



# **Annual Accounts of Byggðastofnun**

Icelandic Regional Development Institute

**2008**

## 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 2008</i>	<i>"</i>	<i>4</i>
<i>Balance sheet as of 31 December 2008</i>	<i>"</i>	<i>5 - 6</i>
<i>Statement of cash flow, 2008</i>	<i>"</i>	<i>7</i>
<i>Notes to the 2008 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 2008 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 527.9 million. According to the balance sheet, equity capital amounted to ISK 1,544.5 million at year-end. Equity ratio, as defined by the Act on Credit Institutions other than Commercial and Savings Banks, of 2.80%.

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 2008.

Reykjavik, Iceland; 10 March 2009

*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 2008 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 2008, its financial position as of 31 December 2008, and the changes in its liquid assets during 2008, in conformity with the Annual Accounts Act.

Reykjavik, Iceland; 10 March 2009.

*Árni Snæbjörnsson*  
Certified Accountant  
Ernst & Young hf.

Borgartúni 30, 105 Reykjavik

## Income statement for the year 2008

	<b>Notes</b>	<b>2008</b> ISK 000s	<b>2007</b> ISK 000s
<b>Interest income</b>			
Interest from bankdeposits and securities		77,212	92,497
Interest on loans		1,894,991	883,393
		<b>1,972,204</b>	<b>975,872</b>
<b>Interest expenses</b>			
Interest on borrowings		1,511,513	753,093
Other interest expense		1,070	1,200
		1,512,583	754,293
<i>Net interest income</i>		<b>459,621</b>	<b>221,579</b>
<b>Other income</b>			
Regular budget allocation		386,300	352,500
Other budget allocation	6	118,858	30,672
Foreign exchange differences		711,082	(31,592)
Other income		14,211	24,709
		1,230,450	376,289
<i>Net income</i>		<b>1,690,071</b>	<b>597,867</b>
<b>Other expenses</b>			
Grants to economic development agencies		173,160	139,400
Other grants		106,445	23,290
Salaries and related expenses	4,5	157,768	145,845
General operating expenses		118,876	106,424
Depreciation of fixed assets		1,408	1,408
Allowance for losses on loans and reduction in share capital	2,10	1,660,399	360,873
		2,218,055	777,239
<b>Net profit (loss)</b>		<b>(527,984)</b>	<b>(179,372)</b>

**Balance sheet**

<b>Assets</b>	<b>Notes</b>	<b>31.12.2008</b> ISK 000s	<b>31.12.2007</b> ISK 000s
<b>Funds and claims against financial institutions</b>			
Bank deposits and securities	7	<u>2,472,498</u>	<u>1,899,148</u>
<b>Loans</b>			
Loans to customers	8	19,348,264	9,252,757
Appropriated assets	9	355,235	244,182
		<u>19,703,499</u>	<u>9,496,939</u>
<b>Shares held in companies</b>			
Shares	11	1,064,417	1,475,269
		<u>1,064,417</u>	<u>1,475,269</u>
<b>Other assets</b>			
Accounts receivable		13,966	10,148
Real estate	1,12	54,551	55,959
		<u>68,517</u>	<u>66,106</u>
<b>Total assets</b>		<b><u>23,308,932</u></b>	<b><u>12,937,462</u></b>

## as of 31 December 2008

<b>Liabilities and equity</b>	<b>Note</b>	<b>31.12.2008</b> ISK 000s	<b>31.12.2007</b> ISK 000s
<b>Borrowings</b>	14,17		
Securities issued		5,764,993	5,015,448
Loans from financial institutions		15,896,356	5,765,378
		<hr/> 21,661,349	<hr/> 10,780,826
<b>Other liabilities</b>			
Allowance for losses on collateral		11,255	9,815
Creditors		91,791	74,301
		<hr/> 103,046	<hr/> 84,116
<b>Total liabilities</b>		<hr/> <b>21,764,395</b>	<hr/> <b>10,864,942</b>
<b>Equity capital</b>	3,15	<hr/> <b>1,544,537</b>	<hr/> <b>2,072,520</b>
<b>Total liabilities and equity</b>		<hr/> <b>23,308,932</b>	<hr/> <b>12,937,462</b>
<b>Outside the balance sheet items</b>			
Guarantees provided		363,914	317,357

## Statement of cash flow, 2008

	<b>2008</b>	<b>2007</b>
	ISK 000s	ISK 000s
<b>Cash flow from operations</b>		
Net profit (loss)	(527,984 )	(179,372 )
<i>Items not affecting liquid assets:</i>		
Allowance for losses on loans and reduction in share capita	1,660,399	360,034
Allocations due to pension obligations	0	207
Depreciation of fixed assets	1,408	1,408
Interest, indexation and exchange rate difference	(111,714 )	(209,783 )
Unpaid grants	(3,199 )	2,989
<b>Cash flow from operations</b>	<b>1,018,910</b>	<b>(24,518)</b>
 <b>Investment activities</b>		
Repayment of loans	807,445	1,346,410
New loans made	(3,880,601 )	(2,009,980 )
Redeemed assets	68,198	(90,908 )
Shares	(10,715 )	(86,387 )
Pension obligations paid	0	(13,812 )
Debtors	(3,819 )	3,059
<b>Investment activities</b>	<b>(3,019,491)</b>	<b>(851,617)</b>
 <b>Financing activities</b>		
Repayment of borrowings	(1,602,883 )	(2,417,303 )
New borrowings	4,156,125	2,685,624
Budget allocations	0	1,200,000
Accounts payable	20,689	(23,984 )
<b>Financial activities</b>	<b>2,573,931</b>	<b>1,444,337</b>
 Increase (decrease) in cash on hand	<b>573,350</b>	<b>568,202</b>
Cash on hand at beginning of year	<b>1,899,148</b>	<b>1,330,946</b>
Cash on hand at year-end	<b>2,472,498</b>	<b>1,899,148</b>

## Notes to the 2008 financial statements

### 1. Accounting procedures

The annual accounts of the Icelandic 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. The Icelandic Regional Development Institute accounts are presented in ISK (Icelandic kronur) and are based on historical cost accounting, except in regard to investment assets, derivatives and financial instruments which are intended for resale and are given an assessed market value. The same accounting procedures have been followed this time as were used last year.

### Assessment procedures

Management often has to assess and take special decisions on matters which relate to a significant item in the annual accounts and which, due to their nature, depend on estimates made at the time. Although the assessment procedures are grounded in appropriate accounting practices, the actual value of items estimated in this way can, upon sale or other provision, turn out to be different from what was concluded through such estimates.

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 future and if the cost can be reliably assessed. Any maintenance costs are charged to the profit and loss account at the time of their 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 on the basis of the indices which took effect on 01 January 2009. 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 companies is entered at cost or fair value, with changes in their assessment being reflected in operations.

Receivables are entered according to their original trading price, showing consideration for currency changes and subtracting an adjustment to allow for receivables which might be lost. This adjustment is based on estimating the risk of loss for individual receivables and for total receivables. The receivables which have been clearly lost are removed from Institute accounts.

On the balance sheet and in the cash flow statement, bank deposits are considered as liquid assets.

### 2. Allowance for loan losses

The allowance for loan losses provides for dealing with the risks accompanying loan operations; however, this does not entail writing off the loans completely. Loan loss allowances are charged to the profit and loss account, after subtracting repayments of previously written-off loans.

### 3. Equity

According to provisions in the Act on Financial Undertakings, No. 161/2002, a lending institution's equity may at no time fall below an amount equivalent to 8% of the risk base. In reference to this, the equity ratio of the Icelandic Regional Development Institute amounted to 2.80% at year-end 2008.

### 4. Salaries and related expenses

	2008	2007
	ISK 000s	ISK 000s
Wages	130,201	119,803
Pension contributions	16,042	14,848
Other salaries-related expenses	11,524	11,193
	<u>157,768</u>	<u>145,845</u>

In terms of full-year positions, the Institute had an average of about 20 employee's in 2008. At year-end 2008 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:

Herdís Á. Sæmundardóttir, Chairman of the Board until 31.5.2007	0	1,497
Örlygur Hnefill Jónsson, chairman	2,239	1,760
Other Board Members (6)	6,829	5,617
Aðalsteinn Þorsteinsson, Director-General	11,561	10,862
<b>Total</b>	<u>20,629</u>	<u>19,736</u>

### 6. Allocations from supplementary budget

Budget allocations for employment promotion	91,808	0
Budget allocations for economic development projects	5,050	16,690
Other budget allocations	22,000	13,982
<b>Total</b>	<u>118,858</u>	<u>30,672</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.

	<b>2008</b>	<b>2007</b>
Bank deposits in ISK	1,081,605	68,229
Bank deposits in foreign currencies	1,390,893	23,394
Other bank deposits	0	1,807,525
	<u>2,472,498</u>	<u>1,899,148</u>

**8. Loans**

Breakdown by sector:

Municipalities	0.57%	1.26%
Individuals	5.89%	4.80%

**Industry:**

Services	34.69%	34.34%
Fisheries	33.08%	33.04%
Manufacturing	14.81%	16.69%
Financial Institute	5.57%	8.14%
Other	3.04%	0.15%
Agriculture	2.36%	1.58%
	<u>100.00%</u>	<u>100.00%</u>

Loans by maturity:

On demand	463,213	198,602
Up to 3 months	380,670	497,098
3 months up to 1 year	1,259,855	982,719
1 to 5 years	5,561,940	2,593,514
Over 5 years	11,682,586	4,980,825
	<u>19,348,264</u>	<u>9,252,757</u>

**9. Appropriated assets**

Real estate	355,035	190,682
Moveable assets	200	53,500
	<u>355,235</u>	<u>244,182</u>

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

According to the regulation for 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)**

Acct. balance at beginning of year	795,918	897,901
Provisions to loan-loss account	1,237,392	338,400
Loans written off	(266,195)	(440,383)

Balance at end of year 1,767,115 795,918

Allowance during the year	1,237,392	338,400
Provision for guarantees	1,440	(3,369)
Changes in shares	421,567	26,003
Recoveries on loans previously written off	0	(161)
Allowance for credit losses, according to profit and loss statement	<u>1,660,399</u>	<u>360,873</u>
Allowance for credit losses, as a percentage of loans	8.37%	7.92%

**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
Fasteignafélagið Borg ehf.	29.80%	18,824
Fjarðaraldan hf.	29.88%	15,000
Grand hótél Mývatn ehf.	7.22%	10,000
Hótél Hellissandur hf.	24.99%	19,534
Hótél Norðurljós ehf.	46.40%	2,320
Sláturhúsið Búðardal ehf.	24.85%	16,919
Tröllasteinn ehf.	18.92%	7,000
Urtusteinn ehf.	8.36%	3,408
<b>Total real estate</b>		<u>143,615</u>

**Travel companies**

Baðfélag Mývatnssveitar ehf.	19.91%	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
Rauðka ehf.	16.67%	2,000
Reynihlíð ehf.	34.21%	5,000
Smyril-line P/F	0.97%	17,057
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>95,302</u>

**Holding companies:**

Eignarhaldsfélag Austurlands hf.	33.61%	35,959
Eignarhaldsfélag Suðurlands hf.	40.00%	109,142
Eignarhaldsfélag Suðurnesja hf.	19.02%	96,840
Eignarhaldsfél. Vestmannaeyja hf.	39.10%	7,849
Gjöll ehf.	22.04%	4,000
Hvetjandi ehf.	52.40%	45,429
<b>Total Holding companies</b>		<u>299,219</u>

**Industrie companies**

Álfasteinn ehf.	6,70%	5,000
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
Raflagnir Austurlands ehf.	22,99%	12,000
Sigurjón Magnússon ehf.	30,00%	214
Skaginn hf.	2,67%	5,928
Trico ehf.	33,33%	5,000
Ullarvinnsla frá Láru ehf.	29,76%	2,500
Þörungaverksmiðjan hf.	27,67%	7,919

**Industrie companies Total 54,761**

**Health and Biotechnology**

Globodent á Íslandi ehf.	7,18%	2,353
ORF Líftækni hf.	3,55%	3,339

**Health and Biotechnology Total 5,692**

**Agriculture**

Fóðuriðjan Ólafsdal ehf.	28,57%	6,000
Sláturfélag Austurlands fsvf.	28,00%	18,000
Yrkjar ehf.	7,29%	1,800

**Agriculture Total 25,800**

**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

**Consulting Total 12,766**

**Fisheries**

Bakkavík hf.	17,14%	21,589
Eignarhaldsfélagið Gláma hf.	36,52%	114,500
Fossvík ehf.	15,38%	9,000
Kampi ehf.	46,67%	28,000
Norðurskel ehf.	2,00%	1,264
Reykofninn Grundarf. ehf.	30,17%	1,167
Þóroddur ehf.	10,72%	10,000
Þórsberg ehf.	7,65%	2,900

**Fisheries total 188,420**

**IT**

Bæjarkort - Fyrirtæki og stofnanir ehf.	50,00%	3,000
Gagnaveita Skagafjarðar hf.	9,95%	10,000
HotMobileMail ehf.	24,53%	15,000
Óley ehf.	42,02%	10,000

**IT total 38,000**

**Total shares as ISK 863,575**

The value of shares held by the Institute is entered á in the financial statement as ISK 1,064,417

**12. Real estate**

Fixed asset revaluation and depreciation of real estate:

	Real Estate	Fixtures	Total
Total value 1/1	70,389	29,601	99,990
<b>Total value as of 31. 12.</b>	<b>70,389</b>	<b>29,601</b>	<b>99,990</b>
Depreciated 1/1	17,390	26,641	44,031
Depreciated during the year	1,408	0	1,408
Total depreciated	18,798	26,641	45,439
<b>Book value as of 31. 12.</b>	<b>51,591</b>	<b>2,960</b>	<b>54,551</b>

The assessed value of land and buildings totalled ISK 52.1 million.

Insured replacement value of buildings totalled ISK 125 million.

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

	<b>2008</b>	<b>2007</b>
	ISK 000s	ISK 000s
Exchange rate-indexed:		
Assets	16,053,200	5,978,199
Liabilities	15,567,528	5,765,378
Difference	<u>485,672</u>	<u>212,821</u>
Inflation-indexed:		
Assets	4,685,957	3,902,860
Liabilities	5,764,993	5,015,448
Difference	<u>(1,079,036)</u>	<u>(1,112,588)</u>

**14. Borrowing**

Breakdown of liabilities by maturity:

On demand	328,828	0
Up to 3 months	373,218	222,753
3 month up to 1 year	889,112	647,192
1 to 5 years	9,806,118	5,122,809
Over 5 years	10,264,073	4,788,072
Total	<u>21,661,349</u>	<u>10,780,826</u>

**15. Equity capital**

Equity capital and equity ratio, as stipulated by law:

Equity capital A	<u>1,554,537</u>	2,072,520
Total equity capital	<u>1,544,537</u>	2,072,520
Risk-adjusted asset base	<u>19,101.640</u>	10,526.304
Equity ratio	<u>2.80%</u>	14.15%
		<b>Retained earnings</b>
Balance as of 1 Jan. 2008		2,072,520
Year loss		(527,984)
		<u>1,544,537</u>

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

Auditing	2,492	1,793
Other professional services	4,155	4,907
Total	<u>6,647</u>	<u>6,700</u>