

CENTRAL BANK OF ICELAND



2023

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. Furthermore, the Central Bank is responsible for all of the tasks entrusted by law and Governmental directives to the Financial Supervisory Authority.

The Bank is also required under the Central Bank 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 2½% as possible.¹ The Act on the Central Bank of Iceland grants the Bank full inde-

pendence in applying its monetary policy instruments so as to achieve the price stability objective.

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 Committee jointly decides on long-term monetary policy strategy. 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

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 Financial Stability Committee (FSN) 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 components, or markets shall be considered systemically important. When warranted,

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 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 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. According to the Central Bank of Iceland's financial supervision policy, the purpose of financial supervision is to promote a sound and secure financial market that satisfies the requirements laid down in the statutes, regulations, and norms applying to its activities and is consistent with sound and appropriate business practice. The purpose is to reduce the likelihood that the activities of supervised entities will lead to losses for the general public and to ensure confidence that the financial market will carry out its macroeconomic role.

The Financial Supervision Committee (FMEN) takes the decisions listed in Article 15, Paragraph 1 of the Central Bank Act. The Committee also sets policy on the application of administrative penalties and coercive measures and shall provide commentary on the Bank's strategy for financial supervision. Following a statutory amendment passed in June 2023, the Governor is the chair of the Committee. In addition to the Governor, the Deputy Governor for Financial Supervision, and the Deputy Governor for Financial Stability, 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 are included as well.

Monetary policy



The Central Bank of Iceland is required by law to promote price stability. According to the joint declaration issued by the Government and the Central Bank 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 on the Central Bank of Iceland 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.

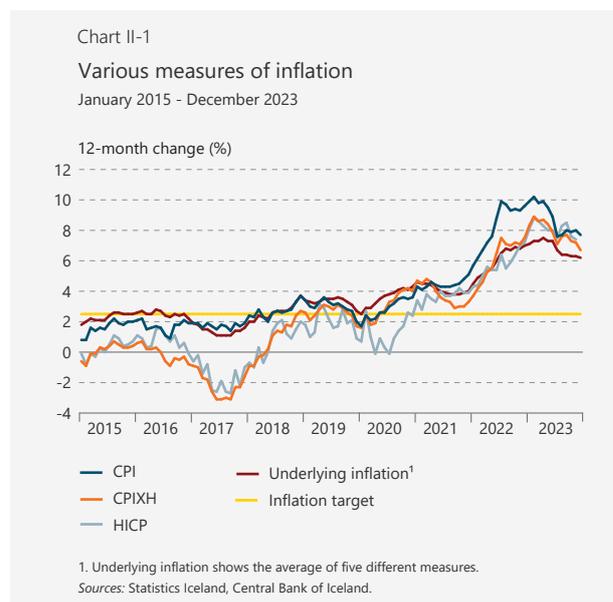
Developments in inflation, interest rates, and exchange rate in 2023

Inflation averaged 8.8% in 2023, as compared with 8.3% in 2022. It measured nearly 10% at the beginning of the year and had fallen to 7.7% by the year-end. Inflation excluding housing averaged 7.8% in 2023, and the differential between inflation with and without housing continued to narrow early on, although it widened again in the final months of the year. Underlying inflation rose as well in early 2023, peaking at 7.5% in April and then easing to 6.2% by December, according to the average of various measures that the Central Bank takes into account.

Food prices were one of the main drivers of inflation during the year, but on the whole, price increases were widespread. In spite of a downturn in housing market activity, owner-occupied housing costs were up more than 12% year-on-year in December and therefore had a considerable impact on inflation in 2023.

Imported inflation rose somewhat in the early months of the year but then eased in H2, and by December 2023 the year-on-year increase in imported

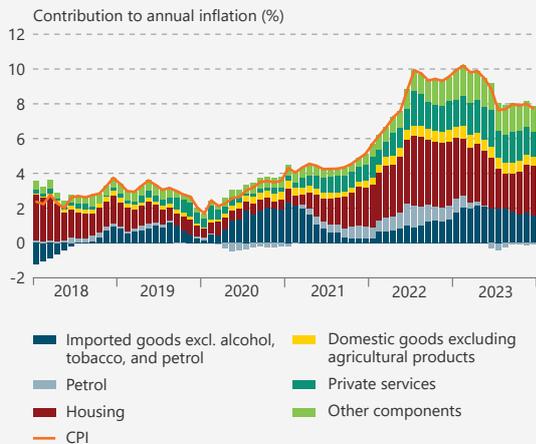
goods prices measured 5.2%, down from 6.7% a year earlier. The price of fuel fell during the year, after rising steeply in 2022, and by the end of 2023 it had fallen nearly 3% year-on-year. The twelve-month increase in domestic goods prices also lost pace towards the end of 2023, to about 8.2% year-on-year.



The price of services – private services in particular – rose somewhat as the year advanced. Price hikes tapered off towards the end of 2023, and by December the year-on-year increase measured 6.3%.

In February 2023, the MPC raised the Bank's interest rates by 0.5 percentage points, to 6.5%. In March, the Committee decided to raise the policy rate by a further 1 percentage point, and in May it raised rates by 1.25 percentage points. In August, the MPC raised rates by an additional 0.5 percentage points. The Committee

Chart II-2
Components of CPI inflation
January 2021 - December 2023



Sources: Statistics Iceland, Central Bank of Iceland.

Chart II-3
Central Bank of Iceland key interest rate¹
3 January 2001 - 29 December 2023



1. The Central Bank's key interest rate is defined as follows: the seven-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.

held the policy rate unchanged at its October and November meetings. At the end of 2023, the Bank's key interest rate (the rate on seven-day term deposits) was therefore 9.25% and had been raised by 3.25 percentage points over the course of the year.

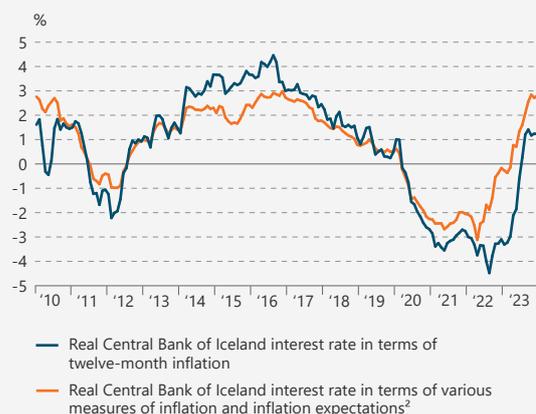
The rationale for the early-2023 rate hikes was that inflationary pressures were considerable and the domestic economy was still strong. Domestic demand had proven more resilient than expected, and large pay rises and tension in the labour market had manifested themselves in increased cost pressures. Furthermore, inflation expectations were well above target and appeared less firmly anchored to the target. The MPC was concerned by a lack of sufficient resilience against the pass-through of cost increases to the price level, and under these circumstances, it considered the risk

of a wage-price spiral and persistent inflation to have increased. Given these factors and the outlook for a slow disinflation process, the Central Bank's real interest rate would probably have to be somewhat above the equilibrium real rate and would have to remain high for a longer period.

The Bank's real rate increased swiftly in H2/2023, and policy rate hikes began to show more clearly in reduced economic activity. Because of uncertainty whether the monetary stance was sufficient, the Committee decided in October to keep the policy rate unchanged, since at the next meeting the Bank's macroeconomic and inflation forecast of the Central Bank would be available. In November the Committee also decided to keep the policy rate unchanged owing to uncertainty about the economic impact of the seismic activity on the Reykjanes peninsula.

The monetary stance as measured by the Bank's real rate grew significantly tighter during the year. In terms of the average of various measures of inflation and one-year inflation expectations, the Bank's real rate was 2.9% at the end of 2023 as compared with -0.2% a year earlier. The real rate in terms of twelve-month inflation rose by 4.7 percentage points over the same period, to 1.4% at the end of the year.

Chart II-4
Real Central Bank of Iceland interest rates¹
January 2010 - December 2023



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.

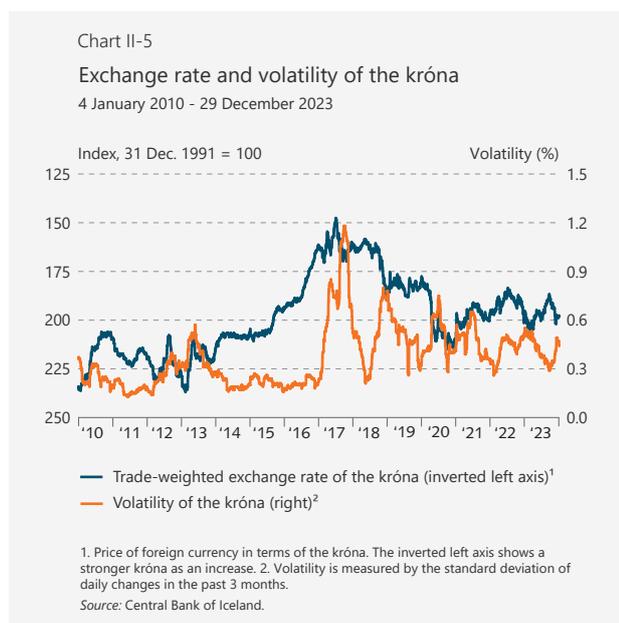
Sources: Gallup, Statistics Iceland, Central Bank of Iceland.

The króna appreciated by 3% in trade-weighted terms in H1, reflecting the widening interest rate differential with abroad following steep interest rate hikes in Iceland, positive capital flows for new investment,

and optimism about growth in tourist arrivals during the year. In H2, however, the króna depreciated by 1.4% in trade-weighted terms. It began to slide in late August, and in November, when seismic activity on the Reykjanes peninsula intensified, it weakened still further. By the end of November, the króna had recovered somewhat, but it remained broadly unchanged in December.

The Central Bank sold currency in the foreign exchange market for a total of 5.6 b.kr. in two transactions in 2023. The Bank's transactions accounted for 2.3% of interbank market turnover in 2023, as compared with just over 14% in 2022. Total turnover in the market contracted by 37% relative to 2022.

Nominal Treasury bond yields rose during the year. By the year-end, the yield on ten-year nominal Treasury bonds was 6.5% and had risen by 0.3 percentage points since end-2022. Indexed interest rates rose somewhat more over the same period, and the yield on ten-year indexed Treasury bonds was 2.7% at the end of 2023, as compared with 2% 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 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*.

Monetary Policy Committee

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

At the beginning of 2023, 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 Herdís Steingrimsdóttir, Associate Professor at Copenhagen Business School. On 14 February 2023, Ásgerdur Ósk Pétursdóttir, Assistant Professor at the University of Bath in England, was appointed to the Committee to replace Gylfi Zoëga, who had been an MPC member since 2009 and had sat on the Committee for the maximum term.

The Committee held six regularly scheduled meetings in 2023 and issued a statement on its decision after each meeting. 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 by law, the MPC reported to Parliament on its activities twice during the year.

The Monetary Policy Committee sets the Bank's long-term monetary policy strategy, in which it implements its overall mandate as provided for in the statutory provisions and Governmental directives under which it operates. The Monetary Policy Strategy was approved in November 2022 and published in March 2023.

Central Bank interest rate decisions 2023

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

8 February: The Governor proposed that the Bank's interest rates be raised by 0.5 percentage points. All members voted in favour of the Governor's proposal,

although Herdís Steingrimsdóttir would have preferred to raise rates by 0.75 percentage points.

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

24 May: The Governor proposed that the Bank's interest rates be raised by 1.25 percentage points. Ásgeir Jónsson, Rannveig Sigurdardóttir, Ásgerdur Ósk Pétursdóttir, and Herdís Steingrimsdóttir voted in favour of the proposal. Gunnar Jakobsson voted against the Governor's proposal and wanted to raise rates by 1 percentage point. The Governor also proposed that deposit institutions' fixed reserve requirement be increased from 1% to 2%. All Committee members voted in favour of the proposal.

23 August: The Governor proposed that the Bank's interest rates be raised by 0.5 percentage points.

Ásgeir Jónsson, Rannveig Sigurdardóttir, Ásgerdur Ósk Pétursdóttir, and Herdís Steingrimsdóttir voted in favour of the proposal. Gunnar Jakobsson voted against the Governor's proposal and wanted to raise rates by 0.25 percentage points.

4 October: The Governor proposed that the Bank's interest rates be held unchanged. Ásgeir Jónsson, Rannveig Sigurdardóttir, and Gunnar Jakobsson voted in favour of the proposal. Ásgerdur Ósk Pétursdóttir also voted in favour of the proposal but would have preferred to raise rates by 0.25 percentage points. Herdís Steingrimsdóttir voted against the proposal and wanted to raise rates by 0.25 percentage points.

22 November: The Governor proposed that the Bank's interest rates be held unchanged. All Committee members voted in favour of the proposal.



The Monetary Policy Committee at year-end 2023, together with the Committee secretary. Seated, from left: Ásgeir Jónsson Governor, (Chair) and Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy. Standing, from left: Ásgerdur Ósk Pétursdóttir, Assistant Professor at the University of Bath in England, Gunnar Jakobsson, Deputy Governor for Financial Stability, Karen Áslaug Vignisdóttir, (Secretary), and Herdís Steingrimsdóttir, Associate Professor at Copenhagen Business School.

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 Central Bank is also obliged to promote a safe and effective financial system, including domestic and cross-border payment intermediation.

The state of financial stability

In 2022, the relaxation of pandemic-era public health measures in Iceland and abroad had a significantly positive impact on the domestic economy, and activity in the tourism industry rebounded strongly thereafter. GDP growth was strong in H1/2023, and private consumption was resilient. The monetary stance tightened considerably in 2023, and many households' and businesses' debt service burden grew heavier, particularly among borrowers with non-indexed variable-rate debt.

The effects of tighter monetary policy showed clearly in H2/2023, in a downturn in GDP growth and private consumption. Households' ability to cover their obligations did not change markedly during the year, however, as unemployment was low, wages rose, and many households carried a mixture of indexed and non-indexed debt with either fixed or variable interest rates.

The strong economic recovery in the recent term, together with wage increases, low unemployment, and a tighter macroprudential policy stance, had a positive effect on financial stability. Furthermore, the private sector debt-to-GDP ratio was very low in historical terms, as can be seen in Chart III-1. On the other hand, inflation and interest rates were high, which negatively affected financial stability.

The commercial banks had generated strong profits and returns during the year, despite challeng-

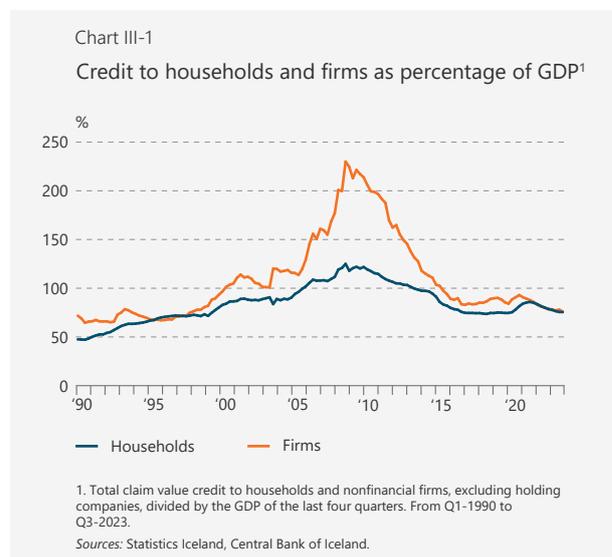
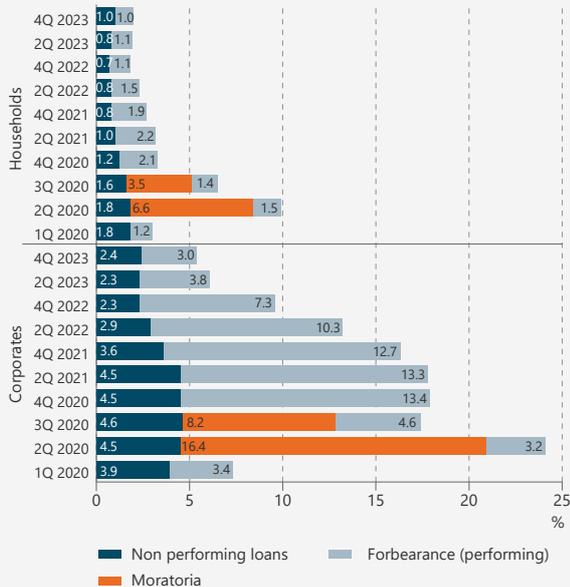


Chart III-2
D-SIB: Non performing loans, moratoria and forbearance¹



1. Domestic systemically important banks, consolidated figures. Non performing loans and forbearance are based on definition by the European Banking Authority.

Sources: European Banking Authority, Central Bank of Iceland.

ing financial market conditions. High interest rates generated increased interest income and there was a turnaround in financial income. Even though the banks' costs had increased somewhat during the year, growth in core income had outpaced their expenses, strengthening core operations.

New lending eased significantly during the year, concurrent with high interest rates. Bank lending increased in nominal terms but declined in real (inflation-adjusted) terms. The precautionary contributions made to impairment accounts because of the pandemic were reversed in full during the year, but the amounts involved were low. Even though interest rates were high, loan impairment was moderate during the year. Private sector non-performing loan ratios were broadly unchanged, and in terms of amount, forbore loans declined significantly.

The commercial banks' access to foreign funding improved over the course of 2023, alongside an improvement in credit market conditions. Credit spreads on the banks' foreign-denominated bond issues rose in late winter but eased from then until the autumn, whereupon they rose incrementally and then receded once more towards the end of the year. Financial market unrest in March 2023, triggered by the failure of a few banks in the US and operational difficulties faced by a Swiss bank, curtailed Icelandic banks' access to foreign credit markets, but the epi-

sode proved short-lived. The Icelandic banks' liquidity was very strong at the end of the year, and well above Central Bank requirements. Their capital position was sound also, and well above statutory requirements, despite sizeable dividend payments and share buybacks in 2021-2023.

As a result, the banks were highly resilient at the end of 2023, which is of pivotal importance in maintaining a smoothly functioning financial system and safeguarding financial stability. Such a position is highly important now, in an environment of significant global economic uncertainty and a delicate situation domestically. Iceland's main trading partners have made visible progress in lowering inflation, and market agents expect interest rates to start falling, which would have a positive impact on economic activity. On the other hand, the end of the war in Ukraine is nowhere in sight, and the situation in the Middle East is serious.

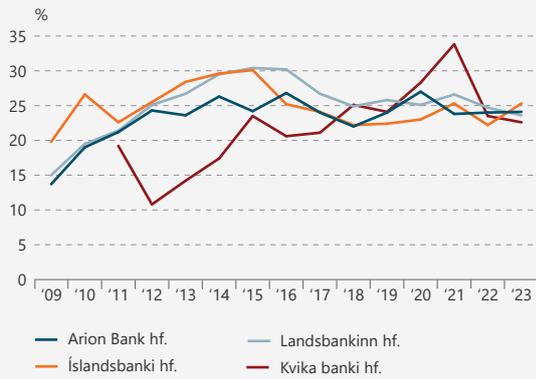
Cybersecurity and international cooperation

As in the recent past, cybersecurity issues were in focus in 2023, with cyberthreats growing and changing year by year. Cyberattacks and attempted cyberattacks have increased steadily in number, both in Iceland and internationally. The Central Bank considers it of paramount importance to strengthen defences against this trend and to promote all cooperative efforts in this direction. Central banks around the world have been focused on seeking alternative routes in the interest of ensuring effective and secure payment intermediation, including in cyberattack-related emergencies.

The Central Bank placed strong emphasis on cybersecurity during the year and participated in a number of cybersecurity-related events, including an annual cybersecurity conference held by the Nordic central banks. The 2023 conference was held in Copenhagen by Denmark's Nationalbank. The main objective of these conferences is to raise consciousness and bolster knowledge about cybersecurity issues, particularly among those who work within the financial system.

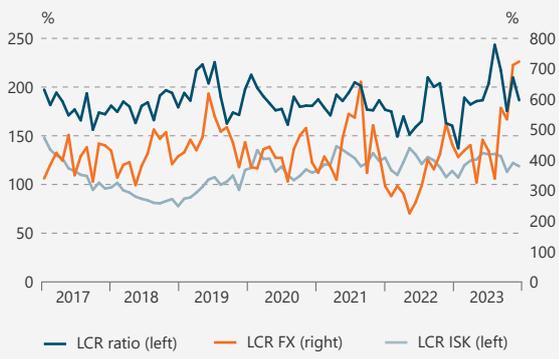
During the year, the Bank participated in the NATO Cooperative Cyber Defence Centre of Excellence's (CCDCOE) Locked Shields exercise, the largest cybersecurity and cyberdefence exercise Iceland has participated in to date. It was the first time Iceland had taken part, and in addition to the Central Bank, the country was represented by experts from Iceland's Computer Emergency Response Team (CERT-IS), the

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.

Icelandic Coast Guard, the National Commissioner of the Icelandic Police, RB, and the Ministry for Foreign Affairs. Iceland was teamed with Sweden and won the competition. The team was led by cyberdefence experts from the Swedish military and representatives from the Icelandic Ministry for Foreign Affairs.¹

The Central Bank-led forum on operational security of financial infrastructure, called SURF, held regular meetings throughout 2023. One of SURF's objectives is to strengthen cyberdefences and bolster the financial system's resilience against cyberattacks. The Bank also attended Government cybersecurity council meetings and participated in workshops held by the Ministry of Higher Education, Science, and Innovation in connection with a plan for cooperation between Governmental

and business leaders, which has been submitted to the Government's consultation portal.

The Central Bank's TIBER-IS project, a framework covering cyberattack testing for institutions and companies of importance to the Icelandic financial system, made progress during the year. The Bank decided in H1/2023 to adopt the European Central Bank's TIBER-EU framework and, in that context, published guidelines for the Icelandic version of the framework, TIBER-IS. During the year, the framework was presented to participants in the Bank's SURF forum.²

Payment intermediation

The Central Bank owns and operates Iceland's interbank payment system, which is designated a systemically important infrastructure component. It has been decided that the operation and oversight of Iceland's interbank payment system will be based on the *Core Principles for Financial Market Infrastructures* (PFMI) issued by the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO). An appraisal of the interbank system with respect to the PFMI began during the year and is set to conclude at the beginning of 2025.

In cooperation with the Prime Minister's Office and the Ministry of Finance and Economic Affairs, the Central Bank participated in preparing a bill of legislation amending the Central Bank Act, with the objective of expanding the Bank's powers to set rules aimed at strengthening resilience in payment intermediation. At present, the vast majority of electronic payments are routed through payment card infrastructure owned by international card conglomerates, and most financial technology (fintech) solutions are based on this same infrastructure. Such concentration is likely to exacerbate risk to the security of domestic payment intermediation. One of the most important factors for the resilience of retail payment intermediation is to offer consumers and companies a range of payment options that they can resort to during shocks involving payment intermediation systems. If the current bill of legislation is passed into law, the Central Bank will be authorised to set rules providing for an independent domestic payment intermediation solution; i.e., the adoption of new core infrastructure that would pave the way for further advances in the retail payment market, as well as bolstering competition and increasing the use of fintech in payment intermediation. The

1. More information on [Locked Shields](#).

2. Further information on [TIBER-IS](#).

draft bill of legislation was shared via the Government consultation portal in November 2023, and the bill was introduced before Parliament in early February 2024.

Greiðsluveitan ehf.

Greiðsluveitan ehf. is a wholly owned subsidiary of the Central Bank of Iceland. Its main role is to lead the harmonisation and further development of payment intermediation infrastructure in Iceland on behalf of the Bank.

Greiðsluveitan oversees three cooperative fora on behalf of the Central Bank: the Strategic Forum, the Rulebook Council, and the Payment Council. The Strategic Forum has focused on proposals for cooperation in the field of financial market infrastructure, including joint operation of ATMs, cooperation on cross-border payments, and cooperation on an independent domestic retail payment solution. The Rulebook Council prepared a handbook for real-time payment intermediation and published a draft for commentary. The Payment Council has established a task force on merchants' and service providers' response to a disruption in payment intermediation in Iceland.

The company participates in the European Union's cooperative effort to develop the European Digital Identity, Wallet solution that offers cross-border payments.

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 Authority is empowered with taking decisions on resolution and the application of resolution measures for financial institutions deemed failing or likely to fail; i.e., those considered unlikely to be able to honour their financial obligations.

Iceland implemented the EU's second Bank Recovery and Resolution Directive (BRRD II) with the passage of Act no. 63/2023, which amended the Act on Resolution of Credit Institutions and Investment Firms. BRRD II will be considered fully implemented when the Ministry of Finance and Economic Affairs has issued a Regulation on minimum own funds and eligible liabilities (MREL) and, thereafter, rules implementing the necessary technical standards.

The Resolution Authority's main task is to prepare resolution plans for financial institutions and thereby prepare for the possibility that they could fail.

Resolution plans are based on a strategic business analysis that entails an overview of the critical functions and core activities of each institution. They must lay down the preferred resolution strategy, describe possible versions of the preferred resolution strategy and other strategies, and specify the measures that the Resolution Authority will take if a given financial institution is deemed to be failing or likely to fail. Upon the approval of the resolution plan, a decision is made on the MREL for each financial institution. Resolution plans for the three domestic systemically important banks (D-SIB) were updated in autumn 2023. The first resolution plans for four savings banks were completed towards the end of the year and then approved in early 2024. The savings banks concerned are Sparisjóður Höfðhverfinga ses., Sparisjóður Strandamanna ses., Sparisjóður Suðurlands ses., and Sparisjóður Austurlands hf.

Amendments to Rules

The Central Bank's new Rules on Credit Institutions' Liquidity Ratios, no. 1520/2022, took effect on 1 January 2023, superseding the previous rules from 2017 on the same topic. The new Rules introduced an 80% minimum liquidity ratio in euros for credit institutions whose euro-denominated liabilities equal 10% or more of their total liabilities. With the new Rules, the provision in the previous ones requiring a 100% liquidity ratio for all foreign currencies combined was deleted. Credit institutions must still maintain a minimum liquidity ratio of 100% in all currencies combined, as well as a minimum 50% ratio in Icelandic krónur.

The Central Bank's new Rules on Price Indexation of Savings and Loans, no. 218/2023, which were published during the year and took effect on 1 June 2023, superseded the previous rules from 2018 on the same topic. The main amendments provided for in the new Rules were that the three-year minimum commitment period for indexed deposits and the five-year minimum term for indexed loans were revoked. The new Rules also revoked the authorisation to index loan agreements to share price indices when they do not represent consumer loans or consumer mortgages. This was done in part to reflect a comparable provision in the Act on Interest and Price Indexation, no. 38/2001.

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 components, 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. Furthermore, the Permanent Secretary or an appointed official from the Ministry responsible for financial stability participates in Committee meetings as a non-voting member with the right to address the meeting and present proposals. Members of the FSN in 2023 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; 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. Unnur Gunnarsdóttir, Deputy Governor for Financial Supervision, served on the Committee until the spring, whereupon she left the Bank's employ and was replaced by Björk Sigurgísladóttir, her successor as Deputy Governor for Financial Supervision.

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

Financial Stability Committee decisions 2023

At its March 2023 meeting, the FSN decided to increase the countercyclical capital buffer (CCyB) rate for finan-

cial institutions from 2% to 2.5% of the domestic risk base, effective in March 2024. According to the minutes from the March meeting, the analysis of cyclical systemic risk suggested that risk had increased in recent years and was near or above its recent average. The main drivers of the increase were the surge in real estate prices since the beginning of the pandemic and the high inflation rate, which had affected debt service burdens and repayment capacity. The main purpose of the CCyB was to enhance financial institutions' resilience against cyclical systemic risk, thereby providing them with the scope to absorb losses and maintain the supply of credit during periods of stress. In the Committee's March statement, it emerged that the banks were well prepared to satisfy increased capital requirements while maintaining the credit supply. Their capital and liquidity were strong, and the CCyB was an important element in banking system resilience. This increase would be conducive to bolstering financial institutions' resilience still further in the face of the risks that had accumulated. Raising the buffer to 2.5% created further scope to lower it in the future, in the event of an economic contraction that could cause a decline in the supply of credit.

The FSN completed its annual review of systemically important financial institutions and the capital buffer for systemic importance (O-SII buffer) in December 2023. It confirmed the systemic importance of Arion Bank hf., Íslandsbanki hf., and Landsbankinn hf. It decided to hold the O-SII buffer unchanged at 2% of the systemically important financial institutions' total exposures.

The FSN discussed the real estate market at all of its meetings in 2023 and decided to keep borrower-based measures unchanged. The maximum debt service-to-income (DSTI) ratio was therefore maintained at 35% of disposable income (40% for first-time buyers), and the maximum loan-to-value (LTV) ratio was maintained at 80% of market value (85% for first-time buyers).

Furthermore, in its statements during the year, the FSN strongly emphasised that the Government and the Bank should work towards increasing security in domestic payment intermediation and should expedite the implementation of an independent retail payment solution, partly because of growing cyberthreats. The Committee discussed payment intermediation at all of its meetings during the year and considered cyber risk one of the chief threats to financial stability. A draft bill of legislation on operational security in payment intermediation was presented to the Committee

in December. Furthermore, at the FSN's meetings, it emerged that reported cyberattacks had grown in number and were increasingly directed at important infrastructure. The Committee also discussed operational security and contingency plans aimed at protecting payment intermediation in the event that international network connections are interrupted and payment cards that rely on foreign infrastructure owned

by international card conglomerates cease to function. The Committee was given a presentation on cash as a last-resort solution, and was unanimous in considering it important to adopt an independent domestic payment solution as soon as possible, to strengthen financial institutions' cyber- and operational security, and to ensure business continuity.



Financial Stability Committee, as composed at year-end 2023, together with the Committee secretary. Seated, from left: Rannveig Sigurdardóttir, Deputy Governor for Monetary Policy; Ásgeir Jónsson, Governor (Chair); Gunnar Jakobsson, Deputy Governor for Financial Stability; and Björk Sigurgísladóttir, Deputy Governor for Financial Supervision. Standing, from left: Rósa Björk Sveinsdóttir (Secretary); Guðmundur Kristján Tómasson, former Director of Financial Market Infrastructure, Central Bank of Iceland; Axel Hall, Assistant Professor, Reykjavík University; Bryndís Ásbjarnardóttir, Director of the BSc Programme in Business and Economics at Reykjavík University; 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 Iceland's financial supervisory authorities. 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 no. 87/1998. The Bank also ensures that supervised entities are attentive to consumer protection in their activities.

Financial Supervision Committee

The Central Bank's Financial Supervision Committee (FMEN) takes the decisions listed in Article 15, Paragraph 1 of the Act on the Central Bank of Iceland, including decisions on administrative fines and *per diem* fines, referral of alleged violations to the police, revocation of operating licences for severe or repeated violations, and the dismissal of board members and managing directors for conduct constituting a violation. The Committee also sets policy on the application of administrative penalties and coercive measures and shall provide commentary on the Bank's strategy for financial supervision.

In 2023, the FMEN held twelve meetings, in addition to handling several cases outside meetings, as it is authorised to do. Pursuant to a statutory amendment passed during the year, the Governor chairs the Committee, whereas the Governor had previously chaired the FMEN only under specified circumstances.

In 2023, members of the Financial Supervision Committee were Ásgeir Jónsson, Governor, Unnur Gunnarsdóttir, who served as Deputy Governor for Financial Supervision and vice-chair of the FMEN until the spring, whereupon she left the Bank's employ and was replaced by the new Deputy Governor for Financial Supervision, Björk Sigurgísladóttir; 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. The Governor became chair of the Financial Supervision committee with a statutory amendment that entered into force in June 2023, as is further described in chapter VI.

The Central 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 reports to Parliament on its activities once a year.

Supervision of financial institutions

The Central Bank's supervision of financial institutions includes supervision of commercial banks, savings banks, credit undertakings, investment firms, payment institutions, and electronic money institutions. Ongoing 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 analysis

of business plans and an assessment of governance practices and internal controls. Proactive checks and analyses are also carried out, and interviews are taken with key employees of supervised entities.

Three commercial banks – Arion Bank hf., Íslandsbanki hf., and Landsbankinn hf. – have been designated domestic systemically important banks (D-SIB) by the Financial Stability Committee (FSN). 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, growth in 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 uncertain economic situation and the armed combat affecting several parts of the world have exacerbated uncertainty about loan quality worldwide, and monitoring of credit risk has therefore been accorded greater weight, prompting more frequent on-site inspections and other supervisory responses. Furthermore, the earthquakes and volcanic eruptions in and near the town of Grindavík have had an adverse impact domestically, as expected fiscal measures in connection with that situation will boost demand for housing and could push house prices upwards. The Central Bank has also monitored loan quality in connection with factors such as changes in interest rates, high inflation, and the scope of inflation-related and 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 held broadly stable in 2023, measuring close to 1.4% at the year-end. Impairment ratios had fallen below the pre-pandemic level some time ago, 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 Central Bank and the EBA's emphasis on cybersecurity, and given the growing threat stemming from cyberattacks, priority was given to strengthening the Bank's expertise in this field so that it will be better prepared to address cyber-related issues in coming years. Information technology security is a

broad and complex issue that has broad implications for Iceland's financial system, not least payment services. In H2/2023, the Central Bank began conducting appraisals of companies that provide payment services, with emphasis on examining their methods for strong authentication and bolstering their defences against fraud. Particular attention was given to whether account servicing payment service providers (ASPSP) were rendering services to payment initiation service providers (PISP) in accordance with regulatory requirements. These appraisals will continue in 2024.

Supervisory review and evaluation process (SREP)

The Bank carries out a detailed supervisory review and evaluation process (SREP) each year for the commercial banks, and less frequently for other financial institutions. In the SREP, the Bank assesses the key risks entailed in the banks' operations and evaluates 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 *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.

On 15 March 2023, the Central Bank's Financial Stability Committee (FSN) decided to increase the countercyclical capital buffer (CCyB) rate to 2.5% with effect on 15 March 2024, whereas it had previously been set at 2% of domestic exposures. The FSN considers the countercyclical capital buffer an important element in banking system resilience. Its assessment was that increasing the CCyB was conducive to bolstering that resilience still further in the face of the risks that have accumulated and could materialise in the coming term. The new CCyB rate takes effect on 15 March 2024.

In July 2023, the Central Bank published the SREP results for Arion Bank hf., Íslandsbanki hf., and Landsbankinn hf. concerning additional capital requirements over and above minimum required own funds and the combined capital buffer requirement. According to the FMEN's decision, the additional capital requirement for systemically important banks at the group level lay in the 2.1-2.8% range as of 30 June 2023, bringing the overall capital requirement to 19.4-20.1%.

In July 2023, the Central Bank also published the SREP results for Kvika banki hf. concerning additional capital requirements over and above minimum required own funds and the combined capital buffer requirement. According to a decision taken by the FMEN on 30 June 2023, the additional capital requirement for the bank was 4% and the overall capital requirement at the group level 18.7%.

Recovery plans

In the Central Bank's opinion, recovery plans now satisfy the formal requirements made of them as regards contents and substance. The Bank has shifted its focus in its review of recovery plans, and now gives greater priority to analysing individual factors instead of conducting an overall review of the form and substance of each plan. The Central Bank completed its review of recovery plans for the three systemically important banks and Kvika banki hf. in 2023. In addition to general comments on substance and presentation, the Central Bank pointed out the importance of maintaining the contents of recovery plans so that they would always be updated and ready for use, and could be used as a management tool in the banks' operations. Furthermore, the Central Bank requested that the commercial banks carry out appropriate appraisals and exercises in order to identify weaknesses and ensure effective, agile execution in the event that measures provided for in the recovery plan need to be activated. It is also worth noting that the Central Bank has been updating its own emergency plans relating to financial institutions.

Supervision of insurance activities

The Central Bank supervises insurance companies and other sellers of insurance. This entails, on the one hand, regular ongoing monitoring in accordance with the Bank's risk-based supervision model, which defines the frequency with which key risk factors in the insurance companies' operations are examined, and on the other hand, proactive checks carried out based on the circumstances and rationale prevailing 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 insurance companies' risk assessments are examined, and interviews are

taken with selected key employees. 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 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 supervision 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.

In 2023, emphasis was placed on the quality of data in insurance companies' regular filings and on the premises for calculating solvency capital requirements according to the standardised rule. Also emphasised were insurance companies' procedures and processes relating to operational risk, outsourcing frameworks, contingency frameworks, cloud services, and information technology. Furthermore, the Bank was in contact with Natural Catastrophe Insurance of Iceland (NTÍ) and other insurers during the run-up to the declaration of emergency in the town of Grindavík and its subsequent evacuation on 10 November 2023.

Supervision of pension funds and third-pillar pension savings custodians

The Central Bank supervises pension funds and third-pillar pension savings custodians. This entails, on the one hand, regular ongoing 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 and rationale prevailing 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.

In 2023, emphasis was placed on governance, operational risk, and outsourcing. Assessments were made of board risk awareness, risk culture, and conflicts of interests, and pension funds' monitoring systems were evaluated as well. Furthermore, the pension funds' outsourcing arrangements were examined, as was their supervision of outsourced projects. Furthermore, an appraisal began on the pension funds' management of sustainability risk, with particular focus on climate risk.

Supervision of the securities market

Supervision of the securities market contributes, among other things, to ensuring that the market is more effective and secure than it would be otherwise. This supervision is carried out 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 data submitted to the Bank by supervised entities. Furthermore, the Central Bank supervises the activities of regulated markets; i.e., the Nasdaq Iceland hf. securities exchange and two securities depositories.

In 2023, the Bank opened investigations in 33 cases stemming from the securities market, 16 of which resulted from tips submitted by Nasdaq Iceland hf. Most of these cases centred on issuers' information disclosure requirements and alleged market abuse. Of the cases investigated, 16 were concluded during the year, and as in previous years, most of them were closed without a determination that a violation had been committed. One case concluded with an administrative fine and another with a settlement, and in several cases it was concluded that a violation had been committed but no penalty was imposed.

As before, emphasis was placed on on-site inspections pertaining to financial institutions' TRS II notifications of trades in financial instruments, with appraisals made of the internal organisational structure intended to ensure the quality of the notifications. Three such on-site inspections began in 2023 and were still ongoing at the year-end.

In addition, the Central Bank completed an investigation of outsourcing arrangements at Nasdaq Iceland hf. In spite of falling prices on the Main Market, notifications of short positions did not increase markedly between years. The number of confirmed prospectuses was unchanged year-on-year, while two initial public offerings (IPO) took place, when Hampiðjan hf.

and Ísfélag hf. were listed on the Main Market and their shares admitted for trading. Two additional prospectuses were approved for transfers from First North to the Main Market, when Amaroq Minerals Ltd. and Kaldalón hf. moved between markets, as Hampiðjan had done concurrent with its IPO. Furthermore, Origo hf. was delisted during the year.

Supervision of business conduct and consumer affairs

The Central Bank carries out monitoring to ensure that the activities of supervised entities are consistent with sound and appropriate business practices. The Bank's objectives include promoting professionalism, fairness, and honesty in the provision of services in the financial market, with the aim of strengthening the protection of investors and consumers. The Bank conducts a number of investigations relating to business conduct each year, both on its own initiative and pursuant to tips it receives. It has also analysed various aspects of investor conduct, including an analysis of retail investors' investments and risk appetite.

The objectives of supervising business conduct include ensuring that supervised entities' activities are in compliance with regulatory provisions, with the aim of strengthening investor protection and bolstering confidence in the financial market. Business conduct includes supervised entities' information disclosures to customers, customer classification, record-keeping and storage of data (including telephone conversations), and handling of complaints. As a result, any type of communications that take place between a supervised entity and existing or potential customers and that pertain to the provision of investment service or investment activities may fall under the fundamental principles of business conduct.

In 2023, the Central Bank concluded various investigations relating to business conduct and consumer affairs. The Bank also continued its wide-ranging investigations of domestic sellers and arrangers in Icelandic State Financial Investments' spring 2022 auction of a 22.5% Government-owned stake in Íslandsbanki hf. Two investigations of the execution of the auction concluded during the year, one by settlement and the other with a determination that a violation had been committed and the publication of a transparency announcement. Announcements of the results of the investigations were published on the Bank's website. Other related investigations were still ongoing at the year-end.

In 2023, the Central Bank strengthened its Conduct Supervision Department further by increasing staffing levels. This is in accordance with both the Bank's Supervisory Strategy and the priorities of the European financial market supervisory authorities (EBA, EIOPA, and ESMA).

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

The Central Bank supervises UCITS management companies, UCITS funds, alternative investment fund managers and alternative investment funds. 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 by the funds and the associated fund custodians. In 2023, the Bank focused on improved data quality in the investment fund market and prioritised obtaining a clearer and more effective overview of data submitted. Furthermore, foreign alternative investment funds were granted access to the Bank's data submission system, so as to make their data filings more efficient than before.

In 2023, the Central Bank received a large number of applications from third-country (i.e., non-EEA) management companies and alternative investment funds seeking authorisation to market products to professional investors in Iceland.

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 105 such obliged entities at the end of 2023.

The Central Bank carried out a number of investigations and checks on obliged entities during the year. These included four on-site inspections and other follow-up checks involving continued work on previous investigations of risk assessments and risk-based measures taken by supervised entities.

During the year, the International Monetary Fund (IMF) concluded its Financial Sector Assessment

Program (FSAP) appraisal of the Icelandic financial system. The purpose of the FSAP was to determine the resilience of the financial system, the quality of the regulatory and supervisory framework, and its ability to respond to financial shocks. The appraisal included supervision of anti-money laundering and terrorist financing (AML) measures. Following the appraisal, the Fund recommended improvements concerning the Central Bank's risk assessments of obliged entities and its supervision of banks and virtual currency service providers.

Furthermore, the IMF published a report on its [Nordic-Baltic regional assessment of capital flows, supervision of AML measures, and financial stability](#). The report was issued pursuant to technical assistance provided by the IMF to the authorities in the Nordic and Baltic countries with the aim of enhancing the efficacy of their national and regional AML frameworks. The Central Bank considers the analysis and results of the regional assessment project useful and hopes that the private sector and other countries will learn important lessons from experience and from good practice in the region. The Central Bank of Iceland will continue to work on further improving its supervision of AML measures, and its action plan is in line with the recommendations in the IMF report.

During the year, the Bank issued educational material on risks relating to virtual assets and held informational meetings for providers of consumer loans. Furthermore, a conference on measures against money laundering and terrorist financing was held during the year, bringing together domestic and foreign experts in the field. The Bank also updated its list of occupations classified as high-level public positions in connection with its assessment of politically exposed persons, and it updated its 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. The Bank also implemented three sets of EBA guidelines on AML measures during the year.

On-site inspections

On-site inspections are conducted to support 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 supervised entities' governance practices and frameworks for internal con-

trols. Decisions about on-site inspections are based on the supervised entity's impact category and the results of risk assessments. Consideration is also given to the nature, size, systemic importance, and complexity of the entity's activities.

The *Guidelines for On-Site Inspections* were revised during the year. The revised *Guidelines* apply to on-site inspections commencing after 1 September 2023.

A total of 20 on-site inspections were completed in 2023. Continued emphasis was placed on assessing supervised entities' AML measures, as well as carrying out checks on credit risk, operational risk, liquidity and funding risk, governance practices, and internal controls in supervised entities' activities.

Suitability assessments, qualifying holdings, and operating licences

Suitability assessments

The Central Bank assesses the suitability and qualifications of supervised entities' board members and managing directors. Suitability assessments are conducted when board members and managing directors begin work for supervised entities. In addition, the Central Bank may conduct a reassessment if warranted. However, the entities concerned are always responsible for ensuring that their board members and managing directors satisfy the regulatory eligibility requirements in place at any given time.

The Central Bank assessed the suitability of 100 board members and managing directors in 2023. As in previous years, most of the assessments involved board members.

Qualifying holdings and control

In 2023, the Bank processed notifications of qualifying holdings in 14 supervised entities, two of which were notifications involving two entities. In addition, one notification of control over a supervised entity was processed.

More specifically, the Bank received notifications of qualifying holdings in Akta sjóðir hf.; Fossar Investment Bank hf. and its subsidiary and associated companies Glymur hf. and T Plús hf.; Ísafold Capital Partners hf.; Nasdaq Iceland hf.; T Plús hf.; and Vátryggingafélag Íslands hf. and its subsidiary Líftryggingafélag Íslands hf. Furthermore, in connection with the grant of a new operating licence, the Bank received notifications of qualifying holdings in A/F Rekstraraðili hf., Blikk hugbúnaðarþjónusta hf., Glymur hf., SIV eignastýring hf., and Straumur greiðslumiðlun

hf. The Bank also processed a notification of control over Verðbréfamiðstöð Íslands hf.

Licensing and related matters

There were several changes relating to supervised entities' operating licences in 2023. Fossar Investment Bank hf. was granted an expanded operating licence for underwriting. Blikk hugbúnaðarþjónusta hf. and Straumur greiðslumiðlun hf. received new licences to operate as payment institutions. Rapyd Europe hf. and Valitor hf. merged. The aforementioned company discontinued operation, and the latter took over all of its rights and obligations. The merged company now operates as an electronic money institution under the name Rapyd Europe hf. Furthermore, ACRO verðbréf hf. was granted an expanded permit to carry out nominee registration activities. A/F Rekstraraðili hf., Glymur hf., and SIV eignastýring hf. received licences to operate as alternative investment fund managers, while the two aforementioned companies had previously been registered as alternative investment fund managers. The companies Aldir ehf., Founder Ventures Management ehf., MGMT Venture Capital ehf., Nordic Ignite ehf., ORCA Capital Partners ehf., and REC SJÓDIR ehf. were registered as new alternative investment fund managers. In addition, IsMynt ehf. was registered as a new virtual currency service provider.

Cases concluded with sanctions in 2023

In 2023, the Central Bank concluded one case with the levy of an administrative fine and three 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 Central Bank, provides full information on the violation, and makes an agreement with the Bank on payment of a fine to the Treasury. The fines in these four cases ranged between 2.5 m.kr. and 1,160 m.kr.



Financial Supervision Committee, as of year-end 2023, together with the Committee secretary. Seated, from left: Gunnar Jakobsson, Deputy Governor for Financial Stability; Ásgeir Jónsson, Governor (Chair); and Björk Sigurgísladóttir, Deputy Governor for Financial Supervision. Standing, from left: Guðrún Finnborg Thórdardóttir, Committee Secretary; Gunnar Thor Pétursson, Professor, Reykjavík University; Ásta Thórarinsdóttir, Economist; and Guðrún Thorleifsdóttir, Director General, Ministry of Finance and Economic Affairs.

Other tasks



International reserves

Role of the reserves

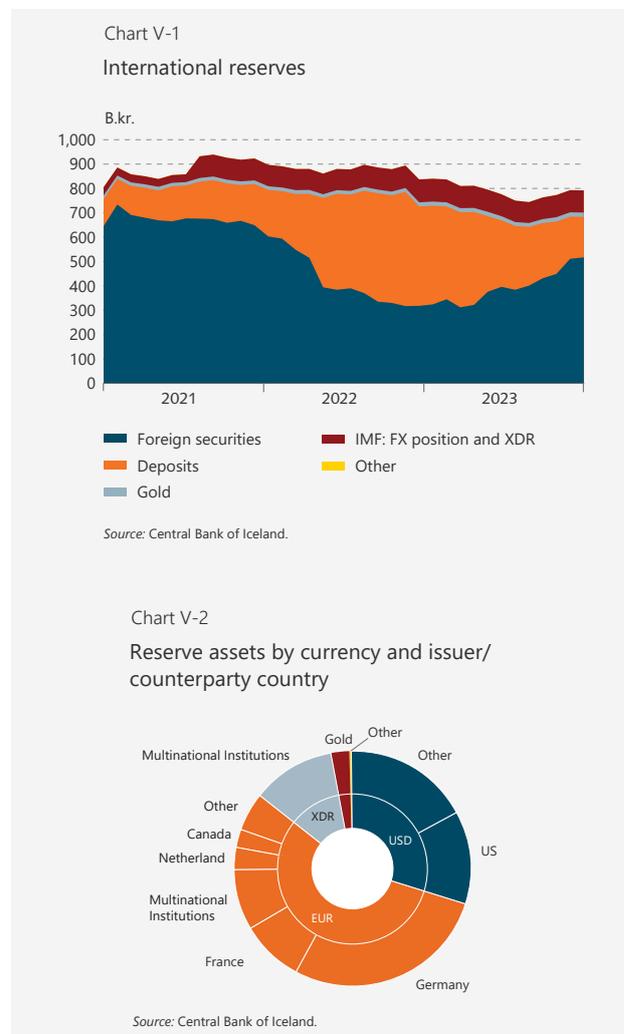
The Central Bank of Iceland maintains international reserves in accordance with its objectives and role as described in Act no. 92/2019. The international reserves comprise the Bank's holdings in foreign currencies; i.e., foreign bank deposits, bonds, special drawing rights and deposits with the International 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 with reference to Iceland's monetary and exchange rate policies; 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.

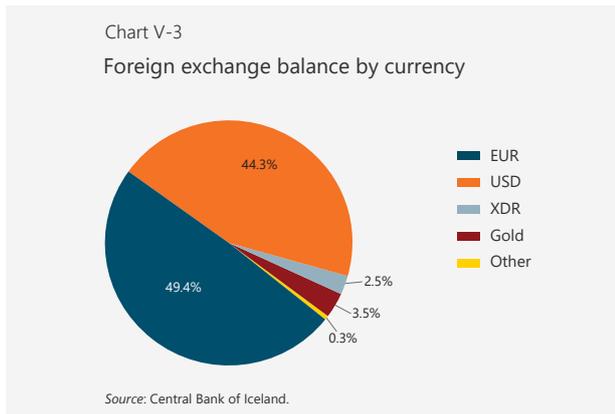
At any given point in time, the optimum size of the international reserves is determined by Iceland's external debt, monetary policy, financial system structure and position, scope of international trade, and capital flows to and from the country.

Developments in the reserves in 2023

At the end of 2023, the international reserves totalled 790 b.kr., the equivalent of 5.8 billion US dollars. The reserves had shrunk by 47 b.kr. during the year. Buybacks of just over half of the Republic of Iceland's June 2024 foreign bond maturities totalled 38 b.kr. In addition, intervention in the interbank foreign exchange market



and other foreign exchange transactions reduced the reserves by 28 b.kr. At the end of the year, the international reserves totalled 19% of year-2023 GDP and 29% of broad money holdings (M3), and they covered five months' worth of goods and services imports.



Returns and interest income

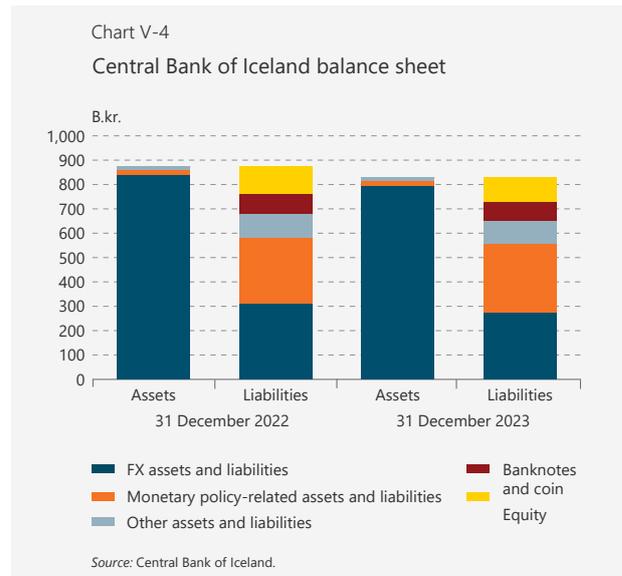
The Bank's income from reserve management was positive in the amount of 21 b.kr. in 2023. Price changes in the markets increased the international reserves by 11 b.kr., while exchange rate movements led to a decline of 14 b.kr. Interest income net of interest expense on the Central Bank's external assets and liabilities totalled 24 b.kr. The return on bonds and deposits was positive by 4.5%, 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. They contain 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 65% of the reserves at the end of 2023, and deposits comprised 21%, the majority of them held in central banks. The Bank's gold holdings, which were unchanged year-on-year in volume terms, were valued at 17.9 b.kr., or



about 2.3% of the reserves, at the end of 2023. The Bank's foreign exchange balance – i.e., its foreign-denominated assets net of foreign-denominated liabilities – was positive by 515 b.kr., the equivalent of 3.8 billion US dollars, at the end of 2023.

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 41% of the Central Bank's international reserves at the end of 2023. Chart V-2 gives a breakdown of reserve assets by country and currency as of end-2023. Further discussion of the management of the Bank's financial risk can be found in the notes to the financial statements.

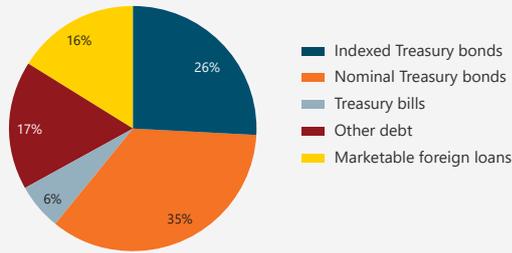
Government debt management

Agreement on Treasury debt management

In accordance with an agreement made with the Ministry of Finance and Economic Affairs, the Central Bank of Iceland oversees Treasury foreign borrowing; conducts domestic auctions, buybacks, and Treasury bond redemptions; executes primary dealer agreements; and oversees securities lending to primary dealers. The Bank handles risk management, debt management, and information disclosure on Treasury debt. Under the agreement, the Bank handles tasks relating to issuance of marketable Treasury securities and Treasury guarantees and relending. The Bank also oversees issuance of bonds for Treasury relending.

Chart V-5

Breakdown of Government debt
Year end 2023



Source: Central Bank of Iceland.

Domestic debt management

At the end of December 2022, the Central Bank, on behalf of the Treasury, published its annual Government Debt Management Prospect for 2023. According to the Prospect, the aim was to issue Treasury bonds for 140 b.kr. during the year. The target was met, and all sales took place through public auctions.

The Prospect also stated that two new nominal bonds would be issued: the short-term RIKB 26 1015 and the long-term RIKB 35 0917. The issues were well received, and by the end of the year the short-term bond had grown in size to over 54 b.kr. and the long-term bond to over 14 b.kr. Treasury bond series RIKB 23 0515 matured during the year, with an outstanding amount of 70 b.kr.

The Treasury conducts buybacks and exchange auctions for bond series that are nearing maturity in order to mitigate refinancing risk. In all, the Treasury bought just over 26 b.kr. nominal value in RIKB 23 0515 and RIKB 24 0415 during the year.

Foreign debt management

At the end of 2023, Treasury foreign debt totalled just under 266 b.kr., a reduction of nearly 49 b.kr. between years. According to the *Medium-Term Debt Management Strategy for 2023-2027*, Treasury loans taken in foreign currencies are used mainly to expand the Central Bank's international reserves, to refinance outstanding market issues, and to maintain access to foreign credit markets.

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 guar-

Chart V-6

Nominal Treasury bonds shorter than 5 years
Shorter than 5 years



Source: Central Bank of Iceland.

Chart V-7

Nominal Treasury bonds
Longer than 5 years



Source: Central Bank of Iceland.

Chart V-8

Inflation linked Treasury Bonds



Source: Central Bank of Iceland.

antees. The majority of State guarantees derive from the Government's holding in the ÍL Fund. Parties that enjoy State guarantees due to Government ownership are required to obtain the Central Bank's approval of the terms and conditions for loans they intend to take abroad. Treasury guarantees totalled just over 810 b.kr. at the end of 2023, as opposed to 837 b.kr. at year-end 2022.

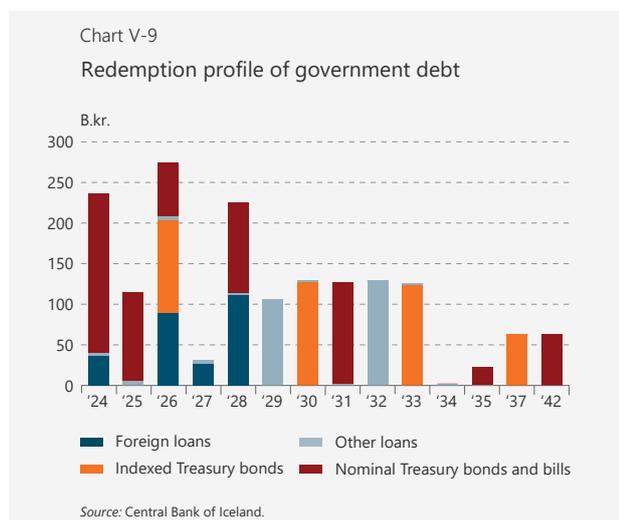
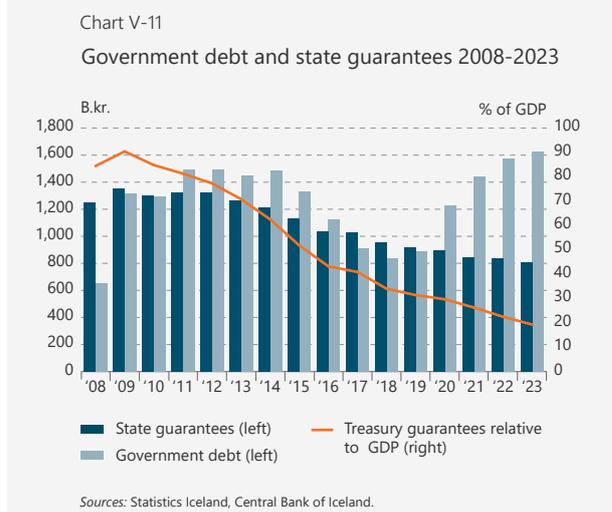
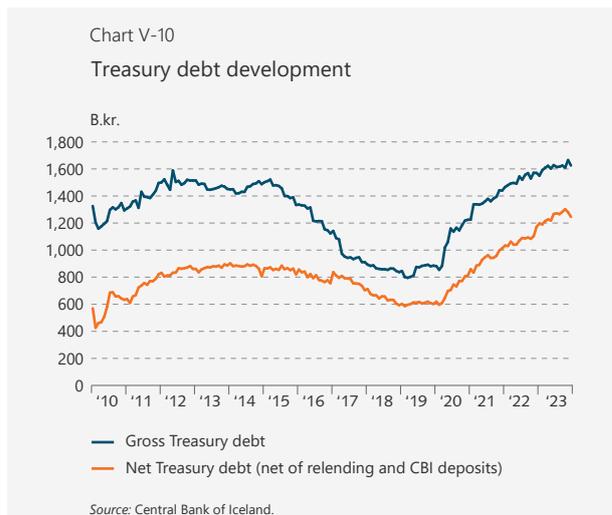
International co-operation

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. During the year, the Fund also conducted a comprehensive assessment of the Icelandic financial system under its Financial Sector Assessment Program (FSAP). It issued its annual report on Iceland in June, together with several reports relating to the FSAP. All of the IMF's reports on Iceland are published on both the Fund's website and that of the Central Bank. The Fund's assessments are also summarised later in this chapter.

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. In 2023, the Nordic-Baltic Constituency's representative on the Executive Board



was Vitas Vasiliauskas from Lithuania. Each year, the Nordic-Baltic office compiles a report 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 2023. 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 roughly every two years 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 June 2023.

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. The Central Bank participates in the work of the International Association of Insurance Supervisors (IAIS), whose objective is to promote improvements in supervision of insurance activities.

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 international 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 interbank systems, central bank digital currency (CBDC), and cybersecurity.

Assessments of the financial system and the Central Bank's activities

Assessment of the financial system

During the year, the IMF concluded a comprehensive appraisal of the Icelandic financial system under its Financial Sector Assessment Program (FSAP). The appraisal was carried out at the request of the Icelandic authorities, with the aim of obtaining the Fund's professional assessment of the financial system and the reforms that had been made following the 2008 financial and economic crisis, as well as receiving advice and recommendations for further improvements.

The FSAP is based on an assessment of three aspects of the financial system: 1) The source, probability, and potential impact of the main risks to macro-financial stability in the near term; 2) The country's financial stability and supervision policy framework; and 3) the authorities' capacity to manage and resolve a financial crisis should the risks materialise. The FSAP entailed a comprehensive assessment of the Icelandic financial system, as well as separate appraisals of specified parts of the system. For the most part, it took place during two visits from an IMF mission during the winter of 2022-2023. The mission's work encompassed eight workstreams, each of which focused on specific aspects of the financial system. The authorities answered detailed questionnaires on each of the workstreams and shared data with Fund experts. The results of the appraisal and the related reports were published in July 2023 on the Central Bank website¹ and the IMF website.²

According to the results of the appraisal, the Icelandic financial system is resilient enough to withstand significant shocks, and financial supervision and the financial market regulatory framework are considered satisfactory overall. In the Fund's opinion, however, there are opportunities for improvement, and on the basis of the reports, more than 160 recommendations were made on how the financial system and related framework could be strengthened still further. The results of the appraisal were discussed, for instance, in *Financial Stability 2023/2*³ and in *Kalkofninn*, the Central Bank's online publication.⁴

1. See: [IMF publishes Financial Sector Assessment Program reports on Iceland](#).

2. See: <https://www.imf.org/en/Countries/ISL>

3. See: [The IMF's assessment of the Icelandic financial system](#).

4. See: [Assessment of the strength and health of the financial system](#). Published 31 July 2023. (Only in Icelandic)

Appraisal Committee report on the Central Bank of Iceland's performance

According to Article 36 of the Act on the Central Bank of Iceland, every five years, the Minister shall engage three impartial experts in the fields of monetary and financial economics and financial supervision to carry out an appraisal of the Central Bank of Iceland's performance in achieving its objectives concerning price stability, financial stability, and financial supervision. Other factors in the Bank's operations, including organisational structure, division of tasks, and spheres of responsibility shall be considered as well. One of the experts shall have sound knowledge of the Icelandic economy, and the other two shall have wide-ranging knowledge and experience of international financial activities and the operation of central banks outside Iceland. The first committee appointed delivered its report to the Prime Minister at the beginning of the year. Committee members were Patrick Honohan, former Governor of the Central Bank of Ireland; Joanne Kellermann, former Director at De Nederlandsche Bank; and Pentti Hakkarainen, former Deputy Governor of the Bank of Finland. The report was published on the Prime Minister's Office website.⁵

In brief, the Appraisal Committee's conclusion was that the merger of the Central Bank and the Financial Supervisory Authority had been implemented quickly and efficiently. The merger was a long-term process, however. The Bank had worked effectively and responsibly in carrying out all of the key tasks entrusted to it. The committee structure introduced with the new Central Bank Act had proven successful. An important objective with the establishment of the committees had been to ensure transparency and distribution of power, and this had been achieved. On the other hand, the Appraisal Committee pointed out that the new committee structure should be evaluated in light of experience, and it noted that there was reason to re-examine the Financial Supervision Committee's mandate. The Central Bank's response to rising inflation had been on a par with the responses of central banks in Europe and North America. Macroprudential tool had been applied to preserve financial stability, and financial supervision had been carried out according to tested processes.

The report contains 17 recommendations from the Appraisal Committee concerning monetary policy, financial stability, financial supervision, and govern-

5. See: [Appraisal Committee report on the Central Bank of Iceland's performance](#).

ance. The Bank began working on most of the recommendations, although a few of them centred on possible statutory amendments. As regards the Financial Supervision Committee, for instance, the Act on the Central Bank of Iceland was amended in June 2023, in part as a response to the Appraisal Committee's recommendations and other similar recommendations from a committee tasked with assessing the experience gained from the work of the Bank's Monetary Policy Committee, Financial Stability Committee, and Financial Supervision Committee. This committee submitted its report in late 2021.

Cash

At the end of 2023, cash issued by the Central Bank of Iceland amounted to 75.7 b.kr. (80.7 b.kr. in 2022). The 2023 total included 71.1 b.kr. in banknotes (76.1 b.kr. in 2022) and 4.6 b.kr. in coin (4.5 b.kr. in 2022). 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 2023, deposit institutions' overnight cash balance was 8.2 b.kr., up from 7.8 b.kr. in 2022. Cash in circulation outside deposit institutions and the Central Bank (i.e., held by companies, individuals, etc.) therefore totalled 67.5 b.kr. at the end of 2023, as opposed to 72.8 b.kr. in 2022, a decrease of 5.3 b.kr., or 7.3%, between years.

In 2023, the Bank destroyed 1.4 million notes that were considered unfit for use, as opposed to 1.6 million in 2022 and 1.9 million in 2021.

At the end of 2023, 18.7 million banknotes had been issued by the Bank (19.1 million in 2022).

Jóhannes Nordal cultural heritage grants

The twelfth allocation of the cultural heritage grant in the name of former Central Bank Governor Jóhannes Nordal took place on 31 May 2023. A total of 31 applications were received, and grants were awarded to five projects.

Björn Þrándur Björnsson received a grant of 1.5 m.kr. for the project *Ásgerður Búadóttir – Catalogue raisonné – Ásgerðarsafn.is*. The aim of the project is to build up a comprehensive catalogue of works and simultaneously create an accessible forum – *Ásgerðarsafn.is* – containing all information on the life and work of Ásgerður Búadóttir.

The performing arts group Hnoðri í norðri received a grant of 1.5 m.kr. for the project *Skoffín og skringilmenni*, an operetta composed for primary school students in North Iceland. The work, by author and composer Þórunn Guðmundsdóttir, blends together Icelandic folk tales relating to the turn of the year and Twelfth Night.

Hjalti Snær Ægisson received a grant of 1 m.kr. for the project *Bessastaðabýðingarnar*. The project entails the publication of four translated works from the Classical literary canon, three translated from Ancient Greek and one from Latin. The works are Plato's *Alcibiades I-II*, *Xenophon's Memorabilia (recollections of Socrates)*, Cicero's *De Officiis*, and four biographies by Plutarch.

Andri Kjartan Andersen received a grant of 500,000 kr. for the project *Íslenskar sögur*, a series of graphic stories that retells some of Iceland's most remarkable tales in modernised form, with the aim of bringing the saga tradition to present-day readers.

The company Hákarlar við Ísland received a grant of 500,000 kr. for the project *Hákarlar í skólastofunni*. The aim of the project is to educate school children on the importance of the Greenland shark to Iceland, in a natural and cultural context.

The late Jóhannes Nordal, to whom the cultural grants are dedicated, was Governor of the Central Bank of Iceland from its establishment in 1961 until 1993 and chaired the Bank's three-member Board of Governors from 1964 until 1993. Jóhannes was born in 1924 and died in March 2023.

Management, and organisation, and human resources



Governor and Deputy Governors

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

During the year, Rannveig Sigurdardóttir was Deputy Governor for Monetary Policy. Unnur Gunnarsdóttir was Deputy Governor for Financial Supervision until the beginning of May, when she left the Bank's employ and Björk Sigurgísladóttir was appointed Deputy Governor for Financial Supervision. 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 concerning setting rules on protective measures for use under extraordinary circumstances and rules on special reserve requirements for new foreign currency inflows on the basis of the Foreign Exchange Act, decisions concerning 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 Parliamentary elections.

At the end of 2023, the Bank's Supervisory Board was chaired by Gylfi Magnússon. Other Board members were Thórunn Gudmundsdóttir (vice-chair), Arnar Bjarnason, Sigríður Andersen, Kirsten 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 12 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 institutions 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 the beginning of 2023, 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; Herdís

Steingrímisdóttir, Associate Professor at Copenhagen Business School; and Gylfi Zoëga, professor at the University of Iceland, who served until February. In February, the Prime Minister appointed Ásgerdur Ósk Pétursdóttir, Assistant Professor of the University of Bath in England, to replace Gylfi Zoëga on the MPC.

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 2023 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 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. Björk Sigurgísladóttir, newly appointed Deputy Governor for Financial Supervision, replaced Unnur Gunnarsdóttir on the Committee in May. 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 Central Bank's Financial Supervision Committee (FMEN) takes the decisions listed in Article 15, Paragraph 1 of the Act on the Central Bank of Iceland, including decisions on administrative fines and per diem fines, referral of alleged violations to the police, revocation of operating licences for severe or repeated violations, and the dismissal of board members and managing directors for conduct consti-

tuting a violation. The Committee also sets policy on the application of administrative penalties and coercive measures and shall provide commentary on the Bank's strategy for financial supervision. The FMEN's tasks were defined in the aforementioned way with a statutory amendment that entered into force on 28 June 2023. Prior to the amendment, the Committee had been tasked with taking all decisions previously entrusted to the Financial Supervisory Authority by law or Governmental directives. The Committee was also authorised to entrust the Deputy Governor for Financial Supervision with taking non-major decisions. The 2023 amendment was intended to clarify the FMEN's authorisations and simultaneously promote greater clarity in the administrative structure for financial supervision. Furthermore, the leadership of the Committee was changed and the Governor tasked with chairing the Committee, as is the case for the Bank's other standing committees, whereas previously the Deputy Governor for Financial Supervision had acted as chair.

In 2023, members of the FMEN were Ásgeir Jónsson, Governor; Unnur Gunnarsdóttir, Deputy Governor for Financial Supervision, who served until she left the Bank in May; Björk Sigurgísladóttir, who replaced Unnur Gunnarsdóttir as Deputy Governor for Financial Supervision and took her seat on the Committee; Gunnar Jakobsson, Deputy Governor for Financial Stability; Gunnar Thór Pétursson, Assistant Professor at Reykjavík University; Ásta Thórarinsdóttir, Economist; and Gudrún Thorleifsdóttir, Director General at the Ministry of Finance and Economic Affairs. As is noted above, the Governor became chair of the FMEN in June 2023. Previously, the Governor had taken a seat on the FMEN as its chair when the Committee took decisions on the adoption of its own 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. Prior to the statutory amendment, the Deputy Governor for Financial Supervision had chaired the FMEN in all other instances.

Organisational structure

The Bank had seven core departments at the beginning of 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 were four support departments: Operations, Information Technology and Statistics, Finance, and Human Resources. In addi-

tion to these is the centralised General Secretariat. Each department is overseen by a departmental director. A new organisational chart took effect in January, and the Bank's supervisory departments were reduced in number from four to two: Conduct Supervision and Microprudential Supervision. Two new departments were established in October – the Data and Transformation Department and the Information Technology Department – and the Finance Department is now Finance and Operations. The Human Resources Department is now a centralised department named Human Resources and Culture. Below is a more detailed description of the tasks of each department according to the Bank's organisational chart at the end of 2023.

The Supervisory Board oversees internal audit for the Bank and engages the Internal Auditor, as is provided for in Article 8, Paragraph 1, Item (d) of the Central Bank Act.

Departmental tasks during the year

The General Secretariat oversees the Bank's affairs, as well as administering and assisting with policy formulation and matters of joint concern. It is responsible for the implementation of rules, policies, and management systems within the Bank. 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, policy formulation, project management, documentation and archive management, information disclosure, work on sustainability, and monitoring of risk in the Bank's activities. It handles 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 Bank; and editorial and oversight work on various Central Bank reports – the *Annual Report*, *Financial Supervision*, *Sustainability Report*, *Economy of Iceland*, and report on balance of payments – as well as the Bank's website and social media accounts. Other activities include risk management, quality management. The General Secretariat also handles international cooperation, including with the International Monetary Fund. Furthermore, it oversees the publication of *Kalkofninn*, an online publication containing papers and articles by Bank staff members.

The Economics and Monetary Policy Department carries out economic and monetary research, prepares

macroeconomic and inflation forecasts, participates in formulating policy in monetary and exchange rate matters, and analyses developments in domestic and foreign economic and monetary affairs, including the macroeconomic elements of financial stability. The department oversees the issuance of various Bank publications, including *Peningamál/Monetary Bulletin*, *Hagvísar/Economic Indicators*, and *Working Papers*. It also handles a range of projects relating to the work of the Bank's Monetary Policy Committee.

The Markets Department oversees the domestic money market and currency market, as well as executing the Bank's transactions with domestic and foreign financial institutions. It manages the Bank's balance sheet, handles the custody and investment of the international reserves, and manages Treasury debt, Treasury guarantees, and Treasury relending. The Department also oversees communications with the foreign financial institutions with which the Central Bank and the Treasury conduct business. It handles securities administration, payments for securities transactions, and payments in connection with borrowing and swap agreements. Furthermore, it administers 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 analyses financial system risks, monitors credit institutions' liquidity and foreign exchange balance, and participates in formulating prudential rules for the financial system. It conducts supervision of the Foreign Exchange Act as well. In addition, it monitors the position of credit institutions, households, and businesses; payment flows to and from Iceland; and the external position of the economy. The department monitors systemically important financial market infrastructure, and the Bank's Resolution Authority is situated within it. The department is in charge of the Bank's *Financial Stability* reports and oversees a variety of projects relating to the work of the Bank's Financial Stability Committee.

As is noted above, the Bank's organisational structure was changed in January, when the number of supervisory departments was decreased from four to two: Microprudential Supervision and Conduct Supervision. Among other things, the changes were made to reflect developments in the financial market and to strengthen the Bank's financial supervisory activities. The reorganisation fosters increased integration and reduced key worker risk and was a natural continuation of the merger between the Bank and the Financial Supervisory Authority.

The Microprudential Supervision Department took over the tasks of the Pensions and Insurance Department and the Banking Department, as well as some of the tasks previously handled by Markets and Business Conduct. The department thereby merges financial supervision and supervision of risk factors in supervised entities' activities. The aim of the reorganisation was to give the Bank a more comprehensive overview of supervised entities' activities and ensure more targeted supervision of financial conglomerates. It has strengthened cooperation among experts from various risk assessment specialities and reduced the key worker risk that results from distributing comparable knowledge across two departments. The department's role is to carry out prudential supervision of the activities of financial market entities, insurance companies, and pension funds. Its primary tasks centre on the supervisory review and evaluation process (SREP). This includes assessing financial institutions' business models, governance practices, and capital and liquidity requirements; reviewing business plans and recovery plans; analysing and assessing a wide range of risks in supervised entities' operations; and communicating with boards of directors, senior management, and external auditors. Furthermore, the department conducts monitoring to ensure that business conduct is in compliance with current regulatory provisions and that the requirements for operating licences are met. The department also works with the Financial Stability Department on systemic risk assessments.

Most of the tasks previously carried out by Markets and Business Conduct were transferred to the Compliance and Inspections Department, which is now called Conduct Supervision. These changes place responsibility for imposing penalties under the sole purview of the Conduct Supervision Department, with the aim of increasing specialisation and enhancing consistency. The department conducts suitability assessments of managing directors and board members, evaluates the eligibility of owners of qualifying holdings in supervised entities, grants and revokes operating licences, and monitors anti-money laundering and terrorist financing measures. Furthermore, it supervises entities in the securities market, including securities exchanges and depositories. It reviews prospectuses and information disclosures from issuers of financial instruments, as well as monitoring market abuse, derivatives transactions, short positions, financial benchmarks, and securities market reporting. Conduct Supervision oversees consumer affairs, investor protection, and the business practices of supervised

financial market entities. The department also carries out on-site inspections of supervised entities with the aim of, among other things, thoroughly analysing risks in their activities and evaluating their internal controls, business plans, and governance practices.

Further changes in the Bank's organisational structure took effect at the end of October with the disbanding of the IT and Statistics Department and the Operations Department. Two new departments were established – Data and Transformation, on the one hand, and Information Technology, on the other – and the Finance Department became the Finance and Operations Department. Furthermore, Human Resources was re-designated in the organisational chart as a centralised department and its name changed to Human Resources and Culture. These organisational changes were a natural continuation of the merger of the Central Bank and the Financial Supervisory Authority at the beginning of 2020, which was undertaken in order to enhance efficacy and clarify responsibilities, improve the administration of decision-making, ensure effective utilisation of information, and offer the possibility of better-quality analysis and oversight. In implementing the changes, the Bank took a further step towards integrating its activities in the wake of the merger, thereby enhancing efficiency in matters including budgeting and operational planning. Increased emphasis will be placed on data issues, cybersecurity, centralised policymaking, and documentation and quality issues, which were transferred to the General Secretariat during the reorganisation process.

The Finance and Operations Department now carries out tasks involving the Bank's internal operations and the service it provides. Among these tasks are operation and administration of the Bank's real estate; oversight of and responsibility for specified security matters; purchasing for the Bank; expenditure control, including operational planning; and cafeteria and catering. The department also oversees financial information pertaining to the Bank and companies owned by it. It enters, processes, and discloses information in accordance with required accounting and financial reporting practices and handles payroll processing for the Bank, as well as being responsible for the administration of banknotes and coin and operating the Bank's vaults.

The Information Technology Department now oversees and is responsible for the development, architecture, and operation of the Bank's computer and information systems.

Data and Transformation now handles the gathering, entry, and processing of a range of statis-

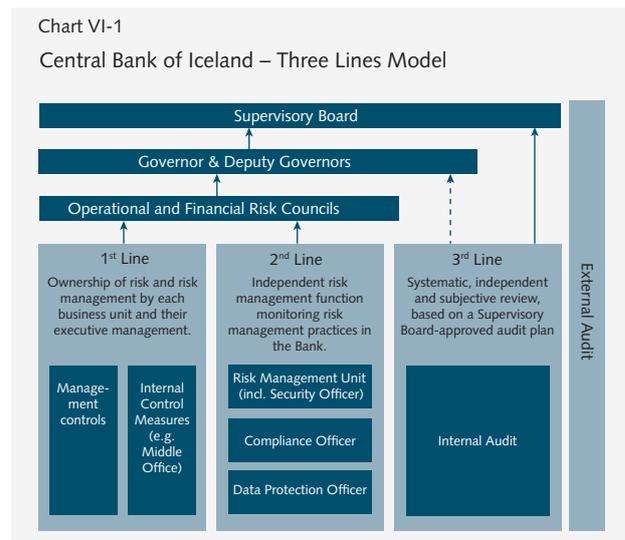
tics and financial data collected by the Bank so that it can fulfil its role. These data form the basis for the Bank's assessment of important aspects of monetary developments and the financial system, and for regular disclosure of statistical information in its publications. Statistical information is also published on the Statistics pages of the Bank's website. The department is also responsible for analysis, follow-up, and progress of projects relating to the Bank's data policy and is tasked with website operation and development.

Human Resources and Culture is responsible for formulating human resources policy and supporting the policy at all times. The department's objective is 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. Its main tasks are 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 Internal Auditor is engaged by the Supervisory Board and is accountable to the Board. The objective of Internal Audit is to provide impartial, objective confirmation and advice with the aim of bringing about improvements in the Bank's operations. The department assesses the efficacy of governance practices, risk management, and internal controls, thereby helping the Bank to achieve the objectives set for it. This is done with a risk-oriented audit plan that reflects the Bank's objectives and policies.

Internal auditing 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 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 of defence 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 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, conducts systematic, impartial, and objective assessments of the efficacy of risk management, internal monitoring, and governance practices at the Central Bank. Internal Audit operates in accordance with a risk-oriented audit plan that is confirmed by the Supervisory Board and updated on a regular basis.

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 identify 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 vis-à-vis 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 2023, the Central Bank employed 311 members of staff in 309.2 full-time position equivalents: 144 women and 167 men.

Table VI-1. Number of employees, by department

<i>Department</i>	<i>Number</i>
Governors	4
Finance and Operations	32
Financial Stability	29
Data and Transformation	22
Economics and Monetary Policy	25
Conduct Supervision	46
Human Resources and Culture	6
Markets	36
General Secretariat	38
Information Technology	32
Microprudential Supervision	38
Internal Audit	3
Total	311

There were 11 departmental directors: five women and six men. In addition, there were 27 deputy directors and unit heads: 14 women and 13 men. At the year-end, 92% of the Bank's staff were university-educated. Twenty-three new employees were hired during the year, and 14 left the Bank. There were nine summer employees in 2023.

Construction and renovation

Construction relating to the ongoing maintenance and renovation of the Bank's premises continued during the year. For the most part, construction work centred on renovation of the annex in 2023, as most of the renovation of the main building had already been completed.

Governor, Deputy Governors, Supervisory Board, and Directors Central Bank of Iceland 31 December 2023

Governor

Ásgeir Jónsson

Deputy Governors

Björk Sigurgísladóttir

Gunnar Jakobsson

Rannveig Sigurdardóttir

Supervisory Board

Principal members

Gylfi Magnússon, chair

Thórunn Gudmundsdóttir, 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

Financial Stability:

Haukur C. Benediktsson, Director

Finance and Operations:

Erla Gudmundsdóttir, Director

Data and Transformation:

Gunnar Ormslev Ásgeirsson, Director

Economics and Monetary Policy:

Thórarinn G. Pétursson, Chief Economist

Conduct Supervision:

Linda Kolbrún Björgvinsdóttir, Director

Human Resources and Culture:

Íris Guðrún Ragnarsdóttir, Director

Markets:

Sturla Pálsson, Director

General Secretariat:

Rannveig Júníusdóttir, Director

Information Technology:

Logi Ragnarsson, Director

Microprudential Supervision:

Gísli Óttarsson, Director

Internal Audit:

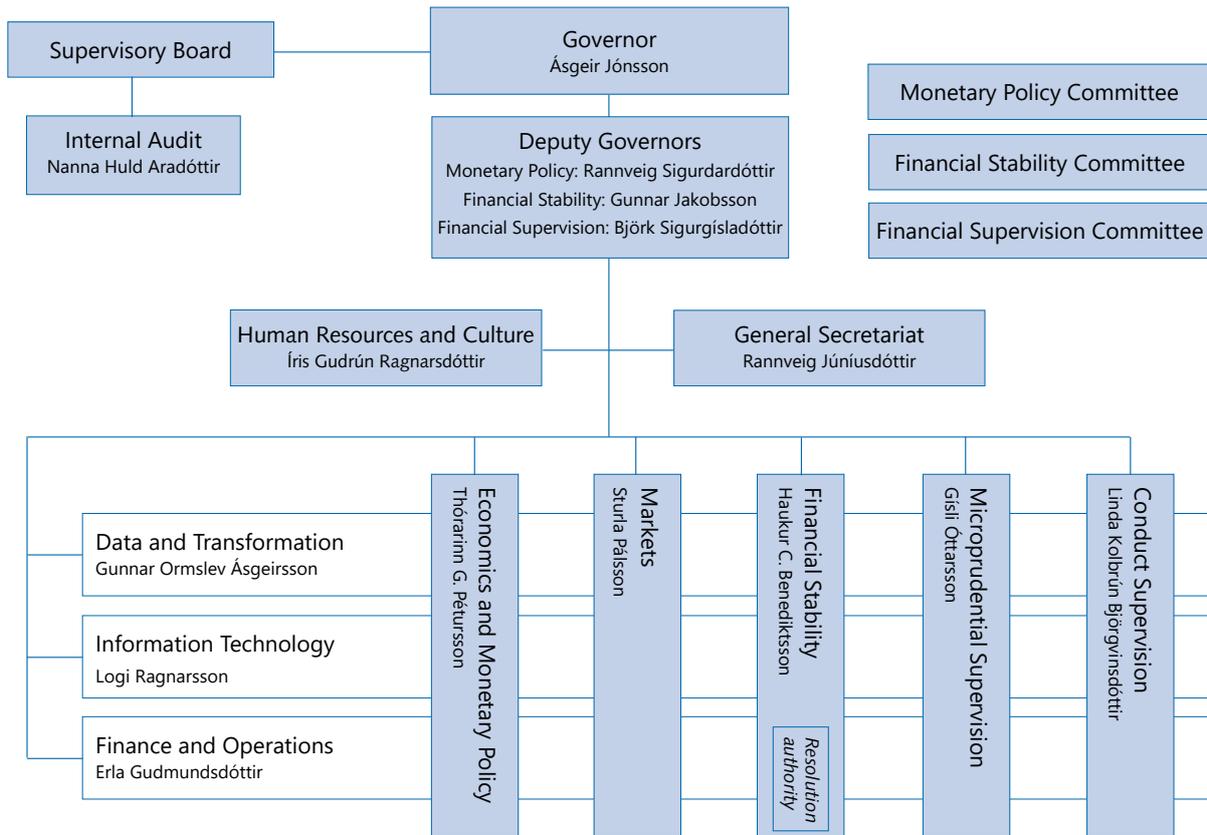
Nanna Huld Aradóttir, Internal Auditor

Company owned by the Central Bank of Iceland

Greiðsluveitan ehf.:

Sigríður Dís Guðjónsdóttir, Managing Director

Central Bank of Iceland — organisational chart



The Supervisory Board as of year-end 2023. Seated, from left: Þórunn Guðmundsdóttir, (Vice Chair), and Gylfi Magnússon (Chair). Standing, from left: Sigurjón Arnórsson, Kirstín Th. Flygenring, Sigríður Andersen, Thorsteinn Víglundsson, and Arnar Bjarnason.

Sustainability



The Central Bank of Iceland aims to be an exemplary institution in the areas of sustainability and climate and took important steps towards this goal during the year. Sustainability is not limited to environmental matters. The components of sustainability – society, environment, and economy – support one another and lay the foundations for the achievement of the UN Sustainable Development Goals. Firms' and institutions' sustainability is often assessed with reference to standardised environmental, social, and governance (ESG) criteria, which include welfare, health, social justice, and governance practices that support sustainability. For the Central Bank, sustainability entails fostering sound governance practices and taking environmental and social factors into consideration in its activities and operations.

Environment

Environmental issues in operations

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 commitments. In its operations, the Bank shall endeavour to set an example in its approach to environmental and climate issues.

The Central Bank of Iceland 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 successful, and 58% of the measures in the plan are currently being implemented. The Bank's environ-

mental and climate policy and action plan are reviewed annually and updated as necessary.

The Bank's implementation of the Green Steps in Government Operations programme, which was introduced in 2016, has proceeded apace.¹ In 2023, the Bank reached the fifth and last step in the programme, which entails implementing an environmental management system.

The Bank practices green accounting, which includes using the Klappir digital environmental accounting system, and it keeps accounts on its purchasing, energy use, business travel, employee commuting methods, construction work on the Bank's premises, waste and refuse, and so forth. The Bank also adheres to a transportation policy that encourages employees to use eco-friendly, economical, and healthy modes of transport.

Environmental matters in relation to professional goals

The Bank has continued its work on preparing a climate risk scenario analysis based on both NGFS² scenarios and scenarios used by other central banks and international institutions. The objective is to develop the Bank's scenario analysis further in the coming term.

During the year, the Bank sent the pension funds a questionnaire as part of an appraisal of the state of affairs vis-à-vis climate risk. Sustainability risk was addressed explicitly in the supervisory review and eval-

1. See [Green Steps in Government Operations](#).

2. Network for Greening the Financial System. See the section entitled [International co-operation](#).

uation process (SREP) conducted on the commercial banks.³ In the SREP, the Bank examined the management of the climate-related risks facing the banks and made recommendations to them.

Furthermore, the Bank held meetings with supervised entities, focusing on various aspects of sustainability disclosures in connection with financial services and systems for classifying sustainable investments.

Cooperation on climate issues and climate risk

The Central Bank cooperates with the other central banks in the Nordic-Baltic region on matters relating to climate issues and climate risk.

The Central Bank became a member of the international Network for Greening the Financial System (NGFS) in 2020 and has been active within that forum. The Bank has representatives on four NGFS workstreams whose topics of focus are monitoring, scenario analysis, monetary policy, and carbon neutrality.

During the year, 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 Festa – Center for Sustainability.

As is noted in the section entitled *International co-operation*, the International Monetary Fund (IMF) completed its Financial Sector Assessment Program (FSAP) appraisal of Iceland during the year. One of the workstreams in the FSAP centred on climate-related financial risks in the banking sector,⁴ based on the *Principles for the effective management and supervision of climate-related financial risks* issued by the Basel Committee on Banking Supervision (BCBS). The BCBS document contains recommendations to governmental authorities on how to strengthen their frameworks for monitoring the banking system on the basis of the principles presented, which will be useful in ongoing improvements aimed at further strengthening the resilience of the financial system, the regulatory framework, and related supervision.

Social

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 accord-

ance with the Act on Equal Status and Equal Rights Irrespective of Gender, no. 150/2020 (the Gender Equality Act), 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 and renews the equal rights policy regularly.

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 gender-based wage gap at the time. The Bank was also awarded the Equality Scale during the year. The Equality Scale is a project aimed at balancing gender ratios at the senior management level of companies and institutions.

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, and equal rights.

During the year, particular attention was paid to factors supporting dedication and engagement in the workplace. For example, efforts have been made to clarify employees' responsibilities and roles, strengthen education and training, and build an even more cohesive team, in addition to fostering continuous improvement and development among employees themselves. There is much to be gained from these endeavours. Engaged employees generally feel better and are more satisfied in their jobs. Their attitudes and behaviour have a positive impact on efficacy, performance, and sustainability at the Bank. A workplace survey taken at the end of the year shows that the level of engagement is at its highest since the merger.

3. See Chapter IV.

4. See [Financial Sector Assessment Program, Iceland](#).

Education on sustainability

Financial Stability 2023/1,⁵ contains a Box on the impact of climate risk on Icelandic commercial banks' corporate loan portfolios.

The Bank held a number of internal and external informational meetings on sustainability issues. It also held Environment Days and invited employees and guests to give lectures and presentations.

Governance

The Central Bank prioritises responsible governance practices. Continued work was done in 2023 to strengthen and formalise the framework for the Bank's governance practices. Unit heads received management training during the year, with the aim of strengthening the management team. At the end of the year, the Bank embarked on targeted strategy-setting aimed at shaping its priorities and formulating a corporate vision.

During the year, the Governor and Deputy Governors approved a framework for governance practices at the Central Bank. The framework sheds light on the Bank's policy formulation, culture, and procedures. The Bank's governance practices take into account the provisions of the Central Bank Act, other legislation applying to the Bank, and international agreements. The governance framework lays down the Bank's role, statutory framework, objectives and values, management structure, division of tasks and responsibilities, internal and external policies, independence, boundaries, transparency, and internal controls.

Two major changes were made to the Bank's organisational structure and organisational chart. These are discussed further in Chapter VI, entitled *Management, organisation, and human resources*. The Central Bank of Iceland 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.

5. See *Financial Stability 2023/1*.

Operating results and balance sheet



According to its profit and loss account, the Central Bank of Iceland recorded a net operating loss of 13,620 m.kr. in 2023, compared with a loss of 18,364 m.kr. in the previous year. The loss on the Bank's operations in 2023 was due primarily to a negative interest balance and the appreciation of the króna. The profit on financial instruments before exchange rate differences totalled 1,587 m.kr. in 2023, as compared with a loss of 45,332 m.kr. in 2022. 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 9,356 m.kr. in 2023, as compared with 9,610 m.kr. in 2022, but there were significant movements between items. Interest income on domestic assets and liabilities declined by 208 m.kr., or 20%. The reduction in interest income on domestic liabilities is due primarily to a turnaround in interest on foreign currency accounts, which was negative for part of 2022 but positive throughout 2023. Interest income on foreign assets more than trebled between years, to 17,800 m.kr. in 2023. The Central Bank's foreign asset portfolio changed markedly during the year. Bank deposits were used to invest in bonds, lowering the deposit balance by 242,544 m.kr. Nevertheless, interest income from cash and cash equivalents increased by 7,564 m.kr., owing to interest rate hikes abroad. As a result, the Bank's foreign bond holdings grew year-on-year by 196,758 m.kr., or 61%, and interest income on these assets increased by 7,889 m.kr., about three times as much as in the prior year. The rise is due to improved yields on bonds in the international reserves.

Interest expense on domestic liabilities increased by 16,896 m.kr., roughly doubling from the prior year, and interest expense on foreign liabilities and assets

Table VIII-1 Profit and loss accounts highlights

<i>M.kr.</i>	2023	2022	<i>Change</i>
Net interest expense	(9,356)	(9,610)	254
Changes in asset values	10,888	(35,773)	46,661
Revenues from shareholdings	55	52	3
Exchange rate difference	(11,153)	31,436	(42,589)
Losses on financial instruments	(9,566)	(13,895)	4,329
Operating revenues	3,909	3,475	434
Operating expenses	(8,361)	(8,285)	(76)
Effects of subsidiaries	398	341	57
Performance for the year	(13,620)	(18,364)	4,744

Table VIII-2 Balance sheet highlights

<i>M.kr.</i>	31.12.2023	31.12.2022	<i>Change</i>
Assets			
Gold	17,922	16,526	1,396
Foreign-denominated claims against non-residents	772,129	820,559	(48,430)
Foreign-den. claims against residents	-	6	(6)
Monetary policy-related claims against residents	18,709	20,287	(1,578)
Króna-den. claims against residents	4,522	4,640	(118)
Other assets	13,428	12,610	818
Assets, total	826,710	874,628	(47,918)
Equity and liabilities			
Equity	100,952	115,512	(14,560)
Issued banknotes and coin	75,709	80,687	(4,978)
Foreign-den. debt to non-residents	77,570	80,308	(2,738)
Foreign-den. debt to residents	196,715	228,206	(31,491)
Króna-den. debt to non-residents	1,293	1,667	(374)
Monetary policy-related debt to domestic credit institutions	281,656	271,704	9,952
Króna-denominated debt to residents	91,451	95,102	(3,651)
Other liabilities	1,366	1,441	(75)
Equity and liabilities, total	826,710	874,628	(47,918)

increased by 442 m.kr., or 15%. The increase in interest expense on domestic liabilities stems from policy rate hikes in 2023, and the rise in interest expense on foreign liabilities and assets is due to rising interest rates abroad.

Exchange rate losses totalled 11,153 m.kr. in 2023, owing to the appreciation of the króna, whereas exchange rate gains in 2022 totalled 31,436 m.kr. Asset valuation adjustments were positive in the amount of 10,888 m.kr. in 2023 but were negative by 35,733 m.kr. in 2022.

The Bank's assets totalled 826,710 m.kr. at year-end 2023, as opposed to 874,628 m.kr. at the end of 2022. The Bank's capital totalled 100,952 m.kr. at year-end 2023, and its capital ratio was 12.2%, as compared with 13.2% at year-end 2022. Foreign assets accounted for about 96% of the Bank's total assets at the end of 2023, the same as in recent years.

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

Outlook and capital adequacy criteria

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 criteria that reflect its need for capital and interest-bearing assets. The capital adequacy criteria are based on the Bank's operating expenses and the risks and uncertainties it faces at any given time. The decision on capital adequacy criteria is endorsed by the Supervisory Board. The capital benchmark was set at 150 b.kr. in 2023.

The Bank's operating results deteriorated during the year, mainly because of a negative interest balance and the appreciation of the króna. The Bank's capital deteriorated as a result, and at the end of 2023 it totalled 101 b.kr., which is below the benchmark endorsed by the Supervisory Board. In comparison, it was 115.5 b.kr. at the end of 2022 and 134.1 b.kr. at the end of 2021. The Bank did not call in capital from the Treasury during the year, despite the statutory authorisation providing for callable capital ranging up to 74.1 b.kr. at the 2023 price level.

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 requirement there-

fore does not give cause to change the capital adequacy benchmark set in 2023, 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 value adjustment 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 2023, owing to operating losses and a capital position below the capital adequacy benchmark.

Annual Accounts 2023

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 2023, which comprise the balance sheet as of 31 December 2023, 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 2023, 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, 13 March 2024

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 2023 with their signatures.

Reykjavík, 13 March 2024

Confirmation by the Supervisory Board

Gylfi Magnússon
chair

Thórunn Guðmundsdóttir
Arnar Bjarnason
Sigrídur Andersen

Kirstín Th. Flygenring
Sigurjón Arnórsson
Thorsteinn 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, 26 March 2024

Katrín Jakobsdóttir

Profit and Loss Account 2023

	Notes	2023	2022
Interest income from domestic assets and liabilities	4	851,643	1,059,274
Interest income on foreign assets	4	24,771,771	6,971,725
Interest expense on domestic liabilities	5	(31,674,280)	(14,777,964)
Interest expense on foreign liabilities and assets	5	(3,305,594)	(2,863,438)
Net interest expense		(9,356,460)	(9,610,403)
Changes in foreign asset values		10,497,101	(32,957,385)
Changes in domestic asset values		390,488	(2,815,991)
Changes in asset value, total	6	10,887,589	(35,773,376)
Revenues from shareholdings	7	55,482	51,716
Gains (losses) on financial instruments before exchange rate difference		1,586,611	(45,332,063)
Exchange rate difference	8	(11,152,994)	31,436,492
Losses on financial instruments		(9,566,383)	(13,895,571)
Supervisory revenues	9	2,809,523	2,445,261
Service revenues	10	1,005,443	855,155
Other revenues		94,127	174,227
Other revenues, total		3,909,093	3,474,643
Salaries and related expenses	11	(5,439,072)	(5,034,671)
Other operating expenses	12	(2,166,892)	(2,506,721)
Service expenses	13	(479,535)	(476,783)
Depreciation of property and equipment	19.1	(182,951)	(173,969)
Depreciation of software	19.2	(92,326)	(92,304)
Operating expenses, total		(8,360,776)	(8,284,448)
Effect of subsidiaries	19.3	398,405	341,205
Loss for the year		(13,619,661)	(18,364,171)

Balance Sheet 31 December 2023

	Notes	31.12.2023	31.12.2022
<i>Assets</i>			
Gold	14	17,922,466	16,525,930
Foreign-denominated claims against non-residents	15	772,128,679	820,558,739
Foreign bank deposits	15.1	165,875,266	408,419,546
Balance with IMF	15.2	91,133,203	93,779,091
Foreign securities and other reserve assets	15.3	515,114,041	318,356,404
Non-reserve assets	15.4	6,169	3,698
Foreign-denominated claims against residents	16	-	6,195
Monetary policy-related claims against residents	17	18,709,386	20,287,010
Treasury	17.1	18,191,723	18,661,235
Deposit institutions	17.2	517,663	1,625,775
Króna-denominated claims against residents	18	4,522,010	4,639,840
Deposit institutions	18.1	151,007	226,510
Treasury	18.2	3,967,948	-
Other entities	18.3	403,055	4,413,330
Other assets	19	13,427,923	12,610,427
Fixed operational assets	19.1	9,623,583	9,280,359
Software	19.2	643,646	735,972
Other assets	19.3	3,160,694	2,594,096
Assets, total		<u>826,710,464</u>	<u>874,628,141</u>

	Notes	31.12.2023	31.12.2022
<i>Equity and liabilities</i>			
<i>Equity</i>			
Capital		105,563,920	100,243,273
Uncalled capital		(74,062,920)	(68,742,273)
Value adjustment reserve		6,875,960	-
Revaluation of real estate and liquid assets		5,757,551	6,792,589
Unrealised share in profit of associates		964,298	565,893
Other equity		55,853,173	76,652,959
Total equity	20	<u>100,951,982</u>	<u>115,512,441</u>
<i>Liabilities</i>			
Issued banknotes and coin	21	75,709,202	80,686,721
Foreign-denominated debt to non-residents	22	77,569,529	80,308,410
Deposits	22.1	62,330	166,239
Counterpart to IMF	15.2	77,507,199	80,142,171
Foreign-denominated debt to residents	23	196,714,762	228,206,373
Króna-denominated debt to non-residents	24	1,292,831	1,667,424
Monetary policy-related debt to domestic credit institutions	25	281,655,682	271,703,594
Deposits	25.1	52,318,982	82,401,985
Reserve requirements	25.2	63,384,460	29,824,777
Term deposits	25.3	165,952,240	159,476,832
Króna-denominated debt to residents	26	91,450,793	95,102,491
Treasury and Government institutions	26.1	89,911,913	90,221,353
Other entities	26.2	1,538,880	4,881,138
Other liabilities	27	1,365,683	1,440,687
Liabilities, total		<u>725,758,482</u>	<u>759,115,700</u>
Equity and liabilities, total		<u>826,710,464</u>	<u>874,628,141</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</i>	<i>Equity, total</i>
2023							
Equity 1 January 2023	100,243,273	(68,742,273)	-	6,792,589	565,893	76,652,959	115,512,441
Indexation of uncalled capital	5,320,647	(5,320,647)	-	-	-	-	-
(Loss) for the year 2023	-	-	6,875,960	-	398,405	(20,894,026)	(13,619,661)
Real estate revaluation 2023	-	-	-	(940,800)	-	-	(940,800)
Depreciation of revalued assets 2023	-	-	-	(94,237)	-	94,237	-
Equity 31 December 2023	<u>105,563,920</u>	<u>(74,062,920)</u>	<u>6,875,960</u>	<u>5,757,551</u>	<u>964,298</u>	<u>55,853,173</u>	<u>100,951,982</u>
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>-</u>	<u>6,792,589</u>	<u>565,893</u>	<u>76,652,959</u>	<u>115,512,441</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	2023	2022
<i>Operating activities</i>			
Collected interest income		19,117,577	11,046,235
Paid interest expense		(34,053,185)	(13,175,262)
Paid interest		<u>(14,935,608)</u>	<u>(2,129,027)</u>
Collected supervisory revenues		2,809,523	2,445,261
Collected service revenues and other revenues		302,270	930,612
Paid service expense		(477,858)	(470,485)
Paid-in dividends on shareholdings	7	55,482	51,716
Paid operating expense		(7,591,477)	(7,309,599)
Net cash to operating activities		<u>(19,837,669)</u>	<u>(6,481,522)</u>
<i>Investment activities</i>			
Securities purchased in international reserves		(540,387,848)	(82,131,485)
Securities sold and collected in international reserves		354,661,196	388,561,034
Treasury securities purchased		(3,971,155)	-
Securities sold and collected, in ISK		4,115,030	760,925
Other assets		1,247,153	345,699
Operational assets purchased	19.1	(1,466,975)	(1,286,796)
Software purchased	19.2	-	(818)
Share capital reduction, subsidiary	19.3	588,000	-
Investment activities, total		<u>(185,214,599)</u>	<u>306,248,559</u>
<i>Financing activities</i>			
Issued banknotes and coin	21	(4,977,519)	(1,359,940)
Foreign-denominated deposits		(29,538,951)	(95,328,879)
Króna-denominated deposits		5,342,871	11,760,607
Other liabilities		214,002	370,272
Financing activities, total		<u>(28,959,597)</u>	<u>(84,557,940)</u>
Foreign bank deposits, (decrease)/increase		(234,011,865)	215,209,096
Exchange rate difference on foreign bank deposits	8	(8,532,415)	23,731,527
Foreign cash balance at beginning of year		408,419,546	169,478,923
Foreign cash balance at end of year	15	<u>165,875,266</u>	<u>408,419,546</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 2023 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 asset 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.

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

	2023	2022
<i>Interest income from domestic assets and liabilities</i>		
Interest income on overnight loans	674	1,009
Interest income on collateralised loans	63,989	73,467
Interest income on non-indexed securities	648,764	643,933
Interest income on indexed securities	137,194	136,590
Interest income, other	1,022	204,275
Interest income from domestic assets and liabilities, total	<u>851,643</u>	<u>1,059,274</u>
<i>Interest income on foreign assets</i>		
Interest income on balance with IMF	3,420,536	1,073,832
Interest income on bank accounts	11,116,295	3,552,355
Interest income on securities	10,234,940	2,345,538
Interest income on foreign assets, total	<u>24,771,771</u>	<u>6,971,725</u>

Interest income on domestic assets and liabilities declined by 208 m.kr. from the year 2022, or by 20%.

Interest income on overnight loans declined because of a year-on-year contraction in overnight loans. Overnight loans were granted in the amount of 3.1 b.kr. in 2023, as compared with 4.2 b.kr. in 2022.

Interest income on collateralised loans in 2023 is due to support loans.

Interest income on nominal and indexed securities was virtually unchanged between years. Monetary policy-related bond holdings contracted from 18.7 b.kr. at the end of 2022 to 18.2 b.kr. at the end of 2023.

The reduction in other interest income is due primarily to a turnaround in interest on foreign currency accounts, which was negative for part of 2022 but positive throughout 2023.

Interest income on domestic assets rose by 17.8 b.kr. from the year 2022, mainly because of an increase in deposit interest and higher returns on securities in the international reserves.

Interest income on foreign bank accounts grew by 7.6 b.kr. year-on-year, owing to higher interest rates abroad, even though deposits shrank as a share of reserve assets.

Interest income on foreign securities rose by 7.9 b.kr. between years, owing to a sizeable increase in securities holdings and stronger returns on securities in the international reserves.

Note 5 – Interest expense

	2023	2022
<i>Interest expense on domestic liabilities</i>		
Interest expense on term deposits	14,127,353	6,775,788
Interest expense on current accounts	10,157,098	6,775,657
Interest expense on foreign currency accounts	6,644,195	918,841
Interest expense on other domestic liabilities	745,634	307,678
Interest expense on domestic liabilities, total	<u>31,674,280</u>	<u>14,777,964</u>
<i>Interest expense on foreign liabilities and assets</i>		
Interest expense on balance with IMF	2,950,022	928,920
Interest expense on foreign bank accounts	1,454	687,517
Interest expense on foreign securities in international reserves	354,118	1,247,001
Interest expense on foreign liabilities and assets, total	<u>3,305,594</u>	<u>2,863,438</u>

Interest expense on domestic liabilities rose by 16.9 b.kr. between years, owing mainly to policy rate increases in 2023 and higher interest rates on foreign currency accounts.

Interest expense on term deposits totalled 14.1 b.kr. in 2023, as opposed to 6.8 b.kr. in 2022, an increase of 7.4 b.kr.

Interest expense on current accounts rose by 3.4 b.kr. between years.

Interest expense on foreign currency accounts totalled 6.6 b.kr., as compared with 0.9 b.kr. in 2022. Interest rates on foreign currency accounts were not negative in 2023.

Interest expense on foreign liabilities and assets increased marginally overall, but there are some fluctuations between items.

Interest expense on foreign bank accounts is due to negative deposit interest. It was very low, as deposit interest rates turned positive early in 2023.

Interest expense on foreign reserve securities derives from negative bond interest. Bond series with negative interest declined in number, which reduced this item by 0.9 b.kr. between years.

Note 6 – Changes in asset value

	2023	2022
<i>Realised revaluation</i>		
Domestic securities	(252,814)	-
Foreign securities	(14,158,946)	(7,367,874)
Realised revaluation, total	<u>(14,411,760)</u>	<u>(7,367,874)</u>
<i>Unrealised revaluation</i>		
Domestic securities	643,302	(2,815,991)
Foreign securities	24,656,046	(25,589,511)
Unrealised revaluation, total	<u>25,299,348</u>	<u>(28,405,502)</u>
Changes in asset values, total	<u>10,887,589</u>	<u>(35,773,376)</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

	2023	2022
<i>Realised exchange rate difference</i>		
Foreign bank deposits	(8,532,415)	23,731,527
Foreign securities	13,335,264	19,151,371
Domestic foreign-denominated bank deposits	2,141,494	(5,992,748)
Derivatives	(1,044)	(173,670)
Other	136	635,843
Realised exchange rate difference, total	<u>6,943,435</u>	<u>37,352,323</u>
<i>Unrealised exchange rate difference</i>		
Gold	1,396,537	1,314,359
International Monetary Fund (IMF)	(480,468)	514,986
Foreign securities	(19,012,895)	(7,752,251)
Other	397	7,075
Unrealised exchange rate difference, total	<u>(18,096,429)</u>	<u>(5,915,831)</u>
Exchange rate difference, total	<u>(11,152,994)</u>	<u>31,436,492</u>

	<i>Average exchange rate for the year</i>		<i>Year-end exchange rate</i>		<i>Change in year-end exchange</i>
	2023	2022	2023	2022	%
Euro (EUR)	149.1	142.3	150.5	151.5	-0.7
US dollar (USD)	137.9	135.5	136.2	142.0	-4.1
Pound sterling (GBP)	171.4	166.9	173.2	170.8	1.4
Japanese yen (JPY)	0.98	1.03	0.96	1.08	-10.6
Danish krone (DKK)	20.0	19.1	20.2	20.4	-0.9
Norwegian krone (NOK)	13.1	14.1	13.4	14.4	-7.1
Swedish krona (SEK)	13.0	13.4	13.6	13.6	-0.4
Swiss franc (CHF)	153.5	141.8	162.5	153.9	5.6
Canadian dollar (CAD)	102.2	104.0	102.8	104.9	-2.0
Chinese yuan (CNY)	19.5	20.1	19.2	20.6	-6.9
Special drawing rights (XDR)	184.0	181.0	183.0	189.7	-3.5
Gold (XAU)	268,068	243,502	280,978	259,084	8.5

Total foreign-denominated assets and liabilities, in ISK thousands

	31.12.2023		31.12.2022	
	Assets	Liabilities	Assets	Liabilities
Euro (EUR)	467,579,375	209,177,294	493,036,544	243,175,112
US dollar (USD)	277,817,558	43,737,738	299,192,019	43,327,803
Pound sterling (GBP)	8,021,969	5,877,028	8,976,006	6,030,596
Japanese yen (JPY)	7,375,324	5,987,403	7,705,843	6,160,857
Other currencies	11,397,791	9,530,231	11,708,207	9,847,239
Gold (XAU)	17,922,466	-	16,525,930	-
Total	790,114,484	274,309,694	837,144,549	308,541,607

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

	2023	2022
Official supervision and Resolution Authority	2,768,500	2,415,800
Revenues according to the tariff for proactive supervisory checks	41,023	29,461
Supervisory revenues, total	2,809,523	2,445,261

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's supervisory activities and Resolution Authority by means of a special supervision fee.

Note 10 – Service revenues

	2023	2022
Payment intermediation	816,275	679,702
Market transactions	189,168	175,453
Service revenues, total	1,005,443	855,155

Note 11 – Salaries and related expenses

	2023	2022
Wages and salaries	4,440,355	4,071,658
Pension fund	653,662	593,657
Salary-related expenses	373,026	336,651
Change in pension obligation	(27,971)	32,705
Salaries and related expenses, total	<u>5,439,072</u>	<u>5,034,671</u>
Number of man-years	295	288

Note 12 – Other operating expenses

	2023	2022
Operation of assets and liquid assets	451,011	379,331
Information technology	466,206	632,617
Outsourced services	504,889	454,325
Office expense	375,318	386,432
Personnel expense	188,458	179,088
Sundry operational items	181,010	119,435
Expense due to banknotes and coin	-	355,493
Operating expenses, total	<u>2,166,892</u>	<u>2,506,721</u>

Fees paid to auditing firms

	2023	2022
<i>Auditing of annual accounts</i>		
KPMG ehf.	12,590	10,329
<i>Consultancy and other services</i>		
Ernst & Young ehf.	3,362	-
Deloitte ehf.	-	3,435
Fees paid to auditing firms, total	<u>15,952</u>	<u>13,764</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

	2023	2022
Payment intermediation	408,911	398,318
Expense due to custodial fees	22,066	33,243
Portfolio investment	48,558	45,222
Service expenses, total	<u>479,535</u>	<u>476,783</u>

Notes to the balance sheet

Note 14 – Gold

	2023	2022
Balance at beginning of year	16,525,930	15,211,571
Exchange rate difference	1,396,537	1,314,359
Balance at end of year	<u>17,922,466</u>	<u>16,525,930</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

	31.12.2023	31.12.2022
Deposits with foreign central banks	164,444,107	407,491,487
Balance with other foreign banks	1,431,159	928,059
Foreign bank deposits, total	<u>165,875,266</u>	<u>408,419,546</u>
Deposits available for withdrawal	93,367,596	185,991,013
Term deposits, available within three months	72,507,670	222,428,533
Foreign bank deposits, total	<u>165,875,266</u>	<u>408,419,546</u>

Term deposits at the end of the year derived solely from overnight deposits with the US Federal Reserve Bank and Deutsche Bundesbank.

Note 15.2 – International Monetary Fund

Iceland's quota with the International Monetary Fund (IMF) totalled SDR 321.8 million at year-end 2023 (31.12.2022: SDR 321.8m). The Bank's end-2023 foreign currency balance with the Fund totalled SDR 69.8 million (31.12.2022: 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 423.5 million at the end of 2023 (31.12.2022: SDR 422.5m).

	31.12.2023		31.12.2022	
	SDR	ISK	SDR	ISK
<i>Assets</i>				
Central Bank of Iceland quota	321,800	58,895,836	321,800	61,039,024
IMF deposit with Central Bank of Iceland	(252,002)	(46,121,485)	(252,002)	(47,799,739)
IMF current account with Central Bank of Iceland	7	1,242	6	1,138
Central Bank foreign currency balance with IMF	69,804	12,775,593	69,804	13,240,423
Central Bank foreign currency balance with IMF	69,804	12,775,593	69,804	13,240,423
Central Bank deposit balance with IMF	424,795	77,746,043	422,408	80,122,367
Accrued interest	3,396	611,567	2,233	416,301
Assets, total	497,996	91,133,203	494,445	93,779,091
<i>Liabilities</i>				
Counterpart to IMF allocations	423,538	77,507,199	422,546	80,142,171
IMF current account with Central Bank of Iceland	7	1,242	6	1,138
Liabilities, total	423,544	77,508,441	422,552	80,143,309

Note 15.3 – Foreign securities and other reserve assets

	31.12.2023	31.12.2022
Foreign securities	515,114,041	318,356,404

Changes in foreign securities and securities funds

	2023	2022
Balance at beginning of year	318,356,404	648,601,088
Purchases during the year	540,387,848	82,131,485
Sold and collected during the year	(355,485,923)	(376,317,325)
Change in accrued interest	3,191,493	(285,206)
Changes in premiums and discounts	3,021,066	(2,431,876)
Unrealised value adjustments	24,656,046	(25,589,511)
Exchange rate difference	(19,012,895)	(7,752,250)
Balance at end of year	515,114,041	318,356,404

Note 15.4 – Assets not held in reserves

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

Note 16 – Foreign-denominated claims against residents

Foreign-denominated claims against residents consisted solely of one euro-denominated account with a domestic com-

mercial bank. There was no balance on the account at the end of the year.

Note 17 – Monetary policy-related claims against residents

Note 17.1 – Treasury

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

Changes in Treasury securities

	2023	2022
Balance at beginning of year	18,661,235	21,834,841
Collected during the year	-	(581,090)
Change in accrued interest	7,836	(29,095)
Changes in premiums and discounts	(518,578)	(567,559)
Unrealised value adjustments	41,230	(1,995,862)
Balance at end of year	<u>18,191,723</u>	<u>18,661,235</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 – Treasury

In December 2023, the Central Bank participated in the ÍL Fund auction in which just under 4 b.kr. in two housing bond series were exchanged for Treasury bonds.

Note 18.3 – Other entities

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

Note 19 – Other assets

Note 19.1 – Fixed operational 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 2024. That appraisal, which was conducted by an impartial real estate agent, led to a reduction of 0.9 b.kr.

31.12.2023	Real estate	Liquid assets	Libraries and collections	Total
<i>Cost price and valuation</i>				
Cost price at beginning of year	6,686,999	657,983	312,509	7,657,491
Valuation at beginning of year	2,985,632	-	-	2,985,632
Special revaluation	(940,800)	-	-	(940,800)
Capitalised during the year	1,374,877	77,119	14,979	1,466,975
Balance at end of year	<u>10,106,708</u>	<u>735,102</u>	<u>327,488</u>	<u>11,169,297</u>
<i>Depreciation</i>				
Balance at beginning of year	1,091,483	271,281	-	1,362,764
Depreciation for the year	112,373	70,578	-	182,951
Balance at end of year	<u>1,203,856</u>	<u>341,859</u>	<u>-</u>	<u>1,545,715</u>
Book value at beginning of year	<u>8,581,148</u>	<u>386,702</u>	<u>312,509</u>	<u>9,280,359</u>
Book value at end of year	<u>8,902,851</u>	<u>393,242</u>	<u>327,488</u>	<u>9,623,583</u>
Annual depreciation rate	0-3%	10-33%	0%	

The official end-2023 property valuation of tangible operational assets was 7.1 b.kr.

The assessed end-2023 insurance value of tangible operational assets was 12.2 b.kr.

31.12.2022	Real estate	Liquid assets	Libraries and collections	Total
<i>Cost price and valuation</i>				
Cost price at beginning of year	5,609,067	451,056	310,572	6,370,695
Valuation at beginning of year	3,214,451	-	-	3,214,451
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>8,396,351</u>
Book value at end of year	<u>8,581,148</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 assessed end-2022 insurance value of tangible operational assets was 10.9 b.kr.

Note 19.2 – Software

	2023	2022
<i>Cost price</i>		
Balance at beginning of year	1,088,269	1,087,451
Capitalised during the year	-	818
Balance at end of year	<u>1,088,269</u>	<u>1,088,269</u>
<i>Depreciation</i>		
Balance at beginning of year	352,296	259,992
Depreciation for the year	92,326	92,304
Balance at end of year	<u>444,622</u>	<u>352,296</u>
Book value at beginning of year	<u>735,972</u>	<u>827,459</u>
Book value at end of year	<u>643,646</u>	<u>735,972</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

	31.12.2023	31.12.2022
Holdings in subsidiaries	1,576,215	1,765,810
Shareholding in Bank for Int'l Settlements	184,486	184,486
Payment intermediation claims	441,795	401,639
Pre-paid expenses	167,080	129,384
Accounts receivable	764,812	111,468
Other assets	26,306	1,309
Other assets, total	<u>3,160,694</u>	<u>2,594,096</u>

Holdings 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 Greiðsluveitan ehf. and F fasteignafélag ehf. Their accounts are held separate from the Bank's accounts because they do not have a material impact on the Bank's operations and balance sheet. Holdings in the two subsidiaries are recognised using the equity method.

	Ownership share	Activities
Greiðsluveitan ehf., Kalkofnsvegur 1, Reykjavík	100%	Advisory services
F fasteignafélag ehf., Ránargata 18, Reykjavík	100%	Holding company
	2023	2022
Balance at beginning of year	1,765,810	1,424,605
Share capital reduction	(588,000)	-
Share in earnings	398,405	341,205
Balance at end of year	<u>1,576,215</u>	<u>1,765,810</u>

Shareholding in Bank for Int'l Settlements

The shareholding in the Bank for International Settlements (BIS) is entered at cost price. The Central Bank owned 1,070 shares at the end of 2023. 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 2023 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 732.1 m.kr. (SDR 4 million) at the end of 2023.

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:

	2023	2022
Balance at beginning of year	-	29,310,057
Unrealised value adjustment of foreign securities	24,656,046	(24,929,720)
Value adjustment of domestic securities	316,740	(2,536,469)
Exchange rate difference on foreign assets	(19,493,363)	(5,921,384)
Exchange rate difference on gold	1,396,537	1,314,359
Transferred from value adjustment reserve to other equity	-	2,763,158
Balance at end of year	<u>6,875,960</u>	<u>-</u>

Base amount for disposition

	2023	2022
Loss for the year	(13,619,661)	(18,364,171)
(Increase)/Decrease in value adjustment reserve	(6,875,960)	29,310,057
Increase in restricted earnings	<u>(398,405)</u>	<u>(341,205)</u>
Base amount for disposition	<u>(20,894,026)</u>	<u>10,604,681</u>

In 2020, the Bank's capital adequacy benchmark was set at 150 b.kr. The Bank's equity at the end of 2023 was 101 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 13.6 b.kr. The value adjustment reserve increased by 6.9 b.kr., and the restricted earnings account increased by 398.4 m.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 revaluation reserve account among equity items. The revaluation 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

	31.12.2023	31.12.2022	31.12.2021	31.12.2020
Equity (excl. value adjustments)	95,194,431	108,719,852	126,987,537	143,472,039
Revaluation of assets	5,757,551	6,792,589	7,117,895	7,330,069
Equity	100,951,982	115,512,441	134,105,432	150,802,108
Equity ratio	12.2%	13.2%	16.0%	20.0%

Note 21 – Issued banknotes and coin

	31.12.2023	31.12.2022
<i>Banknotes</i>		
10,000 krónur	45,397,205	49,787,580
5,000 krónur	16,528,103	17,435,915
2,000 krónur	208,000	209,000
1,000 krónur	7,104,535	6,948,825
500 krónur	1,826,306	1,767,426
Banknotes, total	71,064,148	76,148,746
<i>Coin</i>		
100 krónur	2,989,500	2,906,600
50 krónur	771,840	753,990
10 krónur	628,220	623,110
5 krónur	133,634	132,669
1 króna	121,860	121,606
Coin, total	4,645,054	4,537,975
Issued banknotes and coin, total	75,709,202	80,686,721

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 of euro-denominated deposits with international institutions.

Note 23 – Foreign-denominated debt to residents

	31.12.2023	31.12.2022
Deposits – Treasury and Government institutions	196,703,384	228,195,201
Deposits – Other entities	11,376	11,172
Total	<u>196,714,762</u>	<u>228,206,373</u>

Note 24 – Króna-denominated debt to non-residents

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

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

Note 25.1 – Deposits

	31.12.2023	31.12.2022
Real-time gross settlement accounts	51,539,217	81,627,985
Collateral accounts	779,765	774,000
Deposits, total	<u>52,318,982</u>	<u>82,401,985</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 2023, the average reserve requirement was 0%. The fixed reserve requirement was 1% at the beginning of the year but increased to 2% in May 2023.

Note 25.3 – Term deposits

	31.12.2023	31.12.2022
Seven-day term deposits	162,967,322	156,528,225
Term deposits, > 1 month	2,984,918	2,948,607
Term deposits, total	<u>165,952,240</u>	<u>159,476,832</u>

Note 26 – Króna-denominated debt to residents

Note 26.1 – Treasury and Government institutions

	31.12.2023	31.12.2022
Deposits	89,050,378	89,618,879
Other liabilities	861,535	602,474
Total	<u>89,911,913</u>	<u>90,221,353</u>

Note 26.2 – Other entities

Foreign-denominated debt to residents consists of deposits.

Note 27 – Other liabilities

	31.12.2023	31.12.2022
Vacation pay obligation	743,017	704,208
Unpaid salaries and related expenses	53,562	46,366
Pension obligations	26,783	66,498
Trade credit	302,932	264,920
Pre-paid income	239,305	358,264
Other liabilities	84	431
Other liabilities, total	<u>1,365,683</u>	<u>1,440,687</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 26.8 m.kr. as of year-end 2023. Payments related to these obligations totalled 11.7 m.kr. in 2023 and reduce the previously entered obligation.

Changes during the year specify as follows:

	2023	2022
Pension obligations at beginning of year	66,498	66,312
Paid due to retirement	(11,744)	(32,519)
Change during the year	<u>(27,971)</u>	<u>32,705</u>
Pension obligations at end of year	<u><u>26,783</u></u>	<u><u>66,498</u></u>

Other information

Note 28 – The króna system

	31.12.2023	31.12.2022
Deposit institutions	218,271,222	241,878,818
Treasury	89,049,077	89,618,839
Non-residents	1,291,603	1,666,244
Other entities	1,540,182	4,881,178
Payment systems	441,795	401,639
Issued banknotes and coin	<u>75,709,202</u>	<u>80,686,721</u>
Total	<u><u>386,303,081</u></u>	<u><u>419,133,438</u></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 2023

	Purchases	Sales	Total
Euro (EUR)	-	(5,537,100)	(5,537,100)

Cross-border payments by the Central Bank and its customers in 2023

	Incoming payments	Outgoing payments	Total
Euro (EUR)	3,318,713	(60,044,484)	(56,725,771)
US dollar (USD)	19,905,335	(19,152,313)	753,023
Pound sterling (GBP)	75,304	(878,519)	(803,215)
Japanese yen (JPY)	36,005	(102,981)	(66,976)
Danish krone (DKK)	204,038	(791,974)	(587,936)
Norwegian krone (NOK)	935	(224,039)	(223,104)
Swedish krona (SEK)	667	(127,482)	(126,815)
Swiss franc (CHF)	263,465	(415,266)	(151,801)
Canadian dollar (CAD)	-	(121,349)	(121,349)
Total	23,804,461	(81,858,407)	(58,053,945)

Foreign exchange market transactions against the króna in 2022

	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

	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	20,348,335	(129,867,950)	(109,519,615)

Note 30 – Related parties

Related parties are the Treasury (owner of the Central Bank of Iceland), F fasteignafélag ehf. and Greiðsluveitan ehf. (subsidiaries of the Central Bank), the Governors, senior management, and the Supervisory Board.

Treasury

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

	2023	2022
Interest income on Treasury securities	653,876	639,490
Interest income on foreign currency accounts	-	185,417
Interest income vis-à-vis the Treasury, total	<u>653,876</u>	<u>824,907</u>
Interest expense on current accounts	4,443,303	3,290,720
Interest expense on foreign currency accounts	6,615,858	909,107
Interest expense vis-à-vis the Treasury, total	<u>11,059,161</u>	<u>4,199,827</u>
Net interest expense vis-à-vis the Treasury	<u>10,405,285</u>	<u>3,374,920</u>
Realised exchange rate difference on Treasury bonds	-	633,882

Net interest-bearing assets specify as follows:

	31.12.2023	31.12.2022
Treasury bonds	22,159,671	18,661,235

Net interest-bearing liabilities specify as follows:

	31.12.2023	31.12.2022
Treasury and Government institutions' deposits	89,911,913	90,221,353
Treasury FX account	196,703,384	228,195,201
Total	<u>286,615,297</u>	<u>318,416,554</u>

F fasteignafélag ehf.

The group conducted no business with F fasteignafélag ehf. in 2022 and 2023. No dividends were paid. At a shareholders' meeting of F fasteignafélag ehf. held on 28 December 2022, a share capital reduction of 280 m.kr. at a share price of 2.1 was approved. It took effect in 2023.

There were no outstanding claims between the company and the Central Bank at the end of 2023 or 2022.

Greiðsluveitan ehf.

The Central Bank of Iceland conducted transactions with Greiðsluveitan ehf. in accordance with the following.

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

	2023	2022
Purchased services	(100,888)	(90,886)
Interest expense on current accounts	(53,487)	(25,759)
Sold services	12,387	13,453
Sold facilities	9,850	3,642
Payment intermediation fees collected	192	337
Total	<u>(131,946)</u>	<u>(99,213)</u>

The largest outstanding claim between the Bank and Greiðsluveitan ehf. is the company's deposits with the Bank in the amount of 725 b.kr. A more detailed breakdown can be seen below.

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

	2023	2022
Claims	1,887	4,478
Deposits to current account	(724,985)	(665,070)
Liabilities	(15,598)	(10,095)
Total	<u>(738,696)</u>	<u>(670,687)</u>

Governors, senior management, and Supervisory Board

In 2023, total remuneration to the Governor, senior management, and the Supervisory Board amounted to 408.2 m.kr. The Governor is not remunerated for participation in boards and committees jointly operated by institutions in the financial market or to which the Central Bank of Iceland appoints a representative by law. The Governor and Deputy Governors

may not sit on the Board of Directors of an institution or commercial enterprise outside the Bank, nor otherwise participate in commercial operations except as required by law or in the case of an institution or commercial enterprise in which the Bank is involved. Total remuneration to the Governors, senior management, and the Supervisory Board in 2023 specifies as follows:

	2023	2022
<i>Governor</i>		
Ásgeir Jónsson	30,070	29,024
<i>Deputy Governors</i>		
Rannveig Sigurdardóttir, Monetary Policy	26,416	27,509
Gunnar Jakobsson, Financial Stability	24,708	23,951
Björk Sigurgísladóttir, Financial Supervision – from 1 May 2023 onwards	16,546	-
Unnur Gunnarsdóttir, Financial Supervision – until 1 May 2023	8,856	26,534
<i>Senior management</i>		
Principal officers ¹	280,592	307,831
<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	12,600	13,800
Total remuneration to Governor, senior management, and Supervisory Board	408,188	437,050

1. At the year-end, there were ten senior management officials. They are Thórarinn G. Pétursson, Director, Economics and Monetary Policy; Sturla Pálsson, Director, Markets; Haukur C. Benediktsson, Director, Financial Stability; Rannveig Jónsdóttir, Director, General Secretariat; Logi Ragnarsson, Director, Information Technology; Íris Guðrún Ragnarsdóttir, Director, Human Resources and Culture; Erla Gudmundsdóttir, Director, Finance and Operations; Gísli Sigurbjörn Óttarsson, Director, Microprudential Supervision; Linda Kolbrún Björgvinsdóttir, Director, Conduct Supervision; and Gunnar Ormslev Ásgeirsson, Director, Data and Transformation. Organisational changes made in 2023 affected the group of senior management officials. Remuneration to departing senior management officials and deputies through the date of the organisational changes is included in total remuneration to senior management officials. Björk Sigurgísladóttir was Director of Conduct Supervision until her appointment as Deputy Governor for Financial Supervision, which took effect on 1 May 2023.

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>
2023					
Senior management	948,146	196,852	-	(1,144,998)	-
Monetary Policy	1,003,851	535,321	479,207	1,910,670	3,929,049
Financial Stability	513,278	70,653	-	930,333	1,514,264
Financial Supervision	1,389,834	138,912	-	1,243,897	2,772,643
Support departments	1,583,963	1,500,431	328	(2,939,902)	144,820
Total	5,439,072	2,442,169	479,535	-	8,360,776
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

Note 32 – Financial supervision

	2023	2022
Supervisory revenues	2,715,013	2,351,204
Salaries and related expenses	(1,389,834)	(1,299,906)
Other operating expenses	(138,912)	(133,478)
Joint expenses	(1,243,897)	(1,130,721)
Operating loss	<u>(57,630)</u>	<u>(212,901)</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 57.6 m.kr. in 2023 (2022: -212.9 m.kr.). The Central Bank's cumulative outcome due to supervisory activities was negative in the amount of 24.1 m.kr. at the end of 2023 (2022: +33.5 m.kr.). The cumulative operating outcome has been taken into account in the determination of supervision fees for 2024.

Note 33 – Other business

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 54.5

b.kr. at the end-2023 exchange rate. The Bank did not use these facilities in 2023.

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 2023.

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 balance sheet 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 January 2023. 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

	31.12.2023	31.12.2022
Treasuries	29.0%	22.7%
Government institutions	23.0%	10.0%
Multinational institutions	9.9%	3.3%
Federal states	2.9%	1.7%
Financial institutions	0.4%	0.3%
Deposits with central banks and BIS	14.5%	43.0%
Deposits with IMF	11.5%	11.2%
Deposits with financial institutions	6.5%	5.8%
Gold	2.3%	2.0%
Total	<u>100%</u>	<u>100%</u>

Credit ratings of issuers/counterparties in international reserves

	31.12.2023	31.12.2022
AAA	68.3%	77.9%
AA+	9.3%	4.5%
AA	6.8%	7.6%
AA-	10.2%	7.3%
A+	2.2%	0.3%
A	0.2%	0.0%
A-	0.2%	0.0%
BBB+	0.0%	0.0%
BBB	0.4%	0.3%
Gold	2.3%	2.0%
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	31.12.2023	31.12.2022
Germany	AAA	29.7%	39.9%
Multinational institutions	AAA	23.1%	27.5%
US	AAA	17.3%	16.3%
France	AA	9.3%	8.3%
Canada	AA+	4.7%	1.8%
Netherlands	AAA	4.2%	1.5%
Japan	A	2.0%	1.0%
Sweden	AAA	1.7%	0.3%
Finland	AA+	1.4%	0.3%
China	A+	1.2%	0.3%
Austria	AA+	1.1%	0.2%
Norway	AAA	0.9%	0.2%
UK	AA-	0.4%	0.2%
Denmark	AAA	0.4%	0.2%
Spain	A-	0.2%	0.0%
South Korea	AA-	0.2%	0.0%
Switzerland	AAA	0.0%	0.0%
Luxembourg	AAA	0.0%	0.0%
Ireland	A+	0.0%	0.0%
Belgium	AA-	0.0%	0.0%
Bank for International Settlements (BIS) ¹	AAA	0.0%	0.0%
Gold		2.3%	2.0%
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. Most 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 41% of the Central Bank's international reserves at the end of 2023, as opposed to 64% at the end of 2022.

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 2023

	Available for withdrawal	< 3 months	3-12 months	1-5 years	> 5 years	Total
Gold	17,922,466	-	-	-	-	17,922,466
Foreign-denominated claims against non-residents	699,621,009	72,507,670	-	-	-	772,128,679
Foreign bank deposits	93,367,596	72,507,670	-	-	-	165,875,266
Balance with IMF	91,133,203	-	-	-	-	91,133,203
Foreign securities and other reserve assets	515,114,041	-	-	-	-	515,114,041
Assets not held in reserves	6,169	-	-	-	-	6,169
Monetary policy-related claims against residents	18,191,723	517,663	-	-	-	18,709,386
Króna-denominated claims against residents	4,522,010	-	-	-	-	4,522,010
Other assets	2,967,308	-	-	-	-	2,967,308
	<u>743,224,516</u>	<u>73,025,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>816,249,849</u>
Banknotes and coin	75,709,202	-	-	-	-	75,709,202
Foreign-denominated debt to non-residents	77,569,529	-	-	-	-	77,569,529
Foreign-denominated debt to residents	196,714,762	-	-	-	-	196,714,762
Króna-denominated debt to non-residents	1,292,831	-	-	-	-	1,292,831
Monetary policy-related debt to domestic credit institutions	52,318,982	229,336,700	-	-	-	281,655,682
Deposits	52,318,982	-	-	-	-	52,318,982
Reserve requirements	-	63,384,460	-	-	-	63,384,460
Term deposits	-	165,952,240	-	-	-	165,952,240
Króna-denominated debt to residents	91,450,793	-	-	-	-	91,450,793
Other liabilities	239,389	356,494	743,017	26,783	-	1,365,683
	<u>495,295,488</u>	<u>229,693,194</u>	<u>743,017</u>	<u>26,783</u>	<u>-</u>	<u>725,758,482</u>
Net outstanding in foreign currency	<u>443,259,184</u>	<u>72,507,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515,766,854</u>
Net outstanding in domestic currency	<u>(195,330,156)</u>	<u>(229,175,531)</u>	<u>(743,017)</u>	<u>(26,783)</u>	<u>-</u>	<u>(425,275,487)</u>
Net outstanding	<u>247,929,028</u>	<u>(156,667,861)</u>	<u>(743,017)</u>	<u>(26,783)</u>	<u>-</u>	<u>90,491,367</u>

Outstanding balance of financial assets and liabilities, 31 December 2022

	<i>Available for withdrawal</i>	<i>< 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>> 5 years</i>	<i>Total</i>
Gold	16,525,930	-	-	-	-	16,525,930
Foreign-denominated 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
Assets not held in reserves	3,698	-	-	-	-	3,698
Foreign-denominated claims against residents	6,195	-	-	-	-	6,195
Monetary policy-related claims against residents	18,661,235	1,625,775	-	-	-	20,287,010
Króna-denominated 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
Foreign-denominated debt to non-residents	80,308,410	-	-	-	-	80,308,410
Foreign-denominated debt to residents	228,206,373	-	-	-	-	228,206,373
Króna-denominated 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
Króna-denominated 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>

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 Central Bank has delivered payment, etc. Because of the low number of transactions, settlement risk in the international reserves is generally very limited. The larg-

est transactions 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 2022 and 2023:

Currencies in financial assets and liabilities 31.12.2023

	<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	-	-	-	-	17,922,466	17,922,466
Foreign-denominated claims against non-residents	467,566,443	277,789,002	8,000,117	7,375,324	11,397,791	772,128,679
Foreign bank deposits	140,654,369	23,336,141	1,219,807	458,314	206,634	165,875,266
Balance with IMF	26,711,142	39,533,583	6,780,310	6,917,010	11,191,157	91,133,203
Foreign securities and other reserve assets	300,200,932	214,913,109	-	-	-	515,114,041
Assets not held in reserves	-	6,169	-	-	-	6,169
Other assets	12,932	28,555	21,852	-	-	63,338
Assets, total	467,579,375	277,817,558	8,021,969	7,375,324	29,320,258	790,114,484
<i>Liabilities</i>						
Foreign-denominated debt to non-residents	22,779,690	33,622,623	5,766,536	5,882,796	9,517,884	77,569,529
Deposits	62,330	-	-	-	-	62,330
Counterpart to IMF	22,717,360	33,622,623	5,766,536	5,882,796	9,517,884	77,507,199
Foreign-denominated debt to residents	186,384,542	10,115,115	110,492	104,607	7	196,714,762
Other liabilities	13,062	-	1	-	12,340	25,403
Liabilities, total	209,177,294	43,737,738	5,877,028	5,987,403	9,530,231	274,309,694
Net assets	258,402,081	234,079,820	2,144,941	1,387,921	19,790,027	515,804,790

Currencies in financial assets and liabilities 31.12.2022

	<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
Assets not held in reserves	-	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	219,507,199	8,555,958	65,143	78,066	7	228,206,373
Other liabilities	12,005	6,171	2,875	-	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

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 2023. 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

Intangible assets are capitalised only when it is deemed likely that the economic benefits of the assets concerned will be useful to the institution and when it is possible to estimate the cost associated with the assets in a reliable manner. The Central Bank's intangible assets consist solely of software. Intangible assets are depreciated linearly over their expected 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 41.8 – 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 2023

No.		No.	
1	4 January 2023 Amended Rules on Current Accounts with the Central Bank of Iceland	10	24 May 2023 Statement of the Monetary Policy Committee 24 May 2023
2	12 January 2023 New Central Bank organisational chart – changes to financial supervision structure	11	1 June 2023 Current account deficit 10.1 b.kr. in Q1/2023 – net IIP positive by 26.3% of GDP
3	16 January 2023 Foreign exchange market, exchange rate developments, and international reserves 2022	12	7 June 2023 Statement of the Central Bank of Iceland Financial Stability Committee 7 June 2023
4	8 February 2023 Statement of the Monetary Policy Committee 8 February 2023	13	23 August 2023 Statement of the Monetary Policy Committee 23 August 2023
5	1 March 2023 Amendments to covered bond legislation and rules	14	4 September 2023 Current account surplus 7.5 b.kr. in Q2/2023 – net IIP positive by 28.8% of GDP
6	2 March 2023 Current account deficit 20.2 b.kr. in Q4/2022 – net IIP positive by 24.2% of GDP	15	20 September 2023 Statement of the Central Bank of Iceland Financial Stability Committee 20 September 2023
7	3 March 2023 Amendments to the Rules on Price Indexation of Savings and Loans	16	4 October 2023 Statement of the Monetary Policy Committee 4 October 2023
8	15 March 2023 Statement of the Central Bank of Iceland Financial Stability Committee 15 March 2023	17	19 October 2023 Central Bank updates resolution plans for systemically important banks
9	22 March 2023 Statement of the Monetary Policy Committee 22 March 2023	18	31 October 2023 Organisational changes at the Central Bank of Iceland

No.

- 19 22 November 2023
Statement of the Monetary Policy Committee 22 November 2023
- 20 1 December 2023
Current account surplus 61.8 b.kr. in Q3/2023 – net IIP positive by 31.2% of GDP
- 21 6 December 2023
Statement of the Central Bank of Iceland Financial Stability Committee 6 December 2023

Working Paper no. 91: Participation in supplementary pension savings in Iceland, by Ásgeir Daníelsson, Rannveig Sigurdardóttir and Svava J. Haraldsdóttir.

Working Paper no. 92: Does Mandatory Saving Crowd out Voluntary Saving? Evidence from a Pension reform, by Svend E. Hougaard Jensen, Sigurdur P. Ólafsson, Arnaldur Stefánsson, Thorsteinn S. Sveinsson, and Gylfi Zoega.

Working Paper no. 93: A Financial Conditions Index for Iceland, by Tómas Dan Halldórsson, Stella Einarisdóttir, Eysteinn Einarsson, and Védís Sigríður Ingvarsdóttir.

Working Paper no. 94: Monetary transmission in Iceland: Evidence from a structural VAR model, by Thórarinn G. Pétursson.

Iceland's balance of payments, international investment position, and vulnerabilities.

Publications by the Central Bank of Iceland 2023

In Icelandic

Ársskýrsla [Annual Report] 2022

Fjármálaeftirlit [Financial Supervision] 2023, one issue

Fjármálastöðugleiki [Financial Stability] 2023, two issues

Peningamál [Monetary Bulletin] 2023, four issues

Hagvísar [Economic Indicators] 2023, one issue

Special Publication no. 16: Innlend, óháð smágreiðslulausn [*Independent domestic retail payment solution*]

Special Publication no. 17: Seðlabankarafeyrir [*Central Bank Digital Currency*]

Kostnaður við smágreiðslumiðlun [The Cost of Retail Payments]

Sjálfbærnisráðgjafi [Sustainability Report] 2022

Greiðslujöfnuður þjóðarbúsins, ytri staða og áhættuþættir [Iceland's balance of payments, international investment position, and vulnerabilities]

Vettvangur. Vefrit um efnahags- og fjármál. Verðtrygging sparifjár og lánsfjár [Indexation of savings and loans], by Arnór Sighvatsson, Lúdvík Elíasson, Margrét Valdimarsdóttir, Ragnar Árni Sigurdsson, Tómas Sigurdsson, and Örn Hauksson.

In English

Annual Report 2022

Financial Supervision 2023, one issue

Financial Stability 2023, two issues

Monetary Bulletin 2023, four issues

Economic Indicators, one issue

The Cost of Retail Payments

Tables



Table 1 Central Bank interest rates¹

%	<i>CBI current accounts, nominal rates</i>	<i>Reserve requirements, average maintenance 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
8 February 2023	6.25	6.25	8.25	7.25	6.50
22 March 2023	7.25	7.25	9.25	8.25	7.50
24 May 2023	8.50	8.50	10.50	9.50	8.75
23 August 2023	9.00	9.00	11.00	10.00	9.25
4 October 2023	9.00	9.00	11.00	10.00	9.25
22 November 2023	9.00	9.00	11.00	10.00	9.25

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	3.3
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	5.8	78.1	7.7
2003	113.4	105.3	104.8	105.4	85.4	6.6	84.8	8.6
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	15.7
2006	112.7	103.4	102.6	104.0	93.6	-6.5	96.5	-3.5
2007	110.9	100.9	99.9	101.5	98.6	5.3	101.2	4.9
2008	157.3	141.9	140.9	142.4	78.1	-20.8	73.0	-27.9
2009	210.6	191.0	190.0	191.4	63.6	-18.6	50.2	-31.2
2010	204.0	185.0	184.4	185.0	67.8	6.6	56.2	12.0
2011	204.5	183.5	183.0	183.3	68.4	0.9	59.5	5.9
2012	209.1	189.0	188.6	188.8	68.8	0.6	60.4	1.5
2013	206.5	186.3	185.9	186.1	71.4	3.8	62.5	3.5
2014	195.1	177.2	176.2	177.5	76.2	6.7	68.6	9.8
2015	189.5	176.3	175.0	177.1	79.1	3.8	74.4	8.5
2016	169.4	158.9	158.1	159.1	89.3	12.9	86.9	16.8
2017	151.2	141.1	140.6	141.1	99.9	11.9	101.7	17.0
2018	157.2	147.0	146.2	147.2	97.0	-2.9	100.9	-0.8
2019	170.6	160.0	159.1	160.4	90.4	-6.8	91.8	-9.0
2020	189.4	178.2	177.1	178.7	83.3	-7.9	82.0	-10.7
2021	184.9	173.0	171.9	173.6	86.6	4.0	86.4	5.4
2022	179.4	168.3	167.2	168.9	89.9	3.8	91.3	5.7
2023	184.0	172.4	170.8	173.5	90.6	0.8	91.4	0.1

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

	2019		2020		2021		2022		2023	
	ISK thousands	%								
<i>Notes:</i>										
10,000 kr,	42,607,500	60.4	49,942,500	64.8	51,287,500	66.1	49,787,580	65.4	45,397,205	63.9
5,000 kr,	19,621,000	27.8	18,826,000	24.4	17,818,500	23.0	17,435,915	22.9	16,528,103	23.3
2,000 kr,	214,000	0.3	212,000	0.3	210,000	0.3	209,000	0.3	208,000	0.3
1,000 kr,	6,344,000	9.0	6,415,000	8.3	6,608,500	8.5	6,948,825	9.1	7,104,535	10.0
500 kr,	1,730,250	2.5	1,669,750	2.2	1,699,250	2.2	1,767,426	2.3	1,826,306	2.6
Total	70,516,750	100.0	77,065,250	100.0	77,623,750	100.0	76,148,746	100.0	71,064,148	100.0
<i>Coin:</i>										
100 kr,	2,660,000	63.1	2,791,400	63.5	2,811,300	63.6	2,906,600	64.1	2,989,500	64.4
50 kr,	706,590	16.8	730,190	16.6	736,040	16.6	753,990	16.6	771,840	16.6
10 kr,	600,780	14.2	620,560	14.1	620,400	14.0	623,110	13.7	628,220	13.5
5 kr,	130,304	3.1	132,779	3.0	133,259	3.0	132,669	2.9	133,634	2.9
1 kr,	119,995	2.8	121,932	2.8	121,912	2.8	121,606	2.7	121,860	2.6
Total	4,217,669	100.0	4,396,861	100.0	4,422,911	100.0	4,537,975	100.0	4,645,054	100.0
Total in circulation	74,734,419		81,462,111		82,046,661		80,686,721		75,709,202	

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 June 1979	28.0		28.00	1 November 1993	4.0 (2.5) ²		4.00
17 April 1985	18.0		18.00	21 May 1998	4.0 (1.5) ²		4.00
1 March 1987	13.0		13.00	21 March 2003	3.0 (1.0) ²		3.00
1 August 1988	12.0		12.00	21 December 2003	2.0 (0.0) ³		2.00
1 March 1989	11.0		11.00	21 October 2015	4.0 (0.0) ⁴		4.00
1 May 1990	10.0		10.00	21 December 2015	2.5 (0.0) ⁴		2.50
1 June 1990	7.0		7.00	21 June 2016	2.0 (0.0) ⁴		2.00
31 October 1991	6.0		6.00	21 June 2018	2.0 (0.0) ⁵	1.00	1.00
1 January 1992	7.0		7.00	21 March 2020	1.0 (0.0)	1.00	0.00
1 November 1992	6.0		6.00	21 June 2023	2.0 (0.0)	2.00	0.00
1 December 1992	5.0		5.00				

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

2023	General interest on non-indexed loans	General interest on indexed loans	Penalty rates	Interest on damage claims
1 January	7.25	2.35	13.75	4.83
1 February	7.50	2.60	13.75	5.00
1 March	7.50	2.60	14.25	5.00
1 April	7.75	2.60	14.25	5.17
1 May	8.75	2.65	15.25	5.83
1 June	8.75	2.65	15.25	5.83
1 July	9.25	2.65	16.50	6.17
1 August	9.25	2.65	16.50	6.17
1 September	9.25	2.65	16.50	6.17
1 October	9.55	2.65	17.00	6.37
1 November	9.55	3.15	17.00	6.37
1 December	9.60	3.15	17.00	6.40
Average 2023	8.67	2.70	15.60	5.78
Average 2022	5.29	1.71	11.70	3.53

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
2023	11.4	3.2	13.2	4.8	15.6	7.0	8.0

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

	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2022	31.12.2023
Subject to licence or operating under special legislation:						
Commercial banks	4	4	4	4	4	4
Savings banks	4	4	4	4	5	5
Credit undertakings	5	5	4	3	4	4
Housing Financing Fund (HFF)	1	0	0	0	0	0
Investment firms	9	9	9	9	8	8
UCITS management companies	9	9	9	6	6	6
Alternative investment fund managers ¹	0	0	16	19	23	30
Regulated markets (securities exchanges)	1	1	1	1	1	1
Central securities depositories	2	2	1	1	1	1
Pension funds ²	21	21	21	21	21	21
Insurance companies	11	11	11	10	10	10
Insurance brokerages	7	8	9	9	9	9
Entities with debt collection licences	8	8	9	8	8	8
Payment institutions	1	1	2	1	1	2
Electronic money institutions	0	1	1	2	2	2
Currency exchange services	1	1	1	1	0	0
Guarantee funds	1	1	1	1	1	1
Registered consumer mortgage loan providers	1	1	0	0	0	0
Virtual currency service providers	1	1	3	3	3	4
Total	87	88	106	103	107	116
Other regulated entities:						
UCITS funds	40	37	37	36	38	38
Alternative investment funds for retail investors ³	60	54	61	69	72	76
Other alternative investment funds ⁴	117	114	116	121	137	131
Pension savings custodians ⁵	8	8	8	8	8	8
Issuers of listed shares	23	24	23	26	30	31
Issuers of listed bonds	50	57	51	51	56	62
Registered consumer loan providers and brokers ⁶	0	0	5	9	9	8
Holding companies ⁷	6	5	6	5	5	4
Financial conglomerates ⁸	0	0	1	1	1	1
Total	391	387	414	429	463	475

1. Including 12 licensed management companies, 6 of which are also UCITS management companies; and 18 registered entities, one of which is an investment firm.

2. Many pension funds are divided into divisions. There were 69 divisions at year-end 2023.

3. Previously investment funds.

4. Previously institutional investment funds.

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

6. Supervised only pursuant to 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>	2022	2023
Credit institutions and financial institutions without establishments/branches	248	261
UCITS (no. of subsidiary funds)	135 (1,353)	131 (1,383)
Investment firm with business establishments/branches (no. of establishments/branches)	1 (1)	1 (1)
Investment firms without establishments/branches	605	621
Central securities depositories with business establishments/branches (no. of establishments/branches)	1 (1)	1 (1)
Central securities depositories without establishments/branches	6	6
Insurance companies with establishments/branches (no. of establishments/branches)	2 (1)	2 (1)
Insurance companies without establishments/branches	357	379
Insurance brokers with establishments/branches (no. of establishments/branches)	2 (2)	2 (2)
Insurance brokers and insurance agents without establishments/branches	2,863	2,956
Payment institutions with agents (no. of agents)	2 (3)	2 (3)
Electronic money institutions with distributors (no. of distributors)	0	0
Payment institutions and electronic money institutions without establishments/branches	384	420
Credit intermediaries without establishments/branches	4	2
Alternative investment fund managers without establishments/branches	162	176
Number of companies registered outside the EEA and authorised to provide services in Iceland under national law		
Alternative investment fund managers (no. of funds)	42 (86)	44 (94)

Source: Central Bank of Iceland.

Table 9 Balance sheet of the Central Bank of Iceland

M.kr.	2018	2019	2020	2021	2022	2023
Assets:	755,189	840,240	843,515	964,183	874,628	826,710
Foreign assets	736,589	822,244	817,058	923,224	837,269	790,236
Gold	9,576	11,720	15,404	15,212	16,526	17,922
SDR	18,249	19,021	20,861	77,007	80,484	78,277
Currency balance with the IMF	11,314	11,723	12,835	12,740	13,295	12,856
Foreign deposits	119,095	210,158	109,887	169,479	408,420	165,875
Foreign securities	577,285	568,924	657,806	648,601	318,356	515,114
Other reserve assets	606	385	-	-	-	-
Other foreign assets	464	313	266	185	188	191
Domestic assets	18,600	17,996	26,457	40,960	37,359	36,475
Deposit money banks	0	38	1,749	2,107	1,853	665
Collateral loans	-	-	1,749	1,812	1,626	518
Other claims in foreign currency	0	38	-	1	6	-
Other claims	-	-	-	294	221	147
Other financial institutions	5,996	5,935	5,809	5,679	4,413	403
Listed securities	5,996	5,935	5,809	5,679	4,413	403
Central government	-	-	7,770	21,835	18,661	22,160
Listed securities	-	-	7,770	21,835	18,661	14,224
Bonds receivable	-	-	-	-	-	7,936
Other sectors	5,478	3,600	2,335	2,115	2,415	3,556
Sundry accounts	470	444	807	683	644	1,976
Equity holdings	5,007	1,773	1,528	1,425	1,766	1,576
Securities	-	1,382	-	-	-	-
Unlisted bonds	-	-	-	8	6	4
Properties	6,260	7,388	7,407	7,845	8,581	8,903
Other asstes	866	1,035	1,387	1,378	1,435	788
Liabilities and Capital:	755,189	840,240	843,515	964,183	874,628	826,710
Foreign liabilities	45,581	34,310	39,818	94,917	81,976	78,862
Short term	3,038	7,951	12,422	18,148	1,834	1,355
Long term	24,357	7,516	6,767	-	-	-
IMF SDR allocation	18,186	18,843	20,629	76,769	80,142	77,507
Domestic liabilities	651,274	723,948	652,839	735,160	677,140	646,896
Notes and coin	72,773	74,734	81,462	82,047	80,687	75,709
Deposit money banks	285,633	352,465	210,572	274,526	271,704	281,656
Sight deposits	72,454	57,154	66,012	78,667	82,402	52,319
Time deposits	200,789	262,619	137,436	195,859	189,302	229,337
Certificates of deposit	11,818	32,692	7,124	-	-	-
Sight deposits in foreign currency	573	-	-	0	-	-
Other financial institutions	95,467	61,519	27	1,022	-	0
Sight deposits	77,131	57,807	22	1,022	-	-
Time deposits	18,307	3,706	-	-	-	-
Certificates of deposit	30	5	5	-	-	-
Central government	194,975	233,428	356,302	372,265	318,417	286,642
Treasury current accounts	104,833	70,153	134,615	56,375	83,552	81,762
Government institutions, current accounts	1,077	80	213	93	19	28
Treasury sight deposits in foreign currency	86,583	151,458	214,124	304,564	228,195	196,703
Governm, institutions foreign exchange deposits	532	44	29	-	-	0
Other claims	1,950	11,693	7,321	11,233	6,650	8,148
Other liabilities	2,425	1,802	4,476	5,301	6,333	2,890
Capital and reserves	58,335	81,982	150,857	134,105	115,512	100,952

Source: Central Bank of Iceland.



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