

# BYGGÐASTOFNUN

The Icelandic Regional Development Institute

Byggðastofnun

Annual Accounts 2013

Ártorg 1  
550 Sauðárkrókur

ID no. 450679-0389

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## Independent auditors' report

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### **To the board of directors and chief executive officer of the Icelandic Regional Development Institute**

We have audited the accompanying annual accounts of Byggðastofnun, the Icelandic Regional Development Institute, for the year 2013. The annual accounts comprise a report of the board of directors, a profit and loss account, a balance sheet, a cash flow statement, and details of important accounting procedures and other notes.

### **Directors' and chief executive officer's responsibility for the annual accounts**

The directors and the chief executive officer are responsible for the preparation and presentation of the annual accounts in accordance with the applicable Act on Annual Accounts. The directors and chief executive officer are also responsible for such internal controls as are necessary regarding the preparation and presentation of the annual accounts, such that they contain no material misstatements, whether through fraudulent activity or error.

### **Auditors' responsibility**

Our responsibility consists in the opinion we express on the annual accounts on the basis of the audit. The audit was carried out in accordance with international auditing standards. These standards require that we observe established ethical principles and organise and conduct the audit such that sufficient certainty may be obtained that the annual accounts contain no material misstatements.

An audit includes measures designed to verify the figures and other information in the annual accounts. The choice of auditing procedures is based on the auditor's professional assessment of, among other things, the risk that the annual accounts may contain material misstatements, whether through fraudulent activity or error. In the evaluation of this risk, regard is taken of the Institute's internal controls, their structure and effectiveness. The audit also includes an assessment of the appropriateness of the accounting procedures and valuation methods used by the managers in the preparation of the annual accounts as well as an evaluation of their overall presentation.

We believe that the data we have obtained in our audit is sufficient and appropriate to provide a reasonable basis for our opinion.

### **Opinion**

It is our opinion that the annual accounts give a true and fair picture of the Institute's performance in the year 2013, its financial position as at 31 December 2013, and its cash flows during the year 2013, in accordance with the Act on Annual Accounts.

Sauðárkrókur, 14 March 2014

**Endurskoðendathjónustan ehf**

[ ‘Auditor’s services, private limited company’,  
divison of Íslenskir Endurskoðendur ehf  
‘Icelandic Auditors, private limited company’ ]

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Sævar Thór Sigurgeirsson  
State Authorised Public Accountant

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Sveinbjörn Sveinbjörnsson  
State Authorised Public Accountant

## Report and endorsement of the directors and managers

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### Functions

The Institute operates under the terms of the Icelandic Regional Development Institute Act, no. 106/1999, and Regulation no. 347/2000. The function of the Icelandic Regional Development Institute is to promote the economic development of the rural regions of Iceland and employment and industry in these areas. In accordance with these functions the Institute contributes to the preparation, organisation and financing of projects and the provision of loans with the aim of ensuring continued regional settlement, promoting employment and supporting innovation in business and industry. The financing of projects shall, where appropriate, be in collaboration with others. The Institute monitors regional settlement trends in Iceland, through among other means research and the collection of data. The Institute organises and contributes to consultation services in co-operation with economic development agencies, local authorities and others. The Institute may make or have made plans for the development of regional areas and business and industry with the purpose of supporting settlement and employment in the county's non-metropolitan areas. The Institute may also contribute to local planning activities under the terms of the Planning Act.

### Operations in the year 2013

According to the profit and loss account, the Institute's operating profit for the year 2013 amounted to ISK 188.9 million. Capital reserves at the end of the year 2013 as per the balance sheet stood at ISK 2,302.4 million. The capital adequacy ratio as defined under the Act on Financial Undertakings was 16.00%. The terms of the Act on Financial Undertakings stipulate that capital reserves shall not at any time be lower than 8% of the risk-weighted asset base and the Institute thus satisfied the provisions of the Law in this regard at the end of the year 2013.

In the Budget for 2012 the Icelandic parliament agreed an authority to increase the Institute's capital reserves by up to ISK 2,000 million. Of this contribution, ISK 1,750 million was paid to the Institute in January 2012 and the balance at the start of January 2013.

On 2 May 2013 the Supreme Court of Iceland delivered a ruling that a loan granted by the Icelandic Regional Development Institute in a foreign currency was legal. The loan had been granted to Samvirkni ehf of Akureyri in February 2008 and was in Japanese yen. The Supreme Court thereby established that the Institute had acted in a correct and proper manner in its issuing of loans in foreign currencies. Something over 60% of the Institute's loans are in foreign currencies and the Supreme Court's ruling has precedence value for around 90% of them.

On 5 June 2013 the Supreme Court of Iceland (case no. 352/2013) upheld a ruling of the District Court of Reykjavík in the case Byggðastofnun v. Sparisjóður Reykjavíkur og nágrennis hf (Icelandic Regional Development Institute v. Reykjavík and District Savings Bank Ltd.) in which a claim of the Institute's to the sum of ISK 271.3 million was recognised as a priority claim. ISK 238 million of this claim had previously been written off.

A case was heard in 2013 before the District Court for the North of Iceland (West)

concerning the legality of restructuring of index-linked loans in Icelandic krónur into loans in foreign currencies through the issue of an endorsement. A judgement in this case was handed down on 29 November 2013 in which the legality of the Institute's loans restructured in this way was accepted and no appeal has been made against this judgement. No special contingency provisions have been entered in the accounts on accounts of these matters. Further details of these matters are given Note 19 to the annual accounts.

### **Risk management**

Risk management and effective internal controls are one of the principal pillars of the responsible operation of the Institute. The Icelandic Regional Development Institute has defined the principal risk factors in its operations. These are operational risk, credit risk, payment risk, commercial risk, interest rate risk and concentration risk. The Institute is also reckoned to have financial exposure to exchange rate risk and settlement and refinancing risk. The Institute operates effective internal controls and all processes have been recorded. These processes and risk factors are assessed regularly. Appraisals have shown that the regulatory methods laid down are effective. In 2013 work has been carried out on formulating a security policy based on international standard ISO/IEC 27001 on information security management systems and this policy was ratified by the Institute's board of directors during the year.

### **Governance**

The present board of the Icelandic Regional Development Institute was appointed by the minister of industries and innovation at the Institute's annual general meeting on 4 April 2013 and its period of office applies until 1 July 2014. The directors of the Institute seek to maintain good management practices and have established rules for the board's working functions as well as ethical guidelines for staff and officers which form part of a 'Handbook for staff and officers'. The handbook was first approved in 2002 and may be found on the Institute's website [www.byggdastofnun.is](http://www.byggdastofnun.is). Rules of operation have also been established for the auditing committee and the compliance officer's role defined by the board. Working within the Institute there is a loans committee which discusses all loan applications and the sale of appropriated assets, as well as making proposals to the board on the sale of stocks and shares. Operational procedures on loan granting activities and financial and asset management have been updated regularly, covering among other matters the authorisational powers of the loans committee.

### **Declaration of the board of directors and managers**

The annual accounts have been prepared in compliance with the Act on Annual Accounts and the Regulations on the Financial Statements of Credit Institutions. They are based on the same accounting procedures as in the previous year.

The directors of the Icelandic Regional Development Institute, its chief executive officer and its operations manager herewith append their signatures in certification of the Institute's annual accounts for the year 2013.

Sauðárkrókur, 14 March 2014

Operations Manager

Chief Executive Officer

## Profit and loss account for the year 2013

	<i>Notes</i>	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
<b>Interest earned</b>			
Interest on deposits with credit institutions		134,363	107,060
Interest earned and indexation adjustment on loans issued		864,004	1,132,267
		998,367	1,239,328
<b>Interest expenses</b>			
Interest expenses and indexation adjustment on loans received		560,419	644,600
Other interest expenses		583	970
		561,002	645,570
<b>Net interest earned</b>		437,365	593,757
<b>Operating income</b>			
Funding received from Treasury under Budget provisions	6	365,500	317,100
Other Treasury funding received	6	175,973	(750)
Foreign exchange adjustment		(19,156)	(155,484)
Other operating income		37,528	32,430
		559,846	193,296
<b>Net operating income</b>		997,211	787,054
<b>Operating expenses</b>			
Disbursements to business consultants		172,200	164,700
Subsidies granted re offset of transportation costs		169,775	0
Other subsidies granted		6,548	3,429
Salaries and wage-related expenses	3, 4	234,383	194,480
Other operating costs		139,173	118,227
Management costs on appropriated assets	10	28,089	7,005
Depreciation of fixed assets	14	7,166	7,046
Provision to meet losses on loans granted and revaluation of shareholdings	2, 12	50,960	444,940
		808,294	939,827
<b>Profit (loss) for year</b>		188,917	(152,773)

## Balance sheet

	<i>Notes</i>	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
<b>Assets</b>			
<b>Reserves and balances with credit institutions</b>			
Bank deposits	7	2,421,208	2,213,327
<b>Loans granted</b>			
Loans issued in Icelandic króna	8, 15	4,545,520	4,474,576
Loans issued in foreign currencies	8, 15	6,038,652	8,090,692
Appropriated assets	9, 11	986,320	856,281
		11,570,492	13,421,549
<b>Shareholdings in companies</b>			
Shares	13	809,599	763,001
		809,599	763,001
<b>Other assets</b>			
Debtors		14,190	281,514
Fixed assets	14	56,818	58,587
		71,009	340,102
<b>Assets: total</b>		14,872,307	16,737,980



## 31 December 2013

	<i>Notes</i>	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
<b>Liabilities and capital reserves</b>			
<b>Loans taken out</b>			
Index-linked securities issued		5,591,645	5,236,796
Loans from foreign institutions		6,866,776	9,312,893
	16	12,458,421	14,549,688
<b>Other debts and liabilities</b>			
Reserve to cover guarantees provided	18	1,187	11,389
Unallocated funds received		51,696	35,361
Creditors		58,565	28,019
		111,448	74,769
<b>Total liabilities</b>		12,569,868	14,624,458
<b>Capital reserves</b>	2, 17	2,302,439	2,113,522
<b>Liabilities and capital reserves: total</b>		14,872,307	16,737,980
<b>Off-balance-sheet items</b>			
Guarantees provided	18	22,552	216,398

## Cash flow statement 2013

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
<b>Cash in hand from operations</b>		
Profit (loss) for the year	188,917	(152,773)
Operating items that do not affect cash in hand:		
Provision to meet losses on loans and revaluation of shares	215,481	444,939
Depreciation of fixed assets	7,166	7,046
Profit on the sale of operating assets	(935)	0
Interest, indexation adjustment and exchange rate adjustment	377,110	345,356
Unpaid subsidies	215	(5,692)
Cash in hand from operations	<u>787,953</u>	<u>638,876</u>
<b>Cash flows from investment activities</b>		
Instalment payments on loans granted	1,149,900	969,680
New loans granted	(504,559)	(214,700)
Assets redeemed	(81,572)	(4,679)
Shares	(95,605)	36,531
Purchase of fixed assets	(4,462)	(10,477)
Contingent liabilities and guarantee obligations paid	(156,627)	(161,698)
Debtors	17,324	2,595
Cash flows from investment activities	<u>324,400</u>	<u>617,252</u>
<b>Cash flows from financing activities</b>		
Instalment payments on loans received	(1,201,139)	(4,388,721)
New loans taken out	0	1,128,844
Funding received from Treasury	250,000	1,750,000
Creditors	46,666	2,846
Cash flows from financing activities	<u>(904,473)</u>	<u>(1,507,030)</u>
<b>Increase (decrease) in cash in hand</b>	207,880	(250,903)
<b>Cash in hand at start of year</b>	2,213,327	2,464,230
<b>Cash in hand at end of year</b>	<u><u>2,421,208</u></u>	<u><u>2,213,327</u></u>

## Notes

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### 1. About the Institute

Byggðastofnun (the Icelandic Regional Development Institute), ID no. 450679-0389, is a credit institution whose main business consists in the granting of loans and other financial support. The legal domicile of the Institute is Ártorg 1, 550 Sauðárkrókur, Iceland.

### 2. Accounting principles

#### Basis of the preparation of accounts

The annual accounts have been prepared in compliance with the Act on Annual Accounts and the Regulations on the Financial Statements of Credit Institutions. They are based on historical-cost principles. They employ the same accounting methods as in the previous year. Financial figures are in ISK (Icelandic krónur) and all such figures are given in thousands of ISK unless otherwise specified.

#### Valuation methods

Officers are required to evaluate and take individual decisions affecting important items in the annual accounts which by their nature are subject to changing valuation at any time. The valuation methods used are grounded in good accounting practice. The actual prices that items valued in this way may realise on sale or other disposal may prove different from the figures determined in the valuation.

#### Price-indexed and exchange-rate indexed assets and liabilities

Accrued adjustments to the principal value of assets and liabilities as a result of changes in price levels and foreign exchange rates are reflected in the annual accounts. Index-linked assets and liabilities are entered on the basis of price indexes that took effect on 1 January 2014. Assets and liabilities in foreign currencies are converted to ISK at the last listed exchange rate at the end of the year. The difference that arises from exchange rate movements is entered to the profit and loss account.

Exchange rates at end of year:

	<u>31.12.2013</u>	<u>31.12.2012</u>
EUR	158.94	170.27
USD	115.30	129.05
JPY	1.10	1.50
DKK	21.31	22.83

Indexes at end of year:

	<u>1.1.2014</u>	<u>1.1.2013</u>
Consumer prices index for value indexation purposes	416.7	402.0

### **Fixed assets**

Fixed assets are entered at acquisition cost less depreciation. Improvements and enhancements are entered as assets if it is likely that they will yield a future profit to the Institute and it is possible to estimate the cost in reliable fashion. All maintenance costs are debited to the profit and loss account as and when they are incurred. Depreciation is based on the estimated useful life of individual fixed assets and calculated as a fixed annual percentage of the initial acquisition cost, less estimated residual value, based on the period of ownership during the year.

### **Reserve to cover losses on loans provided**

A reserve account to cover losses on loans provided is set up to cover the exposure that is inherent in credit provision operations but does not imply that the assets are irrevocably written off. Additions to the reserve account to cover losses on loans provided are entered as costs on the profit and loss account, reduced by any repayments arising from loans previously written-off.

### **Shareholdings in companies and affiliate companies**

Shareholdings in companies are entered at purchase price less impairment of value. Affiliate companies are companies in which the Institute owns a share of at least 20%. The Institute's interests in affiliate companies are entered initially at purchase price and after the initial entry according to the equity method. Revaluations are entered to the profit and loss account.

### **Loans granted**

Loans granted by the Institute are broken down into loans to clients and appropriated assets. They are originally priced at fair value price or cost price, inclusive of transaction costs. All transactions undertaken by the Institute arising from its investments are recorded as at the date of transaction, which is taken to be the date on which the Institute has committed itself to the transaction. Accrued interest is included in the value of loans entered in the books. Interest received on loans and deposits are recorded under the item 'Interest earned' on the Profit and Loss Account and an adjustment arising from changes in exchange rates under the item 'Foreign exchange adjustment'. Writing down is based on an estimate of the risk of loss with respect to individual loans made. Loans that are irrevocably lost are written out of the Institute's books.

### **Debtors**

Claims against debtors are entered at the original transaction price, adjusted to cover currency fluctuations and less a writing-down allowance made to cover potentially lost claims. The writing-down allowance is based on an assessment of the risk of loss with respect to individual claims and to the claims as a whole. Claims that are irrevocably lost are written out of the Institute's books.

### **Cash in hand**

Cash in hand (liquid assets) on the balance sheet and in the preparation of the cash flow statement takes in bank deposits and balances with immediate access held at credit

institutions.

### Income

Income is entered in the accounts when there is genuine probability that its financial benefits will accrue to the Institute and when it is possible to assess its value reliably.

Interest income is credited to the Profit and Loss Account as and when it arises.

Dividend income is credited when the Institute's right of collection has been established.

Rental income from the letting of appropriated assets is entered on a straight-line basis over the rental period.

### 3. Salaries and wage-related expenses

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Salaries	176,568	158,601
Accrued holiday pay	17,953	0
Pension contributions	21,456	19,416
Other wage-related expenses	18,405	16,454
Salaries and wage-related expenses: total	<u>234,383</u>	<u>194,480</u>

On a full-year employment basis, the Institute had an average workforce of 22 in the year, which is an increase of one over the previous year. At the end of the year there were 22 members of staff on the Institute's payroll, with a full-day equivalent of 21.8.

### 4. Remuneration of directors and chief executive officer

Salaries paid to the directors and chief executive officer of the Icelandic Regional Development Institute break down as follows:

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Thóroddur Bjarnason, chairman of the board of directors	2,237	2,182
Ásta Dís Óladóttir	0	875
Bergsteinn Einarson (deputy)	81	39
Guðmundur R. Gíslason	987	955
Guðrún Thóra Gunnarsdóttir (deputy)	0	40
Gunnar Svavarsson	102	955
Matthildur Helgadóttir Jónudóttir	987	80
Ólafía Jakobsdóttir	729	0
Ólöf Th. Hallgrímsdóttir	1,056	955
Rögvaldur Ólafsson	987	160
Sigurbjörg Kr. Hannesdóttir	0	955
Steingerður Hreinsdóttir (deputy)	41	0
Valdimar Haftsteinsson	987	955

Aðalsteinn Thorsteinsson, chief executive officer	14,151	13,632
Remuneration of directors and chief executive officer: total	22,346	21,785

## 5. Auditors' fees

Auditors' fees break down as follows:

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Auditing	8,602	6,739
Other professional services/internal auditing	3,334	5,765
Auditors' fees: total	11,936	12,504

## 6. Treasury funding agreed in the budget and other Treasury funding

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
General operations	147,900	144,400
Business consultants in the rural regions	167,600	164,700
Funding for Project <i>Brothættar byggðir</i> ('Fragile Communities')	50,000	0
Regional <i>Sóknaráætlun</i> ('Moving Iceland Forward' initiative)	0	8,000
Treasury funding as agreed in the budget	365,500	317,100

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Treasury funding re industrial development (funding repaid)	0	(750)
Treasury funding re offset of transportation costs	175,973	0
Other Treasury funding: total	175,973	(750)

Costs to the Institute arising from the project *Brothættir byggðir* ('Fragile Communities') in the year 2013 amounted to ISK 15,724,000 and are entered to the Profit and Loss Account.

## 7. Reserves and balances with credit institutions

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Bank deposits in Icelandic krónur	2,286,771	2,170,860
Bank deposits in foreign currencies	134,437	42,467
Reserves and balances with credit institutions: total	2,421,208	2,213,327

## 8. Loans granted to clients

	<b>2013</b>	<b>2012</b>
Broken down by recipients:		
Local authorities	0.19%	0.17%
Individuals	8.76%	8.11%
Broken down by sector:		
Services	47.96%	45.78%
Fisheries	25.05%	27.57%
Industry	15.24%	13.80%
Agriculture	2.69%	4.47%
Financial institutions	0.12%	0.10%
	100%	100%

Loans granted break down by period outstanding as follows:

Claims fallen due	553,754	617,271
Up to 3 months	187,467	227,428
3 months to 1 year	833,467	953,007
1 year to 5 years	3,069,043	3,728,888
Over 5 years	5,940,433	7,038,674
	10,584,172	12,565,268

## 9. Appropriated assets

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Real estate	986,320	826,281
Marine vessels	0	30,000
	986,320	856,281

## 10. Management of appropriated assets

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Rental income	68,030	50,452
Management costs	96,119	57,458
	(28,089)	(7,005)

## 11. Appropriated assets

	<b>Rateable value</b>	<b>Floor area m<sup>2</sup></b>
Austurvegur 3, Seyðisfjörður	16,070	379.9
Eyrarland 1, Hvammstangi	5,636	159.2
Guesthouse Iðunn, Laugarás	69,150	2,003.1
Grænigarður, Ísafjörður	53,960	1,366.7
Hafnarbraut 8, Akranes	52,960	808.7
Hafnarbraut 7, 11 & 15, Dalvík	60,940	1,478.5
Héðinsbraut 4, Húsavík	44,210	246.8
Hlíðarvegur 15, Ísafjörður	8,760	94.1
Kirkjuvegur 3, Ólafsfjörður	3,650	59.2
Langanesvegur 1, Thórshöfn	16,560	471.9
Nesbraut 7, Reyðarfjörður	38,600	722.4
Pálsbergsgata 3 & 5, Ólafsfjörður	30,840	1,851.4
Sandhorn, Hrísey	18,510	832.7
Seljavogur 10, Hafnir	22,860	231.8
Sindragata 27, Ísafjörður	23,653	659.6
Skúlagata 17, Borgarnes	47,930	650.6
Snartarstaðir plot no. 154334, Norðurthing	426	14.7
Snartarstaðir plot no. 178032, Norðurthing	336	6.4
Sólvellir 23, Breiðdalsvík	66,119	2,081.6
Steig, Mýrdalshreppur	50,138	1,641.2
Strandarvegur 29-33, 29R, Seyðisfjörður	9,650	601.0
Strandgata 37, Tálknafjörður	9,910	456.1
Valgerðarstaðir 4, Fljótsdalshérað	97,250	5,148.3
Vallarás 7-9, Borgarnes	192,685	1,919.1
Vallargerði 15, Reyðarfjörður	24,700	212.8
Vesturgata 14, Akranes	13,380	246.8
	<u>978,882</u>	<u>24,344.5</u>

Appropriated assets are entered in the annual accounts at a value of ISK 986,320,000.

## 12. Provision to meet losses on loans

Movements in year:

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Provision at start of year	2,317,220	3,273,256
Addition to provision during year	72,679	369,460
Money-market loan called in	(238,086)	0
Loans permanently written off	(630,077)	(1,325,496)
	<u>1,521,737</u>	<u>2,317,220</u>



Provision to meet losses on loans as a proportion of monies loaned	12.57%	15.57%
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	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Addition during year	72,679	369,460
Money-market loan called in	(238,086)	0
Addition to cover guarantees provided	146,424	(6,264)
Addition to cover accounts receivable	4,000	0
Revaluation of shareholdings	75,842	81,744
Recoveries of loans previously written off	(9,900)	0
Additions to provision to meet losses on loans as per Profit and Loss account	<u>50,960</u>	<u>444,940</u>

### 13. Shareholdings

At the end of the year the Icelandic Regional Development Institute held the following shares, broken down as follows by nominal value and ownership share:

	<b>Ownership share</b>	<b>Nominal value</b> ISK 000s
<b>Property management</b>		
Ámundakinn ehf	13.72%	21,000
Ásgarður hf	13.10%	15,000
Dalagisting ehf	12.11%	8,000
Fasteignafélagið Borg ehf	29.78%	18,825
Fasteignafélagið Hvammur ehf	24.86%	16,926
Fasteignafélagið Kirkjuból ehf	30.35%	7,124
Grand hótél Mývatn ehf	7.22%	10,000
Hesthólar ehf	70.99%	14,672
Hótél Hellissandur hf	24.98%	19,534
Hótél Norðurljós ehf	46.40%	2,320
Hæðin á Höfðabraut ehf	12.28%	2,000
Tröllasteinn ehf	18.92%	7,000
Urtusteinn ehf	8.45%	32,818
<b>Property management: total</b>		<u>175,219</u>
<b>Tourism services</b>		
Hótél Flúðir hf	11.94%	3,109
Hótél Húsavík hf	0.38%	136
Hótél Valaskjálfr hf	18.80%	4,500
Hótél Varmahlíð hf	13.04%	3,000
Hvalamiðstöðin Húsavík ehf	19.70%	2,000

Nes-Listamiðstöð ehf	41.67%	5,000
P/F Smyril-line	1.67%	44,440
Snorri Thorfinnsson ehf	19.90%	12,000
Textílsetur Íslands ses	32.15%	2,000
<b>Tourism services: total</b>		<b>76,185</b>
<b>Investment companies</b>		
Dýralíf ehf	31.70%	4,000
Eignarhaldsfélag Saga hf	0.37%	354
Eignarhaldsfélag Suðurlands hf	40.00%	109,142
Eignarhaldsfélag Suðurnesja hf	19.03%	96,840
Eignarhaldsfélag Vestmannaeyja hf	38.77%	7,850
Fjárfestingafélagið Vör hf	41.83%	35,940
Hvetjandi ehf	49.29%	54,469
Tvídrangi ehf	15.27%	4,991
<b>Investment companies: total</b>		<b>313,586</b>
<b>Industry</b>		
Borg, saumastofa ehf	19.82%	170
Fánasmiðjan ehf	9.95%	4,167
Fjallalamb hf	10.68%	10,000
Molta ehf	30.00%	50,000
Raflagnir Austurlands ehf	22.37%	3,600
Trico ehf	33.33%	5,000
Ullarvinnsla Frú Láru ehf	29.76%	2,500
Vilko ehf	8.22%	2,955
Thörungaverksmiðjan hf	27.67%	7,919
<b>Industry: total</b>		<b>86,311</b>
<b>Agriculture</b>		
Eðalís ehf	11.06%	3,000
Yrkjar ehf	7.29%	1,800
<b>Agriculture: total</b>		<b>4,800</b>
<b>Business consultancy</b>		
Atvinnuþróunarfélag Vestfjarða hf	22.10%	1,933
Austurbrú ses	3.13%	50
<b>Business consultancy: total</b>		<b>1,983</b>
<b>Fisheries</b>		

Bernskan ehf	34.53%	22,444
Eignarhaldsfélagið Gláma hf	36.52%	114,500
Fiskvinnslan Drangur ehf	8.17%	2,000
Reykofninn-Grundarfirði ehf	15.24%	5,148
Tó hf	10.40%	2,667
Thórsberg ehf	30.02%	30,174
<b>Fisheries: total</b>		<b>176,933</b>
<b>Retail and services</b>		
Samkaup hf	2.77%	10,801
<b>Retail and services: total</b>		<b>10,801</b>
<b>Total shareholdings</b>		<b>845,818</b>

Shareholdings are entered in the annual accounts at a value of ISK 809,599,000.

#### 14. Fixed assets

Fixed assets break down as follows:

	<b>Land and buildings</b> ISK 000s	<b>Fixtures and fittings</b> ISK 000s	<b>Motor vehicles</b> ISK 000s	<b>Total</b> ISK 000s
Base value as at 1/1	70,388	3,219	23,150	96,757
Total depreciation to 1/1	(26,586)	(1,609)	(9,975)	(38,170)
Additions in the period	0	0	6,542	6,542
Written off in the period	(1,947)	(644)	(4,576)	(7,166)
Sold during the year	0	0	(2,080)	(2,080)
Profit on sales	0	0	935	935
Book value as at 31/12	<u>41,855</u>	<u>966</u>	<u>13,997</u>	<u>56,818</u>
Total base value 31/12	70,388	3,219	27,612	101,219
Total depreciation 31/12	<u>(28,533)</u>	<u>(2,253)</u>	<u>(13,615)</u>	<u>(44,401)</u>
Book value as at 31/12	<u>41,855</u>	<u>966</u>	<u>13,997</u>	<u>56,818</u>
Depreciation ratios	2-3%	20%	20%	

The Institute's land and buildings are valued as follows. The book value of the assets is given for comparative purposes:

	<b>Property valuation</b> ISK 000s	<b>Insurance valuation</b> ISK 000s	<b>Book value</b> ISK 000s
Skagfirðingabraut 17-21, Sauðárkrókur	30,030	98,910	29,664
Háuhlíð 4, Sauðárkrókur	30,950	57,650	12,192
	<u>60,980</u>	<u>156,560</u>	<u>41,855</u>

#### 15. Assets and liabilities linked to foreign currencies and subject to price indexation

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Currency-linked:		
Assets in foreign currencies	6,173,088	8,133,158
Liabilities in foreign currencies	6,866,776	9,312,892
Net position of currency-linked assets and liabilities	<u>(693,688)</u>	<u>(1,179,734)</u>
Index-linked:		
Assets	4,219,886	4,139,926
Liabilities	5,591,645	5,236,796
Net position of index-linked assets and liabilities	<u>(1,371,759)</u>	<u>(1,096,870)</u>

Figures are given net of depreciation of assets.

Assets and liabilities in foreign currencies break down as follows by currency:

	<b>USD</b> ISK 000s	<b>DKK</b> ISK 000s	<b>JPY</b> ISK 000s	<b>EUR</b> ISK 000s	<b>Total</b> ISK 000s
Loans issued	938,956	0	1,780,938	3,318,757	6,038,651
Cash in hand	18	1,437	13,391	119,591	134,437
Assets: total	<u>938,974</u>	<u>1,437</u>	<u>1,794,329</u>	<u>3,438,348</u>	<u>6,173,088</u>
Borrowings	959,380	0	2,066,149	3,841,247	6,866,776
Net position	<u>(20,406)</u>	<u>1,437</u>	<u>(271,820)</u>	<u>(402,899)</u>	<u>(693,688)</u>

Figures are given net of depreciation of assets.

## 16. Loans received

Loans received break down as follows by period outstanding:

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Fallen due	0	0
Up to 3 months	151,903	168,066
3 months to 1 year	1,021,267	1,191,848
1 year to 5 years	8,356,500	9,350,914
Over 5 years	2,928,751	3,838,860
	<u>12,458,421</u>	<u>14,549,688</u>

## 17. Capital reserves

In 2011, in the Budget for 2012, the minister of finance was authorised to increase the Institute's capital reserves by up to ISK 2,000 million. Of this authority ISK 1,750 million were paid over to the Institute in January 2012 and the balance in January 2013.

Under the terms of Act no. 161/2002, the capital adequacy ratio of credit institutions may not fall below 8% of the so-called risk-weighted asset base; at the end of the period the Institute's capital adequacy ratio was 16.00%.

Capital reserves and capital adequacy ratio as per the capitalisation provisions of Act no. 161/2002 on Financial Undertakings

	<b>2013</b> ISK 000s	<b>2012</b> ISK 000s
Position at start of year	2,113,522	266,295
Funding received from Treasury	0	2,000,000
Profit (loss) for year	188,917	(152,773)
	<u>2,302,439</u>	<u>2,113,522</u>
Capital adequacy ratio	16.00%	12.55%

## 18. Guarantees provided

The Icelandic Regional Development Institute stands surety for loans to the sum of ISK 23.739 million. At the end of the year an assessment was made of the risk of obligations arising from these guarantees falling on the Institute. Guarantees to the sum of ISK 1,187,000, which are likely to fall on the Institute, have been entered as liabilities in the annual accounts. Off-balance-sheet guarantees thus amount to about ISK 22,552,000 at the end of the year.

## 19. Other matters

In 2013 a case was heard before the District Court of the North of Iceland (West)

concerning the legality of restructuring index-linked loans in Icelandic krónur into loans in foreign currencies through the issue of an endorsement. A judgement in this case was handed down on 29 November 2013 in which the legality of the Institute's loans restructured in this way was accepted and no appeal has been made against this judgement. The plaintiff's loans recalculated up to date currently stand at ISK 210.1 million but if his claims are accepted they will be reduced by up to 50%. The claim value of corresponding loans granted by the Institute stands at ISK 856.8 million. No special contingency provision has been entered in the allowance to meet losses on loans on account of this matter. In the opinion of the Institute's legal representative, judgements of the Supreme Court handed down in comparable cases (cf. for example Judgement of the Supreme Court no. 498/2013) point strongly to the Institute being acquitted if the case goes to appeal.