



# **Annual Accounts of Byggðastofnun**

Icelandic Regional Development Institute

**2007**

## Contents

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<i>Signatures of the Directors</i>	<i>P.</i>	<i>3</i>
<i>Auditors' report</i>	<i>"</i>	<i>3</i>
<i>Profit and loss account for the year 2007</i>	<i>"</i>	<i>4</i>
<i>Balance sheet as of 31 December 2007</i>	<i>"</i>	<i>5 - 6</i>
<i>Statement of cash flow, 2007</i>	<i>"</i>	<i>7</i>
<i>Notes to the 2007 financial statement</i>	<i>"</i>	<i>8 - 11</i>

## Report of the Board of Directors of the Icelandic Regional Development Institute

The annual accounts of the Icelandic Regional Development Institute for 2007 have been prepared using similar accounting principles to those of previous years. According to the profit and loss account, the Institute operated during that year with a loss of ISK 179.4 million. In order to strengthen the Institute's capital position, it was allocated ISK 1,200 million by the Icelandic parliament, or Althingi. According to the balance sheet, equity capital amounted to ISK 2,072.5 million at year-end, with an equity ratio, as defined by the Act on Credit Institutions other than Commercial and Savings Banks, of 14.15%. By signing below, the Board of Directors, Director of the Institute, and Director of Finance hereby confirm the Regional Development Institute's annual accounts for 2007.

*Sauðárkróki, Iceland; 29. February 2008*

*Örlygur Hnefill Jónsson*  
Chairman

*Guðjón Guðmundsson*      *Bjarni Jónsson*

*Drífa Hjartardóttir*      *Herdis Á. Sæmundardóttir*

*Anna Kristín Gunnarsdóttir*      *Kristján Þór Júlíusson*

*Aðalsteinn Þorsteinsson*  
Director

*Magnús Helgason*  
Director of Finance

### Auditors' report

On behalf of the National Audit Office, we have audited the accompanying 2007 annual accounts of the Icelandic Regional Development Institute. The annual accounts contain the signatures and report of the Board of Directors, a profit and loss account, balance sheet, statement of cash flow, information on important accounting methods, and other explanations.

#### **Director responsibility for the annual accounts.**

The Directors are responsible for the annual accounts being prepared and presented according to the Annual Accounts Act. Accordingly, the Directors shall organise, adopt and maintain internal controls over the preparation and presentation of the annual accounts, such that they will generally be free of significant defects, whether through fraud or mistakes. Director responsibility also extends to the use of accounting and valuation methods appropriate for the circumstances.

#### **Auditor responsibility**

Our responsibility involves the opinion that we give of the annual account, as based on our audit. Our audit was carried out in accordance with international auditing standards. According to these standards, we must observe ethical rules and organise and perform the audit in a manner that provides sufficient certainty of the annual accounts having no substantial shortcomings.

The audit entailed measures to confirm amounts and notes in the annual accounts. The selection of auditing procedures was based on the auditor's professional assessment, for instance of the risk of substantial shortcomings in the annual accounts, whether due to fraud or mistakes. This risk assessment took into consideration the company's internal control over the preparation and presentation of the annual accounts, but did this in order to plan appropriate auditing measures rather than to give an opinion on the effectiveness of the company's internal control. Moreover, the audit includes an assessment of the accounting methods and methods of valuation used by the management in compiling the annual accounts as well as an assessment of their overall presentation.

We believe that during our audit, we have obtained sufficient and appropriate data for basing our opinion on.

#### **Opinion**

In our opinion, the annual accounts provide a true and fair view of the performance of the Icelandic Regional Development Institute during 2007, its financial position as of 31 December 2007, and the changes in its liquid assets during 2007, in conformity with the Annual Accounts Act.

*Sauðárkróki, Iceland; 29. February 2008.*

*Árni Snæbjörnsson*  
Certified Accountant  
*Ernst & Young hf.*

*Borgartúni 30, 105 Reykjavík*

## Income statement for the year 2007

	<b>Notes</b>	<b>2007</b> ISK 000s	<b>2006</b> ISK 000s
<b>Interest income</b>			
Interest from bankdeposits and securities		92,497	153,894
Interest on loans		883,393	947,154
		<b>975,872</b>	<b>1,101,048</b>
<b>Interest expenses</b>			
Interest on borrowings		753,093	1,061,077
Other interest expense		1,200	1,953
		754,293	1,063,030
<i>Net interest income</i>		<b>221,579</b>	<b>38,018</b>
<b>Other income</b>			
Regular budget allocation		352,500	339,100
Other budget allocation	8	30,672	31,699
Foreign exchange differences		(31,592)	305,631
Other income		24,709	28,505
		376,289	704,935
<i>Net income</i>		<b>597,867</b>	<b>742,953</b>
<b>Other expenses</b>			
Grants to economic development agencies		139,400	134,785
Other grants		23,290	34,549
Salaries and related expenses	4,5	145,845	139,322
General operating expenses		106,424	107,361
Depreciation of fixed assets		1,408	5,308
Allowance for losses on loans and reduction in share capital	2,10	360,873	311,524
		777,239	732,850
<b>Net profit (loss)</b>		<b>(179,372)</b>	<b>10,103</b>

**Balance sheet**

<b>Assets</b>	<b>Notes</b>	<b>31.12.2007</b> ISK 000s	<b>31.12.2006</b> ISK 000s
<b>Funds and claims against financial institutions</b>			
Bank deposits and securities	7	1,899,148	1,330,946
<b>Loans</b>			
Loans to customers	8	9,252,757	9,252,850
Appropriated assets	9	244,182	223,258
		<u>9,496,939</u>	<u>9,476,108</u>
<b>Shares held in companies</b>			
Shares	11	1,475,269	1,324,381
		<u>1,475,269</u>	<u>1,324,381</u>
<b>Other assets</b>			
Accounts receivable		10,148	16,196
Real estate	1,12	55,959	57,367
		<u>66,106</u>	<u>73,562</u>
<b>Total assets</b>		<b><u>12,937,462</u></b>	<b><u>12,204,998</u></b>

## as of 31 December 2007

<b>Liabilities and equity</b>	<b>Note</b>	<b>31.12.2007</b> ISK 000s	<b>31.12.2006</b> ISK 000s
<b>Borrowings</b>	14		
Securities issued		5,015,448	6,163,924
Loans from financial institutions		5,765,378	4,864,108
		<hr/> 10,780,826	<hr/> 11,028,031
<b>Other liabilities</b>			
Allowance for losses on collateral		9,815	13,185
Creditors		74,301	98,285
		<hr/> 84,116	<hr/> 111,469
<b>Calculated obligations</b>			
Allowance for pension fund		0	13,605
		<hr/> 0	<hr/> 13,605
<b>Total liabilities</b>		<hr/> <b>10,864,942</b>	<hr/> <b>11,153,106</b>
<b>Equity capital</b>	3,15	<hr/> <b>2,072,520</b>	<hr/> <b>1,051,892</b>
<b>Total liabilities and equity</b>		<hr/> <b>12,937,462</b>	<hr/> <b>12,204,998</b>
<b>Outside the balance sheet items</b>			
Guarantees provided		317,357	426,300

## Statement of cash flow, 2007

	<b>2007</b>	<b>2006</b>
	ISK 000s	ISK 000s
<b>Cash flow from operations</b>		
Net profit (loss)	(179,372 )	10,103
<i>Items not affecting liquid assets:</i>		
Allowance for losses on loans and reduction in share capita	360,034	321,283
Allocations due to pension obligations	207	8,770
Depreciation of fixed assets	1,408	5,308
Profit of sold properties	0	(2,561 )
Interest, indexation and exchange rate difference	(209,783 )	(268,746 )
Unpaid grants	2,989	2,173
<b>Cash flow from operations</b>	<b>(24,518 )</b>	<b>76,331</b>
 <b>Investment activities</b>		
Repayment of loans	1,346,410	1,942,879
New loans made	(2,009,980 )	(1,505,384 )
Redeemed assets	(90,908 )	(220,358 )
Shares	(86,387 )	87,608
Sold property	0	21,000
Pension obligations paid	(13,812 )	0
Debtors	3,059	46,633
<b>Investment activities</b>	<b>(851,617 )</b>	<b>372,378</b>
 <b>Financing activities</b>		
Repayment of borrowings	(2,417,303 )	(2,076,106 )
New borrowings	2,685,624	1,734,000
Budget allocations	1,200,000	0
Accounts payable	(23,984 )	27,508
<b>Financial activities</b>	<b>1,444,337</b>	<b>(314,597 )</b>
 <b>Increase (decrease) in cash on hand</b>	<b>568,202</b>	<b>134,112</b>
<b>Cash on hand at beginning of year</b>	<b>1,330,946</b>	<b>1,196,834</b>
<b>Cash on hand at year-end</b>	<b>1,899,148</b>	<b>1,330,946</b>

## Notes to the 2007 financial statements

### 1. Accounting methods

The annual accounts of the Regional Development Institute have been prepared in compliance with the Annual Accounts Act and with the rules on preparing the annual accounts of commercial banks, savings institutions and other credit institutions.

All property, plant and equipment are entered at cost, less depreciation. Improvements are capitalised if they are considered likely to yield a profit to the Institute in the future and if the cost can be reliably assessed. Any maintenance cost is charged in the profit and loss account as of its being incurred. Depreciation is based on the estimated useful life of individual fixed assets and calculated as a fixed annual percentage of the initial purchase price, less estimated residual value, considering the period of ownership during the year. Accrued exchange rate differences are entered in the annual accounts, as well as inflation adjustments to the principals of assets and liabilities. Indexed assets and liabilities are entered based on the indices taking effect on 1 January 2008. Foreign currency assets are converted to Icelandic kronur at the closing exchange rate for the year, and debts in foreign currencies are also converted to Icelandic kronur at the closing exchange rate for the year.

Wherever possible, ownership in other companies is entered at cost or fair value, with changes in the assessment being reflected in operations.

### 2. Allowance for losses on loans

Allowance is made for losses on loans in order to meet the risk incurred in lending operations, although this provision does not reflect the final losses on lending. Allowance for losses on loans are entered as expenses in the profit and loss account, after deducting repayments on loans that were previously written off.

### 3. Equity Capital

Last year the Althingi allocated ISK 1,200 million to strengthening Institute equity; this allocation is entered as owners' equity.

According to provisions in the Act on financial undertakings, No. 161/2002, the equity of a lending institution may at no time become lower than the equivalent of 8% of the credit risk. In accordance with what was mentioned above, the equity ratio of the Regional Development Institute amounted to 14.15% at year end 2007.

### 4. Salaries and related expenses

	2007	2006
	ISK 000s	ISK 000s
Wages	119,803	106,685
Pension contributions	14,848	12,468
Other salaries-related expenses	11,193	20,168
	<u>145,845</u>	<u>139,322</u>

In terms of full-year positions, the Institute had an average of about 21 employee's in 2007. At year-end 2007 the company had 20 employees on the payroll.

### 5. Payments to the Board and Director-General

Wages to the Board and Director-General of the Institute of Regional Development were as follows:

	2007	2006
Herdís Á. Sæmundardóttir, Chairman of the Board until 31.5.2007	1,497	2,004
Örlygur Hnefill Jónsson, chairman from 1. 6. 2007	1,760	0
Other Board Members (6)	5,617	6,185
Aðalsteinn Þorsteinsson, Director-General	10,862	9,831
<b>Total</b>	<u>19,736</u>	<u>18,020</u>

### 6. Allocations from supplementary budget

Budget allocations for harbour building in Bildudalur

Budget allocations for economic development projects	16,690	16,699
Other budget allocations	13,982	0
<b>Total</b>	<u>30,672</u>	<u>31,699</u>

### 7. Cash and claims on financial

Cash on hand consists of unrestricted bank deposits in domestic and foreign currencies and claims due at credit institutions.

Bank deposits in ISK	68,229	386,022
Bank deposits in foreign currencies	23,394	22,893
Other bank deposits	1,807,525	922,031
	<u>1,899,148</u>	<u>1,330,946</u>

### 8. Loans

Breakdown by sector:

Municipalities	1.26%
Individuals	4.80%
<b>Industry:</b>	
Fisheries	33.04%
Manufacturing	16.69%
Financial Institute	8.14%
Services	34.34%
Agriculture	1.58%
Other	0.15%
	<u>100.00%</u>

Loans by maturity:

On demand	198,602	375,694
Up to 3 months	497,098	671,359
3 months up to 1 year	982,719	1,177,246
1 to 5 years	2,593,514	2,624,823
Over 5 years	4,980,825	4,403,729
	<u>9,252,757</u>	<u>9,252,850</u>

### 9. Appropriated assets

Real estate	190,682	220,258
Moveable assets	53,500	3,000
	<u>244,182</u>	<u>223,258</u>



**10. Provision to loan-loss account**

According to the Icelandic Regional Development Institute, a loan-loss account is to be established which reflects the Institute's current exposure as a result of loans granted. Whenever decisions are taken on granting loans or guarantees, or purchasing shares in an enterprise, the risks involved shall be assessed and provision made to the loan-loss account. Thus the loan-loss account includes provision for each loan granted by the Institute.

**Changes during year (ISK 000s)**

	2007	2006
Acct. balance at beginning of year	897,901	939,495
Provisions to loan-loss account	338,400	327,331
Loans written off	(440,383)	(368,925)
Balance at end of year	<u>795,918</u>	<u>897,901</u>
Allowance during the year	338,400	327,331
Provision for guarantees	(3,369)	847
Changes in shares	26,003	(6,894)
Recoveries on loans previously written off	(161)	(9,760)
Allowance for credit losses, according to profit and loss statement	<u>360,873</u>	<u>311,524</u>
Allowance for credit losses, as a percentage of loans	7.92%	8.85%

**11. Shareholdings**

Breakdown of shares held by the IRDI at year-end, by nominal value and holding proportion:

	Share %	Nominal value ISK 000s
<b>Real estate</b>		
Ámundakinn ehf.	16.26%	19,000
Ásgarður ehf.	13.10%	15,000
Brimnes hótél ehf.	12.00%	4,610
Dalagisting ehf.	12.11%	8,000
Dýralíf ehf.	28.92%	4,000
Eignarfélagið Hallormur ehf.	20.00%	2,814
Fasteignafélagið Borg ehf.	36.74%	18,825
Fjarðaraldan hf.	29.88%	15,000
Grand hótél Mývatn ehf.	7.22%	10,000
Hótél Hellissandur hf.	27.01%	19,534
Hótél Norðurljós ehf.	46.40%	2,320
Sláturhúsið Búðardal ehf.	24.86%	16,924
Tröllasteinn ehf.	18.92%	7,000
Urtusteinn ehf.	8.36%	3,408
<b>Total real estate</b>		<u>146,435</u>

**Travel companies**

Baðfélag Mývatnssveitar ehf.	20.83%	25,000
Ferðaskrifstofa Austurlands ehf.	29.03%	4,500
Hótél Flúðir hf.	11.94%	3,109
Hótél Húsavík ehf.	0.38%	136
Hótél Valaskjál hf.	18.80%	4,500
Hótél Varmahlíð ehf.	13.04%	3,000
Hvalamiðstöðin Húsavík ehf.	19.70%	2,000
Reynihlíð ehf.	34.21%	5,000
Smyril-line P/F	3.22%	55,650
Snorri Þorfinnsson ehf.	19.89%	12,000
Sæferðir ehf.	25.09%	20,000
Textílfetur Íslands ses.	32.15%	2,000
<b>Total Travel companies</b>		<u>136,895</u>

**Holding companies:**

Eignarhaldsfélag Austurlands hf.	40.00%	120,000
Eignarhaldsfélag Suðurlands hf.	40.00%	109,142
Eignarhaldsfélag Suðurnesja hf.	19.40%	96,840
Eignarhaldsfél. Vestmannaeyja hf.	38.77%	78,500
Gjöll ehf.	22.04%	4,000
Hvetjandi ehf.	52.40%	45,429
<b>Total Holding companies</b>		<u>453,911</u>

**Industrie companies**

Borg, saumastofa ehf.	19.82%	170
Eðalís ehf.	11.06%	3,000
Eldisfóður hf.	40.00%	1,200
Fjallalamb	11.24%	10,000
Kjörorka ehf.	8.25%	2,000
MT bílar ehf.	20.58%	199
Plastmótun ehf.	7.82%	733
Saxa smiðjufélag	22.99%	12,000
Sigurjón Magnússon ehf.	30.00%	214
Skaginn hf.	3.08%	5,928
Trico ehf.	33.33%	5,000
Ullarvinnsla frá Láru ehf.	29.76%	2,500
Þvottatækni ehf.	30.00%	729
Þörungaverksmiðjan hf.	27.67%	7,919
<b>Industrie companies Total</b>		<u>51,592</u>

**Health and Biotechnology**

Globodent á Íslandi ehf.	7.18%	2,353
ORF Líftækni hf.	3.55%	3,339
<b>Health and Biotechnology Total</b>		<u>5,692</u>

**Agriculture**

Fóðuriðjan Ólafsdal ehf.	28.57%	6,000
Sláturfélag Austurlands fsvf.	28.00%	18,000
Yrkjar ehf.	7.29%	1,800
<b>Agriculture Total</b>		<u>25,800</u>

**Consulting**

Atvinnuþróunarfélag Vestfjarða hf.	21.35%	1,933
Atvinnuþróunarfélag Þingeyinga hf.	31.86%	1,833
Forsvar ehf.	12.28%	2,000
Frumkvöðlasetur Austurlands ehf.	23.45%	7,000
<b>Consulting Total</b>		<u>12,766</u>

Fisheries			IT		
Bakkavík hf.	16.61%	31,097	Bæjarkort -		
Eignarhaldsfélagið Gláma hf.	36.52%	114,500	Fyrirtæki og stofnanir ehf.	50.00%	3,000
Fossvík ehf.	15.38%	9,000	Gagnaveita Skagafjarðar hf.	8.55%	10,000
Íslenskur kúfiskur ehf.	11.90%	25,000	HotMobileMail ehf.	24.53%	15,000
Kampi ehf.	46.67%	28,000	Óley ehf	42.02%	10,000
Norðurskel ehf.	6.32%	1,264	<b>IT total</b>		<b>38,000</b>
Reykofninn ehf.	30.17%	11,667			
Þóroddur ehf.	10.72%	10,000			
Þórsberg ehf.	7.65%	2,900			
<b>Fisheries total</b>		<b>233,428</b>			
			<b>Total shares as ISK</b>		<b>1,104,519</b>

The value of shares held by the Institute is entered á in the financial statement as ISK 1,475,269

### 12. Real estate

Fixed asset revaluation and depreciation of real estate:

	Real Estate	Fixtures
Total value 1/1	70,388	29,601
<b>Total value as of 31. 12.</b>	<b>70,388</b>	<b>29,601</b>
Depreciated 1/1	15,981	26,641
Depreciated during the year	1,577	3,731
Depreciated out	1,408	0
Total depreciated	17,389	26,641
<b>Book value as of 31. 12.</b>	<b>52,999</b>	<b>2,960</b>

The assessed value of land and buildings totalled ISK 49.5 million.

Insured replacement value of buildings totalled ISK 98.7 million.

### 13. Assets and liabilities linked to foreign currencies or inflation-indexed

	2007 ISK 000s	2006 ISK 000s
Exchange rate-indexed:		
Assets	5,978,199	5,600,284
Liabilities	5,765,378	4,864,108
Difference	212,821	736,176
Inflation-indexed:		
Assets	3,902,860	3,674,678
Liabilities	5,015,448	6,163,923
Difference	(1,112,588)	(2,489,245)

**14. Borrowing**

Breakdown of liabilities by maturity:

	<b>2007</b>	<b>2006</b>
	<b>ISK 000s</b>	<b>ISK 000s</b>
Up to 3 months	222,753	1,296,514
3 month up to 1 year	647,192	955,385
1 to 5 years	5,122,809	4,862,258
Over 5 years	4,788,072	3,913,875
Total	<u>10,780,826</u>	<u>11,028,031</u>

**15. Equity capital**

Equity capital and equity ratio, as stipulated by law:

Equity capital A	<u>2,072,520</u>	1,051,892
Total equity capital	<u>2,072,520</u>	1,051,892
Risk-adjusted asset base	<u>10,526.304</u>	11,805.472
Equity ratio	<u>14.15%</u>	8.91%

	<b>Retained earnings</b>	<b>Total</b>
Balance as of 1 Jan. 2007	1,051,892	1,051,892
Budget allocations	1,200,000	0
Loss	(179,372)	(179,372)
	<u>2,072,520</u>	<u>872,520</u>

**17. Remuneration to auditors was distributed as follows:**

	<b>2007</b>	<b>2006</b>
	<b>ISK 000s</b>	<b>ISK 000s</b>
Auditing	1,793	1,299
Other professional services	4,907	2,696
Total	<u>6,700</u>	<u>3,995</u>