaid salaries and related expenses	46,366	43,183
Pension obligations	66,498	66,312
Trade credit	264,920	142,898
Pre-paid income	358,264	468,726
Other liabilities	431	24,760
Other liabilities, total	<u>1,440,687</u>	<u>1,378,551</u>

Unpaid salaries and related expenses

Unpaid salaries and related expenses that are included with other liabilities consist of debt to pension funds and labour unions. Unpaid payroll tax and pay-as-you-earn tax are included with debts to the Treasury under *Króna-denominated debt to residents*.

Pension obligations

According to actuarial assessments, the Central Bank of Iceland's obligations due to pension payments to former governors and their spouses totalled 66.5 m.kr. as of year-end 2022. Payments related to these obligations totalled 32.5 m.kr. in 2022 and reduce the previously entered obligation.

Changes during the year specify as follows:

	2022	2021
Pension obligations at beginning of year	66,312	162,676
Paid due to retirement	(32,519)	(30,215)
Change during the year	32,705	(66,149)
	<hr/>	<hr/>
Pension obligations at end of year	<u>66,498</u>	<u>66,312</u>

Other information

Note 28 – The króna system

	31.12.2022	31.12.2021
Deposit institutions	241,878,818	247,707,350
Financial institutions	-	1,021,926
Treasury	89,618,839	67,636,731
Non-residents	1,666,244	5,545,158
Other entities	4,881,138	3,794,942
Payment systems	401,639	375,605
Issued banknotes and coin	80,686,721	82,046,661
	<hr/>	<hr/>
Total	<u>419,133,398</u>	<u>408,128,372</u>

The table shows total term deposits and sight deposits, issued banknotes and coin, and outstanding payment system balances at the year-end.

Note 29 – Foreign exchange transactions

Foreign exchange market transactions against the króna in 2022, in ISK thousands

	Purchases	Sales	Total
Euro (EUR)	33,882,200	(20,670,500)	13,211,700

Cross-border payments by the Central Bank and its customers in 2022, in ISK thousands

	Incoming payments	Outgoing payments	Total
Euro (EUR)	3,501,007	(102,889,477)	(99,388,470)
US dollar (USD)	16,509,656	(22,358,035)	(5,848,379)
Pound sterling (GBP)	11,773	(2,782,532)	(2,770,760)
Japanese yen (JPY)	-	(72,116)	(72,116)
Danish krone (DKK)	85,047	(631,078)	(546,031)
Norwegian krone (NOK)	8,350	(275,934)	(267,584)
Swedish krona (SEK)	4,144	(273,781)	(269,637)
Swiss franc (CHF)	228,359	(477,275)	(248,916)
Canadian dollar (CAD)	-	(107,722)	(107,722)
Total	<u>20,348,335</u>	<u>(129,867,950)</u>	<u>(109,519,615)</u>

Foreign exchange transactions against the krona in 2021, in ISK thousands

	Purchases	Sales	Total
Euro (EUR)	20,999,400	(51,911,884)	(30,912,484)
US dollar (USD)	<u>5,856,814</u>	<u>(688,245)</u>	<u>5,168,569</u>
Total	<u>26,856,214</u>	<u>(52,600,129)</u>	<u>(25,743,915)</u>

Cross-border payments by the Bank and its customers in 2021, in ISK thousands

	Incoming payments	Outgoing payments	Total
Euro (EUR)	119,381,217	(11,695,584)	107,685,633
US dollar (USD)	6,294,886	(8,708,494)	(2,413,608)
Pound sterling (GBP)	74,227	(428,690)	(354,463)
Japanese yen (JPY)	42,992	(138,045)	(95,053)
Danish krone (DKK)	61,469	(574,907)	(513,438)
Norwegian krone (NOK)	1,960	(165,813)	(163,853)
Swedish krona (SEK)	88,323	(252,683)	(164,360)
Swiss franc (CHF)	208,029	(318,594)	(110,565)
Canadian dollar (CAD)	<u>1,526</u>	<u>(108,011)</u>	<u>(106,485)</u>
Total	<u>126,154,629</u>	<u>(22,390,821)</u>	<u>103,763,808</u>

Note 30 – Related parties

Related parties are the State (owner of the Central Bank of Iceland), F fasteignafélag ehf. and Greidsluveitan ehf. (subsidiaries), the Governor, senior management, and the Supervisory Board.

Treasury

Interest income and expense vis-à-vis the Treasury specify as follows:

	2022	2021
Interest income on Treasury securities	639,490	496,022
Interest income on foreign currency accounts	185,417	-
Interest expense vis-à-vis the Treasury, total	824,907	496,022
Interest expense on current accounts	3,290,720	1,873,680
Interest expense on foreign currency accounts	909,107	78
Interest expense vis-à-vis the Treasury, total	4,199,827	1,873,757
Net interest expense vis-à-vis the Treasury	3,374,920	1,377,735

Realised exchange rate difference on Treasury bonds

633,882

Net interest-bearing assets specify as follows:

	31.12.2022	31.12.2021
Treasury bonds	18,661,235	21,834,841

Net interest-bearing debt specifies as follows:

	31.12.2022	31.12.2021
Treasury and Government institutions' deposits	90,221,353	67,817,391
Treasury FX account	228,195,201	304,564,191
Total	318,416,554	372,381,582

F fasteignafélag ehf.

The Bank conducted no business with F fasteignafélag ehf. in 2021-2022. No dividend was paid, and there were no changes in share capital in 2022.

At the shareholder's meeting of F fasteignafélag ehf. on December 28, 2022, a reduction of the share capital by

280.000.000 was approved at a rate of 2.1. It will be implemented in 2023.

There were no outstanding claims between the company and the Central Bank at the end of 2022 or 2021.

Geidsluveitan ehf.

Central bank of Iceland did business with Geidsluveitan ehf. in accordance with what is below.

Revenues and expenses vis-à-vis Geidsluveitan ehf. specify as follows:

	2022	2021
Purchased services	(90,886)	(19,114)
Purchased access to systems	-	(25,359)
Interest expense on current accounts	(25,759)	(5,423)
Sold services	13,453	10,355
Sold facilities	3,642	38
Payment intermediation fees collected	337	293
Management salaries paid	-	8,000
Total	<u>(99,213)</u>	<u>(31,210)</u>

The largest outstanding claim between the Bank and Geidsluveitan ehf. is the company's deposits with the Bank in the amount of 665 b.kr. A more detailed breakdown can be seen below.

Balances vis-à-vis Geidsluveitan ehf. specify as follows:

	2022	2021
Claims	4,478	888
Deposits to current account	(665,070)	(657,345)
Liabilities	(10,095)	(23,702)
Total	<u>(670,687)</u>	<u>(680,159)</u>

Governor, senior management, and Supervisory Board

In 2022, total remuneration to the Governor, senior management, and the Supervisory Board amounted to 437.1 m.kr. The Governor is not remunerated for participation in boards and committees jointly operated by institutions in the finan-

cial market or to which the Central Bank of Iceland appoints a representative by law. Total remuneration to the Governor, senior management, and the Supervisory Board in 2022 specifies as follows:

	2022	2021
<i>Governor</i>		
Ásgeir Jónsson	29,024	27,757
<i>Deputy Governors</i>		
Rannveig Sigurdardóttir, Monetary Policy	27,509	26,224
Gunnar Jakobsson, Financial Stability	23,951	22,854
Unnur Gunnarsdóttir, Financial Supervision	26,534	24,840
<i>Senior management</i>		
Principal officers ¹	307,831	290,012
<i>Supervisory Board</i>		
Gylfi Magnússon, chair	4,800	4,800
Thórunn Gudmundsdóttir, vice-chair	3,600	3,600
Other Supervisory Board members and alternates	13,800	12,200
Total remuneration to Governor, senior management, and Supervisory Board	437,050	412,287

1. There are twelve senior management officials. They are: Thórarinn G. Pétursson, Director, Economics and Monetary Policy; Sturla Pálsson, Director, Markets; Haukur C. Benediktsson, Director, Financial Stability; Elmar Ásbjörnsson, Director, Banking; Rúnar Gudmundsson, Director, Pensions and Insurance; Páll Fridriksson, Director, Markets and Business Conduct; Björk Sigurgisladóttir, Director, Compliance and Inspections; Rannveig Júníusdóttir, Director, General Secretariat; Thóra Helgadóttir, Director, Operations; Logi Ragnarsson, Director, IT and Statistics; Erla Gudmundsdóttir, Director, Finance; and Íris Guðrún Ragnarsdóttir, Director, Human Resources. Elmar Ásbjörnsson left his position with the Bank on 31 August 2022 and was replaced temporarily by Gísli Sigurbjörn Óttarsson.

Note 31 – Cost analysis

	<i>Salaries and related expenses</i>	<i>Other operating expenses and depreciation</i>	<i>Service expenses</i>	<i>Joint expenses</i>	<i>Total</i>
2022					
Senior management	829,459	163,627	827	(993,913)	-
Monetary policy	904,865	714,385	475,892	2,030,582	4,125,724
Financial stability	437,719	74,730	-	914,548	1,426,997
Financial supervision	1,299,906	133,478	-	1,130,721	2,564,105
Support departments	1,562,722	1,686,774	64	(3,081,937)	167,623
Total	5,034,671	2,772,994	476,783	-	8,284,448
2021					
Senior management	800,384	87,274	-	(887,657)	-
Monetary policy	892,753	474,309	541,607	1,691,076	3,535,080
Financial stability	457,818	27,244	-	796,608	1,281,671
Financial supervision	1,228,669	115,250	-	1,172,011	2,515,930
Support departments	1,371,561	1,400,422	55	(2,772,037)	-
Total	4,751,184	2,104,500	541,661	-	7,332,681

Note 32 – Financial supervision

	2022	2021
Supervisory revenues	2,351,204	2,130,215
Salaries and related expenses	(1,299,906)	(1,228,669)
Other operating expenses	(133,478)	(115,250)
Joint expenses	(1,130,721)	(1,172,011)
Operating loss	<u>(212,901)</u>	<u>(385,715)</u>

According to the Act on the Payment of Expenses for Official Supervision of Financial Activities and Resolution, no. 99/1999, operating surpluses and losses shall be taken into account in the determination of the supervision fee. At the time of the merger with the Central Bank of Iceland on 1 January 2020, the Financial Supervisory Authority's equity totalled

690.9 m.kr. The Central Bank's financial supervisory activities recorded an operating loss of 212.9 m.kr. in 2022 (2021: 385.7 m.kr.). The Central Bank's cumulative surplus due to supervisory activities was 33.5 m.kr. at the end of 2022 (2021: 246.1 m.kr.). The cumulative operating surplus has been taken into account in the determination of supervision fees for 2023.

Note 33 – Other matters

The Central Bank has access to loan facilities from the Bank for International Settlements in the form of securities repurchase agreements, in the amount of 400 million US dollars, or 56.8

b.kr. at the end-2022 exchange rate. The Bank did not use these facilities in 2022 or 2021.

Note 34 – Events after the financial reporting date

No events occurred after the financial reporting date that call for corrections or additions to the Bank's annual accounts for the year ended 31 December 2022.

Risk management

The Central Bank of Iceland is a public institution with specific roles to perform. Its main objectives include promoting price stability and investing the nation's international reserves. Risk in its operations is therefore of a somewhat different type than in the operation of financial institutions, although the same terminology is used. The Central Bank of Iceland's financial risk entails claims risk, liquidity risk, and market risk. Claims risk is the risk of loss due to counterparties' or issuers' inability to fulfil their financial obligations at the designated time. Claims risk comprises issuer risk/counterparty risk and settlement risk. Liquidity risk is the risk that the Central Bank will be unable to fulfil its tasks and commitments due to insufficient assets, inability to sell assets in time, or inability to sell

assets except at significant discounts. Market risk is defined as the risk of loss due to changes in the market value of financial assets and liabilities. Market risk comprises exchange rate risk, interest rate risk, and gold price risk. In addition, the Bank operates under operational risk, which is the risk of human error or the failure of internal processes and systems.

The assets side of the Central Bank's annual accounts consists primarily of foreign assets, which are held in the Bank's international reserves, and domestic financial assets that are either issued or guaranteed by the Treasury. The following is a statement on the main financial risk of the Central Bank, which is primarily due to the international reserves.

Note 35 – International reserves

The international reserves are managed in accordance with rules of procedure on reserve maintenance, which were updated in October 2021. The rules specify the purpose and structure of the reserves, as well as defining the outside limits for accept-

able financial risk. The investment mandate, which is set on the basis of the rules, stipulates how reserve management shall be carried out.

Note 36 – Claims risk

Below is an itemisation of the Bank's international reserves, by type, credit rating, country of issuance, and issuer/counterparty.

International reserves, by issuer/counterparty

	31.12.2022	31.12.2021
Treasuries	22.7%	48.9%
Government institutions	10.0%	14.1%
Multinational institutions	3.3%	4.8%
Federal states	1.7%	2.1%
Financial institutions	0.3%	0.4%
Deposits with central banks and BIS	43.0%	18.2%
Deposits with IMF	11.2%	9.7%
Deposits with financial institutions	5.8%	0.2%
Gold	2.0%	1.6%
Total	<u>100%</u>	<u>100%</u>

Credit ratings of issuers/counterparties in international reserves

	31.12.2022	31.12.2021
AAA	77.9%	71.4%
AA+	4.5%	7.7%
AA	7.6%	10.9%
AA-	7.3%	4.7%
A+	0.3%	2.0%
A	0.0%	0.0%
A-	0.0%	1.2%
BBB+	0.0%	0.0%
BBB	0.3%	0.3%
Gold	2.0%	1.6%
Total	100%	100%

Deposits with central banks and the Bank for International Settlements in the foreign exchange reserves comprise 43% of the reserves. In general, central banks are not assigned credit ratings, and their creditworthiness is deemed to be the same as that of the sovereign. It is assumed that the Bank for International Settlements has a credit rating of AAA.

Deposits with commercial banks in the international reserves generally account for a small share of the reserves, currently just under 6%, and are in various currencies at various banks. The Bank attempts to keep these deposits at a minimum (counterparty risk).

International reserves, by country of issuer/counterparty

	Credit rating	31.12.2022	31.12.2021
Germany	AAA	39.9%	30.3%
US	AAA	27.5%	23.8%
Multinational institutions	AAA	16.3%	17.0%
France	AA	8.3%	11.2%
Netherlands	AAA	1.8%	3.6%
Canada	AA+	1.5%	1.4%
Austria	AA+	1.0%	2.9%
Belgium	AA-	0.3%	0.3%
Sweden	AAA	0.3%	0.5%
Finland	AA+	0.3%	0.3%
UK	AA-	0.2%	3.9%
Denmark	AAA	0.2%	0.3%
South Korea	AA-	0.2%	0.0%
Japan	A	0.2%	1.0%
Switzerland	AAA	0.0%	0.0%
Luxembourg	AAA	0.0%	0.0%
Norway	AAA	0.0%	0.0%
Spain	A-	0.0%	1.2%
Ireland	A+	0.0%	0.5%
China	A+	0.0%	0.2%
Bank for International Settlements (BIS) ¹	AAA	0.0%	0.0%
Gold		2.0%	1.6%
Total		100.0%	100.0%

1. The Bank for International Settlements is owned by a large number of central banks and is therefore not classified under a given country.

Note 37 – Liquidity risk

Liquidity risk is the risk that the Central Bank will be unable to fulfil its tasks and commitments due to insufficient assets, inability to sell assets in time, or inability to sell assets except at significant discounts. The vast majority of the Bank's foreign exchange reserves are invested in highly liquid securities, deposits in central banks, and deposits with the Bank for International Settlements. Highly liquid assets are defined as bonds issued by the state in the state's own currency, and deposits with the central banks in these countries/regions or the Bank for International Settlements, denominated in US

dollars or euros. Issuers of securities must have a minimum credit rating of AA in order for the securities to be classified as highly liquid assets. Highly liquid assets accounted for 64% of the Central Bank's international reserves at the end of 2022, as opposed to 59% at the end of 2021.

The following tables specify the Central Bank's total assets and liabilities, by maturity. The tables show the difference based on foreign and domestic maturities.

Analysis of outstanding financial assets and liabilities, 31 December 2022

	Available for withdrawal	< 3 months	3-12 months	1-5 years	> 5 years	Total
Gold	16,525,930	-	-	-	-	16,525,930
FX claims against non-residents	598,130,206	222,428,533	-	-	-	820,558,739
Foreign bank deposits	185,991,013	222,428,533	-	-	-	408,419,546
Balance with IMF	93,779,091	-	-	-	-	93,779,091
Foreign securities and other reserve assets	318,356,404	-	-	-	-	318,356,404
Non-reserve assets	3,698	-	-	-	-	3,698
FX claims against residents	6,195	-	-	-	-	6,195
Monetary policy-related claims against residents	18,661,235	1,625,775	-	-	-	20,287,010
ISK claims against residents	4,639,840	-	-	-	-	4,639,840
Other assets	2,463,403	-	-	-	-	2,463,403
	<u>640,426,809</u>	<u>224,054,308</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>864,481,117</u>
Banknotes and coin	80,686,721	-	-	-	-	80,686,721
FX debt to non-residents	80,308,410	-	-	-	-	80,308,410
FX debt to residents	228,206,373	-	-	-	-	228,206,373
ISK debt to non-residents	1,667,424	-	-	-	-	1,667,424
Monetary policy-related debt to domestic credit institutions	82,401,985	189,301,609	-	-	-	271,703,594
Deposits	82,401,985	-	-	-	-	82,401,985
Reserve requirements	-	29,824,777	-	-	-	29,824,777
Term deposits	-	159,476,832	-	-	-	159,476,832
ISK debt to residents	95,102,491	-	-	-	-	95,102,491
Other liabilities	358,695	311,286	704,208	66,498	-	1,440,687
	<u>568,732,099</u>	<u>189,612,895</u>	<u>704,208</u>	<u>66,498</u>	<u>-</u>	<u>759,115,700</u>
Net outstanding in foreign currency	<u>306,147,548</u>	<u>222,428,533</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>528,576,081</u>
Net outstanding in domestic currency	<u>(234,452,838)</u>	<u>(187,987,120)</u>	<u>(704,208)</u>	<u>(66,498)</u>	<u>-</u>	<u>(423,210,664)</u>
Net outstanding	<u>71,694,710</u>	<u>34,441,413</u>	<u>(704,208)</u>	<u>(66,498)</u>	<u>-</u>	<u>105,365,417</u>

Outstanding balance of financial assets and liabilities, 31 December 2021

	Available for withdrawal	< 3 months	3-12 months	1-5 years	> 5 years	Total
Gold	15,211,571	-	-	-	-	15,211,571
FX claims against non-residents	895,350,257	12,477,366	-	-	-	907,827,623
Foreign bank deposits	157,001,557	12,477,366	-	-	-	169,478,923
Balance with IMF	89,747,098	-	-	-	-	89,747,098
Foreign securities and other reserve assets	648,601,088	-	-	-	-	648,601,088
Non-reserve assets	514	-	-	-	-	-
FX claims against residents	781	-	-	-	-	781
Monetary policy-related claims against residents	21,834,841	1,811,644	-	-	-	23,646,485
ISK claims against residents	5,980,855	-	-	-	-	5,980,855
Other assets	2,063,329	-	-	-	-	2,063,329
	<u>940,441,634</u>	<u>14,289,010</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>954,730,644</u>
Banknotes and coin	82,046,661	-	-	-	-	82,046,661
FX debt to non-residents	89,371,007	-	-	-	-	89,371,007
FX debt to residents	304,575,082	-	-	-	-	304,575,082
ISK debt to non-residents	5,546,351	-	-	-	-	5,546,351
Monetary policy-related debt to domestic credit institutions	78,666,995	195,858,859	-	-	-	274,525,854
Deposits	78,666,995	-	-	-	-	78,666,995
Reserve requirements	-	26,818,504	-	-	-	26,818,504
Term deposits	-	169,040,355	-	-	-	169,040,355
ISK debt to residents	72,634,258	-	-	-	-	72,634,258
Other liabilities	493,486	186,081	632,672	66,312	-	1,378,551
	<u>633,333,840</u>	<u>196,044,940</u>	<u>632,672</u>	<u>66,312</u>	<u>-</u>	<u>830,077,764</u>
Net outstanding in foreign currency	<u>516,616,520</u>	<u>12,477,366</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>529,093,886</u>
Net outstanding in domestic currency	<u>(209,508,726)</u>	<u>(194,233,296)</u>	<u>(632,672)</u>	<u>(66,312)</u>	<u>-</u>	<u>(404,441,006)</u>
Net outstanding	<u>307,107,794</u>	<u>(181,755,930)</u>	<u>(632,672)</u>	<u>(66,312)</u>	<u>-</u>	<u>124,652,880</u>

Note 38 – Settlement risk

Settlement risk is the risk that settlement will not take place as expected; for instance, if a counterparty does not deliver securities when the Bank has delivered payment, etc. Because of the low number of transactions, settlement risk in the international reserves is generally very limited. The largest trans-

actions are usually bond trades, which are not settled by a securities depository until both securities and payment are delivered; therefore, settlement risk is limited. The Bank's framework for claims risk and liquidity risk sets boundaries for settlement risk.

Note 39 – Market risk

Exchange rate risk

Exchange rate risk is the risk of loss due to changes in the exchange rate of foreign currencies vis-à-vis the Icelandic króna. Attempts are made to minimise the exchange rate risk in the Bank's international reserves at all times by keeping a portion of the assets in the same currencies and the same amounts as the Bank's and the Treasury's foreign liabilities,

insofar as is possible. The exchange rate risk exposure of the Bank's net foreign exchange assets (foreign exchange balance) is then kept in a given currency composition. The Bank may use derivatives to manage its exchange rate risk. The Central Bank's foreign exchange balance was as follows at year-end 2021 and 2022:

Currencies in financial assets and liabilities 31 December 2022

	<i>Euro</i>	<i>US dollar</i>	<i>Pound sterling</i>	<i>Yen</i>	<i>Gold and other currencies</i>	<i>Total</i>
<i>Assets</i>						
Gold	-	-	-	-	16,525,930	16,525,930
Foreign-denominated claims against non-residents	493,007,099	299,167,829	8,969,875	7,705,843	11,708,092	820,558,739
Foreign bank deposits	230,511,942	175,134,863	1,992,711	588,010	192,019	408,419,546
Balance with IMF	27,486,652	40,681,370	6,977,164	7,117,833	11,516,072	93,779,091
Foreign securities and other reserve assets	235,008,506	83,347,898	-	-	-	318,356,404
Non-reserve assets	-	3,698	-	-	-	3,698
Other assets	29,445	24,190	6,131	-	116	59,881
Assets, total	493,036,544	299,192,019	8,976,006	7,705,843	28,234,137	837,144,549
<i>Liabilities</i>						
Foreign-denominated debt to non-residents	23,655,909	34,765,674	5,962,578	6,082,791	9,841,459	80,308,410
Deposits	166,239	-	-	-	-	166,239
Counterpart to IMF	23,489,670	34,765,674	5,962,578	6,082,791	9,841,459	80,142,171
Foreign-denominated debt to residents	219,507,198	8,555,958	65,143	78,066	7	228,206,373
Other liabilities	12,005	6,171	2,875	0	5,773	26,823
Liabilities, total	243,175,112	43,327,803	6,030,596	6,160,857	9,847,239	308,541,607
Net assets	249,861,432	255,864,216	2,945,410	1,544,986	18,386,898	528,602,943

Currencies in financial assets and liabilities 31 December 2021

	Euro	US dollar	Pound sterling	Yen	Gold and other currencies	Total
<i>Assets</i>						
Gold	-	-	-	-	15,211,571	15,211,571
Foreign-denominated claims against non-residents	518,871,339	308,034,959	53,553,820	15,691,537	11,675,968	907,827,623
Foreign bank deposits	146,127,531	13,196,828	1,729,791	8,215,604	209,169	169,478,923
Balance with IMF	27,758,777	37,451,464	7,260,540	7,475,933	9,800,383	89,747,098
Foreign securities and other reserve assets	344,985,031	257,386,152	44,563,488	-	1,666,416	648,601,088
Non-reserve assets	-	514	-	-	-	514
Other assets	69,803	27,763	7,021	-	2,421	107,009
Assets, total	518,941,143	308,062,722	53,560,841	15,691,537	26,889,960	923,146,203
<i>Liabilities</i>						
Foreign-denominated debt to non-residents	36,346,568	32,035,759	6,210,623	6,394,869	8,383,189	89,371,007
Deposits	12,601,875	-	-	-	-	12,601,875
Counterpart to IMF	23,744,693	32,035,759	6,210,623	6,394,869	8,383,189	76,769,132
Foreign-denominated debt to residents	304,311,775	155,822	66,465	41,012	7	304,575,082
Other liabilities	5,608	2,901	1	-	44	8,554
Liabilities, total	340,663,951	32,194,482	6,277,089	6,435,881	8,383,240	393,954,644
Net assets	178,277,192	275,868,240	47,283,752	9,255,656	18,506,720	529,191,559

Interest rate risk

Interest rate risk is the risk of loss due to changes in market interest rates. The Bank's investment strategy aims at enabling the Bank to be able to fulfil its tasks and commitments at all times. As a consequence, the Bank attempts to invest in foreign assets that are liquid and issued by reliable parties. However, returns are also considered. Interest rate risk in foreign currencies is reduced by using assets to offset liabilities.

Gold price risk

Gold is a part of the international reserves, and changes in its market price therefore constitute a risk for the Bank. Gold does not comprise a large share of the reserves, however; the Bank owns about 64,000 ounces of gold, or 2% of the international reserves as of 31 December 2022. The Bank did not loan gold to other financial institutions during the year.

Note 40 – Risk relating to domestic market transactions and deposits

The Bank's market transactions with domestic financial institutions are of two types: short-term collateralised loans granted by the Bank to financial institutions, and financial institutions' deposits with the Bank.

The claims risk attached to Central Bank loan facilities is negligible. Collateral accepted by the Central Bank for loan facilities includes Treasury bonds, Government-guaranteed bonds, and covered bonds. The Central Bank grants loans for short periods of time. If a counterparty is unable to repay the loan, the Bank retains the underlying collateral. The Bank always takes delivery of the collateral before granting the loan and does not return it until the loan has been repaid. As a result, its settlement risk is negligible.

Market risk is limited. The Bank monitors the market price of collateral it accepts for loans or as payment system collateral. A haircut is always taken from the market price before the loan is granted. In case of a change in the market price of assets, the Bank may require immediate delivery of additional collateral.

The Central Bank's liquidity risk in connection with domestic market transactions and deposits is negligible, as all regular transactions with financial institutions are in Icelandic krónur.

Important accounting principles

Note 41 – Important accounting principles

Note 41.1 – Foreign currencies

Transactions in foreign currencies are entered at the exchange rate on the date the transaction takes place. Monetary assets and liabilities in foreign currencies are entered at the central exchange rate at the close of the day on the financial reporting date. Exchange rate differences that are created are recognised in the profit and loss account.

Note 41.2 – Portfolio investment

Securities are recognised at fair value, and valuation changes are recognised in the profit and loss account. All of the Bank's securities are listed on active securities exchanges. The Bank estimates the fair value of securities based on the listed price on an active securities exchange on the financial reporting date.

Note 41.3 – Interest income and expense

Interest income is recognised in the profit and loss account, using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows on a financial instrument over its expected life or a shorter period, as applicable, to the book value of the instrument concerned. The calculation of the effective interest rate takes account of all contractual terms and conditions applying to the financial instrument, as well as transaction costs, premia, and discounts.

The effective interest rate is determined when the financial instrument is initially recognised and is not updated.

Note 41.4 – Supervisory revenues, service revenues, and other revenues

Supervisory revenues, service revenues, and other revenues are entered when accrued. Income received during the accounting year but relating to a subsequent accounting year is expensed in the balance sheet as deferred income. Income relating to the accounting year but received after the year-end is capitalised in the balance sheet.

Note 41.5 – Entry of fees

Expenses incurred in connection with acquisition of income during the period are recognised as operating expenses. Expenses incurred during the accounting year but relating to a subsequent accounting year are capitalised in the balance sheet as prepaid expenses. Expenses relating to the accounting year but payable in a subsequent accounting year are expensed in the balance sheet as accrued expenses.

Note 41.6 – Fixed operational assets

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

be useful to the institution and when it is possible to estimate the cost due to the asset in a reliable manner. Fixed operational assets are recognised using either the cost-price method or the revaluation method.

According to the cost-price method, fixed operational assets are entered at original cost price less accumulated depreciation and impairment. The cost price of fixed operational assets consists of the purchase price and all direct costs relating to putting the asset into revenue-generating condition.

The revaluation method uses fair value on the date the fixed operational assets are revalued, less depreciation and impairment. Upward value adjustments due to revaluation are entered to the revaluation reserve account as equity. When an asset is sold, depreciated, or scrapped, the portion of the revaluation reserve account that pertains to that asset is recognised as retained earnings.

Fixed operational assets are depreciated linearly over their estimated useful life, after adjusting for their expected scrap value. Profit or loss due to the sale of assets is the difference between the sale price and the book value of the asset on the date of sale and is recognised in the profit and loss account at the time of the sale.

Note 41.7 – Intangible assets

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

Note 41.8 – Impairment of non-financial assets

On the financial reporting date, the book value of assets is estimated with a view to impairment. If there is an indication of impairment, the recoverable value of the asset is estimated so as to make it possible to determine the impairment amount (if any).

Recoverable value is either the asset's net selling price or its value in use, whichever is higher. Impairment is recognised in the profit and loss account if the book value of the asset or income-generating unit is higher than its expected recoverable value. If previously recognised impairment no longer applies, the book value of the asset is increased again, but not to a level above the original cost price or depreciated cost price if the asset has a limited useful life. Impairment of goodwill cannot be reversed.

Note 41.9 – Gold

The gold held in the Bank's international reserves is recognised as a foreign asset denominated in gold as a currency, and changes in the value of gold are recognised as exchange rate differences in the profit and loss account.

Note 41.10 – Issued banknotes and coin

Issued banknotes and coin are recognised at nominal value.

Note 41.11 – Obligations

Obligations are written up in the balance sheet if it is considered likely that the institution will be faced with expenses in the future due to a specified event or transaction and it is possible to assess the monetary amount in a reliable manner.

Appendix



Central Bank of Iceland news releases in 2022

No.

- 1 14 January 2022
Opening of liquidity window and discontinuation of special temporary collateralised loan facilities due to COVID-19
- 2 14 January 2022
Seven-day term deposits to be redeemable
- 3 14 January 2022
Amendments to Rules on Current Accounts
- 4 17 January 2022
Foreign exchange market, exchange rate developments, and international reserves 2021
- 5 2 February 2022
New Payment Council holds inaugural meeting
- 6 9 February 2022
Statement of the Monetary Policy Committee 9 February 2022
- 7 2 March 2022
Current account deficit 44.2 b.kr. in Q4/2021 – net IIP positive by 40.2% of GDP
- 8 16 March 2022
Statement of the Financial Stability Committee 16 March 2022
- 9 1 April 2022
IKON is the new alternative reference rate for the Icelandic króna
- 10 26 April 2022
Central Bank approves resolution plans for systemically important banks

No.

- 11 4 May 2022
Statement of the Monetary Policy Committee 4 May 2022
- 12 1 June 2022
Current account deficit 50.3 b.kr. in Q1/2022 – net IIP positive by 32% of GDP
- 13 15 June 2022
Statement of the Financial Stability Committee 15 June 2022
- 14 15 June 2022
Rules on maximum LTV and DSTI ratios
- 15 22 June 2022
Statement of the Monetary Policy Committee 22 June 2022
- 16 24 August 2022
Statement of the Monetary Policy Committee 24 August 2022
- 17 2 September 2022
Current account deficit 39.1 b.kr. in Q2/2022 – net IIP positive by 24.7% of GDP
- 18 28 September 2022
Statement of the Financial Stability Committee 28 September 2022
- 19 3 October 2022
Central Bank updates resolution plans for systemically important banks
- 20 5 October 2022
Statement of the Monetary Policy Committee 5 October 2022

No.

- 21 23 November 2022
Statement of the Monetary Policy Committee 23 November 2022
- 22 1 December 2022
Current account surplus 23.1 b.kr. in Q3/2022 – net IIP positive by 23.6% of GDP
- 23 7 December 2022
Statement of the Central Bank of Iceland Financial Stability Committee 7 December 2022

Publications by the Central Bank of Iceland 2022

In Icelandic

Ársskýrsla [Annual Report] 2021

Fjármálaeftirlit [Financial Supervision] 2022, one issue

Fjármálastöðugleiki [Financial Stability] 2022, two issues

Peningamál [Monetary Bulletin] 2022, four issues

Hagvísar [Economic Indicators] 2022, four issues

Stefnumarkandi áherslur við eftirlit á fjármálamarkaði [Supervisory Strategy] 2022-2024

Sjálfbærnisráðgjafi [Sustainability Report] 2021

Framkvæmd áhættumats vegna peningaþvættis og fjármögnunar hryðjuverka [Best practice report: Money laundering and terrorist financing risk assessments] 2022

In English

Annual Report 2021

Financial Supervision 2022, one issue

Financial Stability 2022, two issues

Monetary Bulletin 2022, four issues

Economic Indicators 2022, four issues

Economy of Iceland 2022, one issue

Supervisory Strategy 2022-2024

Working Paper no. 88: Analysing inflation dynamics in Iceland using a Bayesian structural vector autoregression model, by Stefán Thórarinnsson

Working Paper no. 89: Mapping educational disparities in life-cycle consumption, by Thorsteinn S. Sveinsson, Svend E. Hougaard Jensen, Sigurdur P. Ólafsson, and Gylfi Zoëga.

Working Paper no. 90. What a difference a decade makes: survey evidence from Icelandic firms, by Adalheidur Ó. Gudlaugsdóttir, Karen Á. Vignisdóttir, and Lilja S. Kro.

Tables

XI

Table 1 Central Bank interest rates¹

%	<i>Bank's current accounts, nominal rates</i>	<i>Reserve requirements, nominal rates</i>	<i>Overnight lending, discount rates</i>	<i>7 day collateral lending, nominal rates</i>	<i>7 day term deposit</i>
6 February 2019	4.25	4.25	6.25	5.25	4.50
20 March 2019	4.25	4.25	6.25	5.25	4.50
22 May 2019	3.75	3.75	5.75	4.75	4.00
26 June 2019	3.50	3.50	5.50	4.50	3.75
28 August 2019	3.25	3.25	5.25	4.25	3.50
2 October 2019	3.00	3.00	5.00	4.00	3.25
6 November 2019	2.75	2.75	4.75	3.75	3.00
11 December 2019	2.75	2.75	4.75	3.75	3.00
5 February 2020	2.50	2.50	4.50	3.50	2.75
11 March 2020	2.00	2.00	4.00	3.00	2.25
18 March 2020	1.50	1.50	3.50	2.50	1.75
20 May 2020	0.75	0.75	2.75	1.75	1.00
26 August 2020	0.75	0.75	2.75	1.75	1.00
7 October 2020	0.75	0.75	2.75	1.75	1.00
18 November 2020	0.50	0.50	2.50	1.50	0.75
3 February 2021	0.50	0.50	2.50	1.50	0.75
24 March 2021	0.50	0.50	2.50	1.50	0.75
19 May 2021	0.75	0.75	2.75	1.75	1.00
25 August 2021	1.00	1.00	3.00	2.00	1.25
6 October 2021	1.25	1.25	3.25	2.25	1.50
17 November 2021	1.75	1.75	3.75	2.75	2.00
9 February 2022	2.50	2.50	4.50	3.50	2.75
4 May 2022	3.50	3.50	5.50	4.50	3.75
22 June 2022	4.50	4.50	6.50	5.50	4.75
24 August 2022	5.25	5.25	7.25	6.25	5.50
5 October 2022	5.50	5.50	7.50	6.50	5.75
23 November 2022	5.75	5.75	7.75	6.75	6.00

1. Rates on published day.

Source: Central Bank of Iceland.

Table 2 Exchange rate indices

	<i>Narrow trade index¹</i>	<i>Average exchange rate index²</i>			<i>Real exchange rate³</i>			
		<i>Average</i>	<i>Import weights</i>	<i>Export weights</i>	<i>Based on relative prices</i>		<i>Based on unit labour cost</i>	
					<i>Index</i>	<i>%-change</i>	<i>Index</i>	<i>%-change</i>
2000	101.5	96.1	96.3	95.7	87.0	2.8	83.8	3.2
2001	121.4	115.4	115.1	115.3	75.7	-13.0	72.5	-13.5
2002	118.5	112.0	111.7	112.0	80.1	5.9	78.1	7.7
2003	113.4	105.3	104.8	105.4	85.4	6.5	84.8	8.5
2004	112.1	103.1	102.4	103.5	88.2	3.3	86.4	1.9
2005	100.8	92.6	91.9	93.0	100.1	13.5	100.0	15.8
2006	112.7	103.4	102.6	104.0	93.6	-6.6	96.5	-3.5
2007	110.9	100.9	99.9	101.5	98.6	5.4	101.1	4.8
2008	157.3	141.9	140.9	142.4	78.1	-20.8	72.9	-27.9
2009	210.6	191.0	190.0	191.4	63.5	-18.6	50.2	-31.1
2010	204.0	185.0	184.4	185.0	67.8	6.7	56.2	12.0
2011	204.5	183.5	183.0	183.3	68.4	0.9	59.5	5.8
2012	209.1	189.0	188.6	188.8	68.8	0.5	60.4	1.5
2013	206.5	186.3	185.9	186.1	71.4	3.8	62.5	3.6
2014	195.1	177.2	176.2	177.5	76.2	6.7	68.5	9.6
2015	189.5	176.3	175.0	177.1	79.1	3.9	74.3	8.5
2016	169.4	158.9	158.1	159.1	89.3	12.8	86.9	16.9
2017	151.2	141.1	140.6	141.1	99.9	11.9	101.4	16.7
2018	157.2	147.0	146.2	147.2	96.9	-2.9	100.7	-0.7
2019	170.6	160.0	159.1	160.4	90.4	-6.7	91.6	-9.0
2020	189.4	178.2	177.1	178.7	83.2	-7.9	82.7	-9.7
2021	184.9	173.0	171.9	173.6	86.4	3.8	87.7	6.2
2022	179.4	168.3	167.2	168.9	89.4	3.4	93.9	7.0

1. The index shows the average exchange rate of foreign currencies against the Icelandic króna. 3 January 2000 = 100.

2. The index shows the average exchange rate of foreign currencies against the Icelandic króna. 31 December 1994 = 100.

3. The index shows the real exchange rate of the króna in terms of relative prices and wages in Iceland's main trading partner countries. 2005 = 100.

Source: Central Bank of Iceland.

Table 3 Cash issued by the Central Bank at the year-end

	2018		2019		2020		2021		2022	
	ISK thousands	%	ISK thousands	%	ISK thousands	%	ISK thousands	%	ISK thousands	%
<i>Notes:</i>										
10,000 kr.	38,892,500	56.6	42,607,500	60.4	49,942,500	64.8	51,287,500	66.1	49,787,580	65.4
5,000 kr.	21,593,500	31.4	19,621,000	27.8	18,826,000	24.4	17,818,500	23.0	17,435,915	22.9
2,000 kr.	216,000	0.3	214,000	0.3	212,000	0.3	210,000	0.3	209,000	0.3
1,000 kr.	6,333,500	9.2	6,344,000	9.0	6,415,000	8.3	6,608,500	8.5	6,948,825	9.1
500 kr.	1,704,500	2.5	1,730,250	2.5	1,669,750	2.2	1,699,250	2.2	1,767,426	2.3
Total	68,740,000	100.0	70,516,750	100.0	77,065,250	100.0	77,623,750	100.0	76,148,746	100.0
<i>Coin:</i>										
100 kr.	2,521,200	62.5	2,660,000	63.1	2,791,400	63.5	2,811,300	63.6	2,906,600	64.1
50 kr.	679,790	16.9	706,590	16.8	730,190	16.6	736,040	16.6	753,990	16.6
10 kr.	584,190	14.5	600,780	14.2	620,560	14.1	620,400	14.0	623,110	13.7
5 kr.	128,359	3.2	130,304	3.1	132,779	3.0	133,259	3.0	132,669	2.9
1 kr.	119,599	3.0	119,995	2.8	121,932	2.8	121,912	2.8	121,606	2.7
Total	4,033,138	100.0	4,217,669	100.0	4,396,861	100.0	4,422,911	100.0	4,537,975	100.0
Total in circulation	72,773,138		74,734,419		81,462,111		82,046,661		80,686,721	

Source: Central Bank of Iceland.

Table 4 Liquidity and reserve ratios in %¹

<i>Effective date:</i>	<i>Total reserve requirement ratio:</i>	<i>Applied reserve requirement, fixed</i>	<i>Applied reserve requirement, averaging</i>	<i>Effective date:</i>	<i>Total reserve requirement ratio:</i>	<i>Applied reserve requirement, fixed</i>	<i>Applied reserve requirement, averaging</i>
1 March 1989	11.0		11.0	21 May 1998	4.0 (1.5) ²		4.0
1 May 1990	10.0		10.0	21 March 2003	3.0 (1.0) ²		3.0
1 June 1990	7.0		7.0	21 December 2003	2.0 (0.0) ³		2.0
31 October 1991	6.0		6.0	21 October 2015	4.0 (0.0) ⁴		4.0
1 January 1992	7.0		7.0	21 December 2015	2.5 (0.0) ⁴		2.5
1 November 1992	6.0		6.0	21 June 2016	2.0 (0.0) ⁴		2.0
1 December 1992	5.0		5.0	21 June 2018	2.0 (0.0) ⁵	1.0	1.0
1 November 1993	4.0 (2.5) ²		4.0	21 March 2020	1.0 (0.0)	1.0	0.0

1. Percentage of bank total deposits as of 1 June 1979, of domestic disposable funds as of 1 March 1989, and of all disposable funds as of 21 May 1998.

2. Figure in parentheses refers to the reserve ratio for bond issues and term deposits.

3. Figure in parentheses refers to the reserve ratio for deposits and bond issues with an original maturity of more than two years, and securities eligible as collateral for transactions with the Central Bank.

4. Figure in parentheses refers to the reserve ratio for deposits and bond issues with maturity more than two years, according to rules on reserves ratio no. 870 from 30 September 2015.

5. Change in credit institutions minimum reserve requirements according to rules on reserves ratio no. 585 from 4 June 2018.

Source: Central Bank of Iceland.

Table 5 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

2022	General interest on non-indexed loans	General interest on indexed loans	Penalty rates	Interest on damage claims
1 January	3.95	1.50	9.75	2.63
1 February	4.15	1.50	9.75	2.77
1 March	4.15	1.50	10.50	2.77
1 April	4.15	1.49	10.50	2.77
1 May	4.65	1.49	10.50	3.10
1 June	4.65	1.40	11.50	3.10
1 July	5.40	1.40	12.50	3.60
1 August	6.25	1.80	12.50	4.17
1 September	6.25	1.89	12.50	4.17
1 October	6.25	2.10	13.25	4.17
1 November	6.25	2.10	13.50	4.17
1 Desember	7.25	2.35	13.50	4.83
Average 2022	5.29	1.71	11.70	3.53
Average 2021	3.44	1.90	8.79	2.29

Source: Central Bank of Iceland.

Table 6 Selected annual nominal yields of deposit money banks and penalty rates in % per annum

	Non-indexed loans ¹		Indexed loans ¹		Penalty rates		Credit terms index, 12-month change ³
	Nominal ²	Real	Nominal ²	Real	Nominal ²	Real	
2013	8.2	4.4	9.1	5.3	13.0	9.0	3.7
2014	7.8	6.7	6.4	5.3	13.0	11.8	1.0
2015	7.6	5.5	7.3	5.2	12.7	10.5	2.0
2016	8.3	6.0	7.5	5.3	13.4	11.1	2.1
2017	7.3	5.5	7.0	5.2	12.4	10.5	1.7
2018	6.9	3.6	8.6	5.2	12.0	8.5	3.3
2019	7.0	4.2	8.1	5.3	11.7	8.8	2.7
2020	5.8	2.2	8.3	4.6	9.3	5.6	3.5
2021	5.4	0.5	9.0	4.0	8.8	3.8	4.8
2022	7.5	-1.7	13.6	3.9	11.7	2.2	9.3

1. Weighted average interest rate on new loans.

2. Flat interest.

3. Change in credit terms index (between January values), according to Statistics Iceland.

Source: Central Bank of Iceland.

Table 7 Number of entities regulated by the Central Bank of Iceland Financial Supervisory Authority

Categories of regulated entities
at each year-end

	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2022
Subject to licence or operating under special legislation:						
Commercial banks	4	4	4	4	4	4
Savings banks	4	4	4	4	4	5
Credit undertakings	5	5	5	4	3	4
Housing Financial Fund	1	1	0	0	0	0
Deposit departments of co-operative societies	1	0	0	0	0	0
Investment firms	9	9	9	9	9	8
UCITS management companies	10	9	9	9	6	6
Alternative investment fund managers ¹	0	0	0	16	19	23
Securities exchanges	1	1	1	1	1	1
Central Securities depositories	2	2	2	1	1	1
Pension funds ²	22	21	21	21	21	21
Insurance companies	11	11	11	11	10	4
Insurance brokerages	9	7	8	9	9	9
Entities with debt collection licences	7	8	8	9	8	8
Payment institutions	1	1	1	2	1	1
Electronic money institutions	0	0	1	1	2	2
Currency exchange services	1	1	1	1	1	0
Guarantee funds	2	1	1	1	1	1
Registered creditors of mortgage credit	1	1	1	0	0	0
Virtual currency services providers	0	1	1	3	3	3
Total	95	91	87	88	106	103
Other regulated entities:						
UCITS funds	42	40	37	37	36	38
Alternative investment funds for retail investors ³	60	60	54	61	69	72
Other alternative investment funds ⁴	111	117	114	116	121	137
Pension savings custodians ⁵	8	8	8	8	8	8
Issuers of listed shares	20	23	24	23	26	30
Issuers of listed bonds	65	50	57	51	51	56
Registered creditors and credit intermediaries of consumer credit ⁶	0	0	0	5	9	9
Holding companies ⁷	6	6	5	6	5	5
Financial conglomerates ⁸	0	0	0	1	1	1
Financial undertakings in winding-up proceedings	1	0	0	0	0	0
Total	404	391	387	414	429	457

1. Including 9 licensed management companies, 6 of which are also UCITS management companies; and 14 registered entities, one of which is an investment firm.

2. Many pension funds are divided into divisions. There were 70 divisions at year-end 2022.

3. Previously investment funds.

4. Previously institutional investment funds.

5. Commercial banks and savings banks. Pension funds and foreign custodians are not included.

6. Only regulated under the Act on Measures against Money Laundering and Terrorist Financing.

7. Holding companies in the financial or insurance sector, or mixed holding companies.

8. Financial conglomerates in the financial or insurance sector.

Source: Central Bank of Iceland.

Table 8 Activities by foreign parties in Iceland

<i>Number at year-end</i>	2021	2022
Credit institutions and financial institutions without establishments	236	248
UCITS (no. of subsidiary funds)	124 (1.347)	135 (1.353)
Investment firms with establishments/branches	1 (1)	1 (1)
Investment firms without establishments/branches	581	605
Central securities depositories with establishments/branches	1 (1)	1 (1)
Central securities depositories without establishments/branches	5	6
Insurance companies with establishments/branches	2 (1)	2 (1)
Insurance companies without establishments/branches	351	357
Insurance brokers with establishments/branches	2 (2)	2 (2)
Insurance brokers and insurance agents without establishments/branches	2.837	2.863
Payment institutions with agents (no. of agents)	3 (5)	2 (3)
Electronic money institutions with distributors (no. of distributors)	0	0
Payment institutions and electronic money institutions without establishments	332	384
Credit intermediaries without establishments	4	4
Alternative investment fund managers without establishments	152	162
Number of companies registered outside Europe and authorised to provide services in Iceland according to national law		
Alternative investment fund managers (no. of funds)	30 (65)	42 (86)

Source: Central Bank of Iceland.

Table 9 Balance sheet of the Central Bank of Iceland

M.kr.	2017	2018	2019	2020	2021	2022
Assets:	764,530	755,189	840,240	843,515	964,183	874,628
Foreign assets	687,452	736,589	822,244	817,058	923,224	837,269
Gold	8,732	9,576	11,720	15,404	15,212	16,526
SDR	16,674	18,249	19,021	20,861	77,007	80,484
Currency balance with the IMF	10,389	11,314	11,723	12,835	12,740	13,295
Foreign deposits	96,728	119,095	210,158	109,887	169,479	408,420
Foreign securities	553,236	577,285	568,924	657,806	648,601	318,356
Other reserve assets	837	606	385	0	0	0
Other foreign assets	856	464	313	266	185	188
Domestic assets	77,077	18,600	17,996	26,457	40,960	37,359
Deposit money banks	78	0	38	1,749	2,107	1,853
Collateral loans	0	0	0	1,749	1,812	1,626
Other claims in foreign currency	78	0	38	0	1	6
Other claims	0	0	0	0	294	221
Other financial institutions	6,168	5,996	5,935	5,809	5,679	4,413
Listed securities	6,168	5,996	5,935	5,809	5,679	4,413
Central government	55,516	0	0	7,770	21,835	18,661
Listed securities	55,516	0	0	7,770	21,835	18,661
Other sectors	9,195	5,478	3,600	2,335	2,115	2,415
Sundry accounts	334	470	444	807	683	644
Equity holdings	8,861	5,007	1,773	1,528	1,425	1,766
Securities	0	0	1,382	0	0	0
Unlisted bonds	0	0	0	0	8	6
Properties	5,441	6,260	7,388	7,407	7,845	8,581
Other asstes	681	866	1,035	1,387	1,378	1,435
Liabilities and Capital:	764,530	755,189	840,240	843,515	964,183	874,628
Foreign liabilities	40,334	45,581	34,310	39,818	94,917	81,976
Short term	590	3,038	7,951	12,422	18,148	1,834
Long term	23,046	24,357	7,516	6,767	0	0
IMF SDR allocation	16,698	18,186	18,843	20,629	76,769	80,142
Domestic liabilities	701,994	651,274	723,948	652,839	735,160	677,140
Notes and coin	68,007	72,773	74,734	81,462	82,047	80,687
Deposit money banks	371,184	285,633	352,465	210,572	274,526	271,704
Sight deposits	79,678	72,454	57,154	66,012	78,667	82,402
Time deposits	277,441	200,789	262,619	137,436	195,859	189,302
Certificates of deposit	13,526	11,818	32,692	7,124	0	0
Sight deposits in foreign currency	538	573	0	0	0	0
Other financial institutions	93,005	95,467	61,519	27	1,022	0
Sight deposits	80,984	77,131	57,807	22	1,022	0
Time deposits	12,021	18,307	3,706	0	0	0
Certificates of deposit	0	30	5	5	0	0
Central government	160,473	194,975	233,428	356,302	372,265	318,417
Treasury current accounts	76,281	104,833	70,153	134,615	56,375	83,552
Government institutions, current accounts	1,107	1,077	80	213	93	19
Treasury sight deposits in foreign currency	81,148	86,583	151,458	214,124	304,564	228,195
Government institutions foreign exchange deposits	498	532	44	29	0	0
Other claims	1,438	1,950	11,693	7,321	11,233	6,650
Other liabilities	9,324	2,425	1,802	4,476	5,301	6,333
Capital and reserves	22,202	58,335	81,982	150,857	134,105	115,512

Source: Central Bank of Iceland.



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