Byggðastofnun

The Icelandic Regional Development Institute

Annual Accounts 2019

Ártorg 1
550 Sauðárkrókur

ID ref.: 450679-0389

Contents

STATEMENT OF THE EXECUTIVE BOARD AND CHIEF EXECUTIVE OFFICER OF THE ICELANDIC REGIONAL DEVELOPMENT INSTITUTE

Functions

Byggðastofnun (the Icelandic Regional Development Institute) operates under the terms of the Icelandic Regional Development Institute Act, no. 106/1999, and Regulation no. 347/2000. The function of the Institute is to promote regional settlement and economic activity, with special emphasis on creating equal opportunities of employment and place of residence for all people in Iceland. In accordance with its function the Institute prepares, organises and funds projects and provides loans with the aim of supporting regional settlement, creating employment and encouraging business innovation. The Institute organises and contributes to consultancy services in collaboration with economic development agencies, local authorities, and other interested parties. The Institute monitors regional development trends in Iceland through means such as data collection and research. The Institute may draw up or have drawn up plans for regional development and economic activity with the aim of supporting settlement and employment in the country's non-metropolitan regions.

Performance in the year 2019

The Institute's operating profit in the year as per the profit and loss account was ISK 95.4 million, compared to a profit of ISK 113.4 million in the year 2018. Capital and reserves at the end of December 2019 as per the balance sheet were ISK 3,216 million. The capital adequacy ratio under the terms of the Act on Financial Undertakings was 19.25%, as compared to 21.45% at the end of the 2018.

The Institute's balance sheet at the end of December stood at ISK 16,475 million, up by ISK 1,589 million on the year. The largest individual item on the asset side of the balance sheet is loans issued to clients, amounting to ISK 13,851 million, an increase of ISK 1,737 million from the start of the year. Cash in hand at the end of December stood at ISK 475 million, as compared to ISK 1,102 million at the end of 2018. Borrowings amounted to ISK 13,014 million, up by ISK 1,510 million on the year. New loans issued in the year came to ISK 2,685 million, as compared to ISK 2,846 million in 2018.

Under the terms of Article 84 of Act on Financial Undertakings, no. 161/2002, the total capital base shall not at any time fall below 8% of the risk-weighted asset base; as noted above, at the end of the year the Institute's capital adequacy ratio was 19.25%. Under its authorities under Article 86.d (1 and 2) of the Act on Financial Undertakings, the Financial Supervisory Authority of the Central Bank of Iceland (Seðlabanki Íslands) has set a countercyclical capital buffer for the Institute, together with a capital conservation buffer as per Article 86.e of the same Act. The aggregate capital buffer requirement stands at 4.25%. Under a Central Bank of Iceland ruling, the Institute shall maintain a countercyclical capital buffer of 2.0% and a capital conservation buffer of 2.5%, effective from 1 February 2020. The aggregate capital requirement from this date will therefore be 12.50%.

At the start of January 2019, Framkvæmdarsýsla ríkisins (the Government Construction Contracting Agency) acting on behalf of the Icelandic Regional Development Institute issued a call for tenders for the construction of new office premises for the Institute at Sauðamýri 2, Sauðárkrókur. The lowest bid was from Friðrik Jónsson ehf. The project is scheduled for completion in the spring of 2020.

In April 2019 the executive board approved a new credit tranche for projects promoting environmental protection in the regions, so-called 'Green Loans'. These loans are granted for projects that in one way or another support environmental protection, e.g. exploitation of renewable energy sources, improved energy efficiency, anti-pollution measures, improved resource exploitation, organic food production, etc.

Following a Central Bank interest rate cut, at a meeting in November 2019 the board decided to reduce rates on index-linked loans by 0.2%. The terms on index-linked general loans are therefore now 5.7%, and 4.8% on green loans, loans to support women's enterprise, and agricultural loans.

Governance

Regional affairs, including the Icelandic Regional Development Institute, fall under the Ministry for Transport and Local Government.

Under Article 3 of the Icelandic Regional Development Institute Act, the Minister appoints seven persons at the annual general meeting to serve on the Institute's executive board for one year at a time and seven to act as deputies. At the Institute's annual general meeting on 10 April 2019, the Minister for Transport and Local Government appointed a new executive board which shall sit up until the next annual general meeting and in no case longer than until 1 July 2020. Those appointed to the executive board were Magnús Björn Jónsson chairman, Halldóra Kristín Hauksdóttir deputy chairman, Gunnar Thór Sigbjörnsson, Gunnar Thorgeirsson, Karl Björnsson, María Hjálmarsdóttir and Sigríður Jóhannesdóttir. Illugi Gunnarsson withdrew from the board. At the same time seven deputies were appointed: Anna Guðrún Björnsdóttir, Bergur Elías Ágústsson, Eiríkur Blöndal, Herdís Thórðardóttir, Magnús Thór Hafsteinsson, Oddný María Gunnarsdóttir and Thórey Edda Elísdóttir. The Minister appoints the chairman and deputy chairman and decides on directors' remuneration. The Central Bank of Iceland vets the competence of board members in accordance with Article 52 of the Act on Financial Undertakings.

On 27 May 2019 Oddný María Gunnarsdóttir resigned her position as deputy board member and on 30 August 2019 Gunnar Thór Gunnarsson and Magnús Thór Hafsteinsson also resigned their seats on the Institute's executive board.

During the course of 2019 the executive board of the Icelandic Regional Development Institute held 12 board meetings. Meetings were generally held at the Institute's premises in Sauðárkrókur, but meetings were also held in Húsavík, Siglufjörður, Egilsstaðir and Reykjavík. Minutes of board meetings are published on the Institute's website. The ratio of men and women or the executive board is equal.

One of the Institute's tasks in the last year was to bring in a new regulatory framework in connection with money laundering and the financing of terrorism on the basis of Act no. 140/2018. A risk assessment of the Icelandic Regional Development Institute was approved at a board meeting on 30 August 2019, along with a policy and set of rules for the Institute in this area. The Institute's operational procedures on the granting of loans were also updated correspondingly. Hjalti Árnason, head of the legal division, was appointed AML compliance officer as per Article 34(1) of Act no. 140/2018.

At the end of 2019 the executive board had an impact assessment carried out for the first time on its executive board and chief executive officer. The findings of this assessment will be processed in the course of 2020.

The duties of the executive board are set out in fuller detail in Article 4 of the Icelandic Regional Development Institute Act. The executive board has laid down rules for its working functions and these were last reviewed on 21 February 2020.

The executive board of the Icelandic Regional Development Institute seeks to maintain good governance practices and has laid down rules for itself covering the board's working functions, as well as ethical rules for staff and officers. Working procedures have also been established for the audit committee, and the executive board has defined the functions of the compliance officer. Operating within the Institute there is a loans committee that discusses all loan applications and the sale of appropriated assets, as well as making proposals to the board on the sale of shares and the handling of loan issues beyond its maximum credit authority. The Institute also operates a fishing quota committee, a risk committee, and a security committee for which working rules have been established. Operational procedures on the granting of loans and financial and asset management have been updated regularly and specify, among other things, the authorisational powers of the loans committee.

The audit committee operates on behalf of the executive board and has a statutory supervisory role over the Institute's auditing functions. The audit committee shall assist the board in discharging its duties by operating as an independent and impartial body monitoring the Institute's accounting process and internal control, as well as the work of the Institute's internal and external auditors as further specified in its working procedures and in accordance with Article 108.b of the Act on Annual Accounts, no. 3/2006.

The executive board is responsible for the appointment of the audit committee and the committee shall answer directly to the board. It shall comprise three members, to be appointed not later than one month after the annual general meeting. The members of the committee shall be independent of the Institute's auditor or auditors, and a majority of the committee members shall also be independent of the Institute. At a board meeting on 17 May 2019, Ragna Hjartardóttir, Sigríður Jóhannesdóttir and Ólafur Sigurbergsson were appointed to act as the Institute's audit committee for one year, with Halldóra Kristín Hauksdóttir as deputy.

The executive board appoints a compliance officer in accordance with a formal statement of duties. The compliance officer appears before the executive board at a minimum once a year and presents a report on issues falling within his remit. The executive board has also appointed a data protection officer in accordance with a formal statement of duties.

Under Article 4 of the Act on the Auditor General and the Auditing of Government Accounts, no. 46/2016, responsibility for the auditing of the Institute's accounts lies with the Icelandic National Audit Office (Ríkisendurskoðun). Following a tendering process the National Audit Office appointed PricewaterhouseCoopers ehf to act on its behalf in the auditing of the Institute's annual accounts for the operating years 2018-2024.

In accordance with a ruling of the Financial Supervisory Authority from 2012, the Icelandic Regional Development Institute is exempted from the requirement to operate an internal audit department. In 2016, following a tendering process, the Institute contracted with KPMG to see to its internal auditing over the years 2016-2020.

The functions of the chief executive officer are specified in further detail in Article 5 of the Icelandic Regional Development Institute Act and in the minister's formal statement of duties.

The Institute is divided into four divisions – companies division, legal division, operations division and development division. At the end of December there were 26 members of staff in the same number of full-time equivalents.

Risk management

Under a Financial Supervisory Authority ruling from 2015, the Icelandic Regional Development Institute is exempt from the requirement to operate a risk committee as per Article 78(5) of the Act on Financial Undertakings, no. 161/2002. Because of this exemption the statutory working duties of a risk committee lie with the Institute's executive board.

The executive board of the Icelandic Regional Development Institute is responsible for the Institute's risk management. The board originally established a risk policy for the Institute in 2015 and this policy is reviewed annually, most recently in October 2019. Under Article 11 of the Icelandic Regional Development Institute Act, a financial objective of the Institute's lending activities shall be to maintain the real value of its capital and reserves and it therefore has limited appetite for risk. The Institute's executive board decides what constitutes an the acceptable level of risk. The board is presented with information on the Institute's exposure to risk and the performance of it risk management system four times a year.

Risk management and effective internal control is one of the central pillars of the Institute's responsible management. The Institute has defined the principal risk factors in its operations, these being credit risk, concentration risk, market risk, exchange rate risk, interest rate risk, prepayment risk, inflation risk, liquidity risk, outflow risk, marketability risk, operational risk, information technology risk, political and legal risk, reputational risk and employee risk.

The Institute operates active internal control and most processes have been logged. These processes and risk factors are assessed regularly. Appraisals have shown that the designated monitoring procedures are operating effectively.

In compliance with Article 17 of Act no. 161/2002 on Financial Undertakings, the Institute has appointed a special supervisor of risk management whose functions are covered by rules for the supervisor of risk management agreed by the board in January 2017. The supervisor of risk management has direct and first-hand access to the Institute's executive board and delivers a report on issues that fall within his remit once a year, as well as presenting the board with a quarterly risk report.

Financing

In January 2019 the Institute issued a ISK 2,450 million tranche of bonds which was listed on the Icelandic Stock Exchange. The bonds are for 15 years and carry an interest rate of 1.96%. In addition, in the year 2019 the Institute had a borrowing authority of ISK 2,500 million which was exercised at the start of 2020.

Non-financial disclosure as per Article 66.d of the Act on Annual Accounts

The Icelandic Regional Development Institute is classed as an entity of public interest as defined in the Act on Annual Accounts, no. 3/2006, with subsequent amendments. The Institute's principal function is to ensure a supply of credit to regions vulnerable to depopulation.

The Institute's executive board has set itself working procedures that *inter alia* lay down that the Institute's chairman is forbidden to take on any working activities for the Institute other than those that constitute a normal part of his functions as chairman. The chairman shall not participate in the handling of matters that concern his own business interests or those of a company in which he has an active ownership interest, of which he is a director, for which he acts as a spokesman, by which he is employed, in which he has a significant financial interest, or in which he is deemed in other way to be an insider, as well as competitors of such companies. The same applies to involvement in the handling of matters affecting a party that is related to the chairman personally or financially. Full members of the executive board of the Institute and their deputies, or companies in their ownership or for which they act as spokesmen, shall not apply for loans and/or grants from the Institute. All other business of directors and/or deputies, and of companies they may own or act as representative for, shall be referred to the Institute's executive board.

The Institute's executive board has also laid down ethical rules that apply to directors and staff. The ethical rules impress on the directors and staff of the Institute and others who work on their behalf the wide-ranging and strict ethical demands made of them and thus contribute to reinforcing the trust and credibility that the Institute needs to operate.

The Icelandic Regional Development Institute adheres to the laws, rules and agreements in force at all times in the area of equal rights. The Institute is a place of work when men and women are judged on their own merits and have equal opportunities and the same rights in work and career development. The Institute's equal opportunities plan is intended to promote equality of gender rights and status within the Institute and the integration of gender and equal-rights perspectives in the Institute's work and policymaking. The Institute's equal opportunities plan extends to all aspects of the Institute's activities.

In 2018 the Directorate of Equality granted the Icelandic Regional Development Institute the right to use its Equal Pay Symbol for the years 2018-2021. This constitutes confirmation that the Institute has received certification of its equal-pay system in accordance with equal-pay standard ÍST 85:2012 and has met all the conditions of the standard. It is thus recognised that salary decisions are systematic, that an equal-pay regime is in place that meets the requirements of the equal-pay standard, and that the Institute monitors on a regular basis that staff who do the same or equally valuable jobs receive comparable pay irrespective of gender.

The Institute treats sustainable development and protection of the environment as a guiding principle in all its work. In this way the Institute makes its contribution towards meeting the needs of the present without compromising the options of generations to come to meet their own needs. The environmental and social policy and its implementation is an element in the Institute's day-to-day running to reduce pressure on the environment, improve quality and arouse interest in internal environmental work and social responsibility. The policy extends to all the Institute's operations.

Events since the end of the year

In February 2020 the Institute finalised a loan of ISK 2,500 million from Government Debt Management (Endurlán ríkisjóðs) based on its borrowing authority for the year 2019.

The Icelandic Regional Development Institute has tried to assess the impact of the COVID-19 virus on the Institute's loan portfolio. It is reckoned that the effects will be greatest among its borrowers in tourist services. Loans in this sector amount to around ISK 4 billion. The Institute believes that the effects may have a negative impact on cash flow of up to ISK 500 million in the year 2020 on the assumption that there will be no repayments on loans in the tourist sector, and up to ISK 500 million in the year 2021. The Ministry for Transport and Local Government has been apprised of these findings. The impact will initially be greatest on the Institute's cash flow but may later extend to its performance and financial position. However, the Institute is well placed to meet this setback since its financial position is strong and it has sufficient borrowing authority. See further note 21.

Future prospects

The Institute's capital position is strong, enabling it to provide effective and reliable support to companies in the non-metropolitan regions of Iceland. It is however clear that, since the Institute's balance sheet has grown rapidly in recent years in line with increased demand for its lending, the Institute's owners will in the near future need to provide the Institute with increased capital and reserves in order for it to be able to meet the Central Bank of Iceland's capital requirements and continue to carry out its important role for the regions of Iceland.

Declaration of the executive board and chief executive officer

The annual accounts have been prepared in compliance with the Act on Annual Accounts and the Regulation on the Financial Statements of Credit Institutions.

To the best of our knowledge it is our opinion that the annual accounts give a true and fair picture of the Institute's performance in the year 2019, its assets, liabilities and financial position at 31 December 2019, and its cash flows in the year.

It is further our opinion that the annual accounts and statement of the executive board and chief executive officer present a true and fair summary of the development and outcomes of the Institute's performance and position, and detail the principal risk factors and areas of uncertainty to which the Institute is exposed.

The directors of the Icelandic Regional Development Institute and its chief executive officer have discussed the annual accounts for the year 2019 and append their signatures herewith in certification.

Sauðárkŕokur, 20 March 2020

Magnús B. Jónsson
Chairman of the Executive Board

Gunnar Thorgeirsson

Halldóra K. Hauksdóttir

Karl Björnsson

María Hjálmarsdóttir

Sigríður Jóhannesdóttir

Aðalsteinn Thorsteinsson
Chief Executive Officer

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying annual accounts of Byggðastofnun, the Icelandic Regional Development Institute, for the year 2019 on behalf of the Icelandic National Audit Office (Ríkisendurskoðun). The annual accounts comprise a statement of the executive board and chief executive officer, a profit and loss account, a balance sheet, a cash-flow statement, and explanatory notes.

It is our opinion that the annual accounts give a true and fair picture of the Institute's performance in the year 2019, its financial position at 31 December 2019, and its cash flows in the year 2019, in accordance with the Act on Annual Accounts and established accounting principles, and that the statement of executive board and chief executive officer contains such information as is required therein under the terms of the Act on Annual Accounts if this does not appear elsewhere in the accounts.

Basis of opinion

The audit was carried out in compliance with international auditing standards. Our responsibility under these standards is set out more fully in the section on Auditors' Responsibility. We are external to the Icelandic Regional Development Institute in accordance with the provisions of ethical rules that apply to auditors in Iceland and pertain to our auditing of the Institute's annual accounts. We further meet such other requirements as are made of our functions as auditors in accordance with the provisions of the ethical rules.

We believe that in the audit we have obtained sufficient and appropriate information to base our opinion upon.

Special note

Without entering a caveat to our opinion, we wish to refer to the statement of the executive board in its section on events since the end of the accounting year, in which the officers discuss the impact of the COVID-19 pandemic on the Institute's position.

Key points of the audit	**Auditing measures**
Valuation of loans issued *See further Notes no. 10 'Loans issued to clients' and no. 13 'Depreciation account'*	*Audit of the valuation of loans issued consisted, among others, of the following features:*

In our audit we placed special emphasis on the valuation of loans issued by the Institute since such loans amount to ISK 13,850 million, or 84% of the Institute's total assets. The accumulated provision for depreciation of loans issued stands at ISK 1,283 million, or 8.48% of the Institute's total loans issued. Due to the scale of estimated factors in the calculation of the depreciation provision, this item is a key point of our audit.

Loans issued by the Institute are originally measured at fair value, i.e. the amount of the loan inclusive of all transaction costs. Loans issued are subsequently valued at amortised cost. Accrued interest and indexation adjustments are factored in to the book value of loans.

- Lending process checked and evaluated.
- We have assessed the methods employed by officers in the valuation, reviewed the valuation rules for loans issued, and tested monitoring procedures in the impairment process.
- A data audit has been performed on the depreciation account (provision for depreciation of loans issued). The valuation of underlying security was reviewed and an appraisal made of officers' working principles.
- The relevant notes were checked and revised.

Other information in the annual report

The executive board and chief executive officer are responsible for other information. Other information comprises the annual report other than the annual accounts and our report on them. The annual report was not available at the time we signed off the annual accounts but we expect to have received it for review before it is published.

Our opinion on the annual accounts does not extend to other information and we do not certify this in any way.

In connection with our audit of the Institute's annual accounts we are required to read other information in the annual report when it is available and assess whether there is material discrepancy between such information and the annual accounts or other knowledge we have obtained during the audit or whether it appears materially incorrect. If, on the basis of our work, we conclude that the other information contains material misstatement, we are required to report this.

Responsibility of the executive board and chief executive officer for the annual accounts

The executive board and chief executive officer are responsible for the preparation and presentation of the annual accounts in compliance with the Act on Annual Accounts and established accounting principles. The board and chief executive officer are also responsible for the internal control that it is necessary to have in place as regards the preparation and presentation of the annual accounts, such that they may be free from material misstatement, whether due to fraud or error.

In the preparation of the annual accounts the Institute's officers are required to appraise the Institute's capacity as a going concern. The officers are required to draw up the Institute's annual accounts on the assumption that it is a going concern, unless the officers are in mind to dissolve the Institute or terminate its trading, or have no viable option other than to terminate the Institute's trading. If applicable, the Institute's officers are required to present relevant explanations regarding its capacity to act as a going concern and why the officers have adopted the going concern principle in the preparation and presentation of the annual accounts.

The board and audit committee shall oversee the preparation and presentation of the annual accounts.

Auditors' responsibility for the auditing of the annual accounts

Our objective is to obtain sufficient certainty that the annual accounts are free from material misstatement, whether due to fraud or error, and to issue an endorsement with our opinion. Sufficient certainty represents a high degree of certainty but does not guarantee that an audit carried out in compliance with international auditing standards will in all cases reveal all material inaccuracies if such are present. Inaccuracies can arise from fraud or error and are adjudged material if they, individually or collectively, might influence the financial decision making of users based on the annual accounts.

An audit in compliance with international auditing standards is based on professional judgement and professional scepticism. We also perform the following tasks:

We analyse and assess the risk of material inaccuracy, whether due to fraud or error; we arrange auditing procedures to meet such risk; and we obtain auditing data that provides sufficient and appropriate grounds for our opinion. The risk of failure to identify material inaccuracy as a result of fraud is greater than the risk of inaccuracy due to error, since fraud can result from forgery, misleading presentation of the accounts, the intentional omission of significant material, conspiracy, or the circumvention of internal controls.

We obtain an understanding of such internal control as is relevant to our audit with the purpose of designing auditing procedures but not in order to provide an opinion on the effectiveness of the Institute's internal control.

We assess the suitability of officers' choice of accounting procedures and whether their valuation methods are realistic. We also consider whether related notes are sufficient and appropriate.

We consider the officers' use of the going-concern principle and assess on the basis of the audit whether there is any significant question regarding operational viability or whether circumstances exist that might give rise to significant doubts about operational viability. If we consider that significant uncertainty exists we are required to draw special attention to the relevant notes in the annual accounts that pertain to such uncertainty and if, in our judgement, this information is insufficient we decline to deliver an unqualified opinion. Our conclusion is based on the auditing data we have acquired up to the date of our endorsement. This notwithstanding, events or circumstances in the future can result in the Institute being no longer operationally viable.

We assess the presentation, preparation and contents of the annual accounts as a whole, including notes, and whether they are based on actual financial entries and events and provide a true and fair picture in line with our opinion.

We advise the executive board and audit committee *inter alia* of the proposed scope and date of the audit and of significant matters that may arise in our audit, including, if applicable, material deficiencies in internal control.

We have given the executive board and audit committee formal notification that we meet the required conditions of ethical practice and independence and we will provide them with any information on potential conflicts of interest and other matters that might affect our independence and confidentiality.

We have made an assessment of which of the matters we have raised with the executive board and audit committee had the greatest significance in the current year and these constitute key points of the audit. We detail these key points in our report unless the public disclosure of particular matters is forbidden by laws or regulations, or in completely exceptional circumstances where it is our judgement that the negative consequences of the publication of such information outweigh public interest in its publication.

Reykjavík, 20 March 2020

PricewaterhouseCoopers ehf

Árna G. Tryggvadóttir
State Authorised Public Accountant

Profit and Loss Account 2019

	Notes	2019 ISK 000s	2018 ISK 000s
Interest earned			
Interest on deposits with credit institutions		67,825	52,186
Interest earned and indexation adjustment on loans issued		1,104,619	1,046,305
		1,172,444	1,098,491
Interest expenses			
Interest expenses and indexation adjustment on borrowings		662,883	630,514
Other interest expenses		108	132
		662,991	630,646
Net interest earned		509,454	467,845
Operating income			
Treasury funding received under budget provisions	6	417,000	376,200
Foreign exchange adjustment	7	(1,978)	7,119
Other operating income	8	230,464	233,254
		645,486	616,573
Net operating income		1,154,940	1,084,418
Operating expenses			
Subsidies to business consultants		210,700	204,800
Other grants provided		107,736	121,157
Salaries and salary-related expenses	3, 4	367,566	357,245
Other operating costs		183,820	162,807
Management of appropriated assets	12	1,694	4,872
Depreciation of fixed operating assets	15	5,750	5,300
Additions to provision for depreciation of loans issued, etc.	2, 13	182,258	114,851
		1,059,525	971,031
Profit for the year		95,415	113,387

Balance Sheet 31 December 2019

	Notes	31.12.2019 ISK 000s	31.12.2018 ISK 000s
Assets			
Bank deposits	9	474,679	1,102,471
Loans issued to clients	10	13,850,098	12,113,274
Appropriated assets	11	441,010	347,510
Tradable shares	14	585,845	571,706
Shares in affiliated companies	14	682,252	642,237
Debtors		26,599	29,713
Fixed operating assets	15	414,975	79,403
Assets: total		16,475,459	14,886,313
Liabilities and Capital and reserves			
Borrowings and bond issues	17	13,014,318	11,504,095
Unallocated funds received		119,710	123,593
Other liabilities		125,336	137,944
Liabilities: total		13,259,364	11,765,633
Capital and reserves			
Capital and reserves	2, 18	3,216,095	3,120,680
Liabilities and Capital and reserves: total		16,475,459	14,886,313

Cash-Flow Statement 2019

	2019 ISK 000s	2018 ISK 000s
Cash in hand from operating activities		
Profit for the year	95,415	113,387
Operating items that do not affect cash in hand:		
Additions to provision for depreciation of loans issued and revaluation of shares	173,600	112,446
Depreciation of fixed operating assets	5,750	5,300
Loss (profit) on sale of fixed operating assets	0	385
Interest, indexation adjustment and exchange rate adjustment	152,397	16,647
Cash in hand from operating activities	427,163	248,164
Cash flow from investment activities		
Instalment payments on loans issued	857,958	1,522,719
Loans provided	(2,684,662)	(2,845,778)
Assets redeemed	(38,380)	(12,772)
Shares	(16,940)	55,013
Fixed operating assets	(341,323)	(31,230)
Debtors	3,114	(15,566)
Cash flow from investment activities	(2,220,233)	(1,327,614)
Cash flow from financing activities		
Instalment payments on borrowings	(1,268,229)	(963,572)
New borrowings	2,450,000	2,000,000
Other liabilities and unallocated funds received	(16,492)	55,632
Cash flow from financing activities	1,165,279	1,092,061
Increase (decrease) in cash in hand	(627,791)	12,610
Cash in hand at start of year	1,102,471	1,089,861
Cash in hand at end of year	474,679	1,102,471

NOTES

1. 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, together with monitoring regional development trends in Iceland. The Institute has its legal domicile at Ártorg 1, 550 Sauðárkrókur, Iceland.

2. Accounting procedures

Accounting basis

The annual accounts have been drawn up in compliance with the Act on Annual Accounts and the Regulation on the Financial Statements of Credit Institutions. They are prepared on a historical-cost basis and employ the same accounting procedures as in the previous year. Financial figures are in ISK (Icelandic krónur) and all such figures are shown in thousands of ISK unless otherwise specified.

Valuation methods

Officers are required to assess and take individual decisions regarding important items in the annual accounts that by their nature are subject to valuation at any time. The valuation methods used by the officers 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 obtained in the valuation.

Index-linked assets and liabilities and assets and liabilities in foreign currencies

Accrued adjustments to the principal value of assets and liabilities as a result of changes in exchange rates and price indices are reflected in the annual accounts. Index-linked assets and liabilities are entered on the basis of price indices that came into force on 1 January 2020. Loans and borrowings in foreign currencies are converted to ISK at the last listed selling rate at the Central Bank of Iceland at the end of December 2019. Deposits in foreign currency accounts at Icelandic banks are converted to ISK at the last listed buying rate at the relevant bank. The difference that arises from exchange rate movements is entered in the profit and loss account and on the balance sheet.

Central Bank of Iceland selling rate at the end of the year:	**31.12.2019**	**31.12.2018**
USD	121.39	116.61
DKK	18.24	17.89
JPY	1.12	1.06
EUR	136.21	133.60
Arion Bank buying rate at the end of the year:		
USD	120.62	116.08
JPY	1.11	1.06
EUR	135.42	132.80
Landsbanki buying rate at the end of the year:		
EUR	135.39	132.80

Íslandsbanki buying rate at the end of the year:		
USD	120.53	115.93
JPY	1.11	1.06
EUR	135.35	132.76

Price indices at the start of the year		
	1.1.2020	**1.1.2019**
Consumer prices index for the purposes of price indexation	472.8	460.5

Fixed operating assets

Fixed operating assets are entered at acquisition cost less depreciation. Improvements and enhancements are capitalised if it is likely they will yield a future profit to the Institute and it is possible to make a reliable estimate of the cost. All maintenance costs are charged to the profit and loss account as and when they are incurred. Depreciation is based on the estimated useful life of individual operating 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.

Provision for depreciation of loans issued

A provision for losses on loans issued is set up to cover the risk that is inherent in lending activities but does not imply that assets are irrevocably written off. Additions to the provision for depreciation on loans are debited on the profit and loss account less repayments arising from loans previously written off.

Holdings in companies

Affiliated companies are companies in which the Institute typically holds a 20-50% share. The Institute's interests in affiliated companies are entered initially at purchase price and after the initial entry according to the equity position of the relevant company based on the most recent available information from such companies. Holdings in other companies are entered at purchase cost less impairment. If the ownership share is less than 20% but the Institute is represented on the company's board, the holding is entered on the basis of the equity position based on the most recent available information from such companies even if they are classed among tradable securities. Revaluations are reflected on the profit and loss account and balance sheet.

Appropriated assets

Appropriated assets are entered at their estimated sale value. Revaluations are reflected on the profit and loss account and balance sheet.

Loans issued

The Institutes' loans issued denotes loans made to clients. They are originally valued at fair value, i.e. the amount of the loan inclusive of all transaction costs. Loans issued are subsequently valued at amortised cost. All transactions undertaken by the Institute on account of its investments are recorded on the date of transaction, which is taken to be the date on which the Institute committed itself to the transaction. Accrued interest and indexation adjustments are included in the book value of loans. Interest received on loans and deposits are recorded under the item 'Interest earned' on the profit and loss account and the adjustment arising from changes in exchange rates under the item 'Foreign exchange adjustment'. Write-down is based on an assessment of the risk of loss with respect to individual loans. Irrecoverable loans issued are written out of the Institute's books.

Debtors

Claims against debtors are entered according to the original transaction price, adjusted to cover exchange rate movements and less a writing-down allowance made to cover doubtful accounts receivable. Write-down is based on an assessment of the risk of loss with respect to each debtor. Irrecoverable claims are written out of the Institute's books.

Cash in hand

Deposits held at banks are included under cash in hand on the balance sheet and in the preparation of the cash-flow statement.

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 make a reliable estimate of the amount.

Interest income is entered to the profit and loss account as and when it arises.

Dividend income is entered 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 salary-related expenses

	2019	**2018**
	ISK 000s	ISK 000s
Salaries	288,517	270,582
Pension contributions	51,552	48,817
Social security contributions	21,758	21,273
Adjustment to accrued holiday pay	208	11,303
Other salary-related expenses	5,531	5,271
Salaries and salary-related expenses: total	367,566	357,245

In the year the Institute had an average workforce of 27 on a full-year basis. On 31 December 2019 there were 26 members of staff on the Institute's payroll, representing 26 full-day equivalents.

4. Remuneration of directors, audit committee and chief executive officer

Salaries paid to the Institute's directors, audit committee and chief executive officer break down as follows:

	2019	**2018**
	ISK 000s	ISK 000s
Magnús Björn Jónsson, chairman of the board from 12.04.2019	2,243	0
Illugi Gunnarsson, chairman of the board to 12.04.2019	892	3,132
Einar E. Einarsson, deputy chairman to 05.02.2019	192	2,018
Eiríkur Blöndal (deputy), from 25.04.2018	0	127

Fjóla B. Jónsdóttir, chairman of audit committee to 17.05.2019	205	541
Gunnar Thór Sigbjörnsson, director 25.04.2018-30.08.2019	1,036	1,033
Gunnar Thorgeirsson, director	1,554	1,549
Halldóra K. Hauksdóttir, deputy board chairman from 12.04.2019	1,111	0
Ingunn Guðmundsdóttir, director to 25.04.2108	0	519
Karl Björnsson, director	1,554	1,552
María Hjálmarsdóttir, director from 25.04.2018	1,554	1,033
Oddný María Gunnarsdóttir (deputy)	0	127
Ólafur V. Sigurbergsson, audit committee	466	466
Ragna Hjartardóttir, chairman of audit committee from 17.5.2019	339	0
Rakel Óskarsdóttir, director to 25.04.2018	0	519
Sigríður Jóhannesdóttir, director and audit committee	1,942	1,552
Thórey Edda Elísdóttir (deputy)	129	65
Aðalsteinn Thorsteinsson, chief executive officer	16.836	16,594
Remuneration of directors, audit committee and chief executive officer: total	30,054	30,826

5. Auditors' fees

	2019 ISK 000s	2018 ISK 000s
Audit of annual accounts and review of interim financial statement	4,217	6,883
Other professional services/internal audit	2,282	2,804
Auditors' fees: total	6,499	9,686

6. Treasury funding under budget provisions and other Treasury receipts

Funding as per budget provisions	2019 ISK 000s	2018 ISK 000s
General operations	176,300	171,400
Temporary subsidy due to fall-off in mink farming	30,000	0
Business consultants in non-metropolitan regions	210,700	204,800
Treasury funding as per budget provisions	417,000	376,200

Treasury funding reflected on the balance sheet	2019 ISK 000s	2018 ISK 000s
Treasury contribution to project *Brothættar byggðir* ('Fragile communities')	109,000	100,000
Treasury contribution to focussed projects within 'Moving Iceland Forward' campaign areas	145,000	140,000
Treasury contribution to *Byggðarannsóknasjóður* ('Rural Regions Research Fund')	6,230	7,000
Other Treasury funding: total	260,230	247,000

Grants provided from Treasury funding reflected on the balance sheet	**2019** ISK 000s	**2018** ISK 000s
Grant to *Byggðarannsóknasjóður* ('Rural Regions Research Fund')	6,120	5,750
Grants for focussed projects within 'Moving Iceland Forward' campaign areas	141,150	120,000
Grants awarded: total	147,270	125,750

Unallocated grants and subsidies on account of other Treasury funding are entered on the balance sheet.

Costs to the Institute arising from the project *Brothættar byggðir* ('Fragile Communities') amounted to ISK 126,245,000 in the year and are entered on the profit and loss account. Income to the sum of ISK 126,245,000 is entered within Other operating income.

7. Foreign exchange adjustment

	2019 ISK 000s	**2018** ISK 000s
Foreign exchange adjustment on loans issued	75,898	214,300
Foreign exchange adjustment on currency accounts and deposits	30,518	76,332
Foreign exchange adjustment on borrowings	(108,394)	(283,513)
	(1,978)	7,119

8. Other operating income

	2019 ISK 000s	**2018** ISK 000s
Repayment of costs on project *Brothættar byggðir* ('Fragile communities')	126,245	141,602
Various outlays repaid	79,249	62,208
Dividend income and profit on sale of shares	16,391	20,955
Income and profit on sale of operating assets	1,513	3,707
Collection income	1,658	1,491
Other	5,408	3,292
	230,464	233,254

9. Bank deposits

	31.12.2019 ISK 000s	31.12.2018 ISK 000s
Bank deposits in ISK	267,444	537,225
Bank deposits in foreign currencies	207,235	565,246
Bank deposits: total	474,679	1,102,471

10. Loans issued to clients

Broken down by currency:	31.12.2019 ISK 000s	31.12.2018 ISK 000s
Loans in ISK	12,489,677	10,684,514
Loans in foreign currencies	2,643,456	2,570,605
Provision for depreciation of loans issued	(1,283,035)	(1,141,845)
	13,850,098	12,113,274

Broken down by borrowers:	31.12.2019	31.12.2018
Local authorities	0.00%	0.00%
Private individuals	31.14%	29.78%
Broken down by industrial sector :		
Services	36.69%	37.37%
Fisheries	13.09%	14.89%
Industry	6.63%	7.70%
Agriculture	12.46%	10.26%
Financial institutions	0.00%	0.00%
	100%	100%

Loans issued with accrued interest break down by period to maturity as follows:

	31.12.2019 ISK 000s	31.12.2018 ISK 000s
Claims fallen due	113,946	163,514
Up to 3 months	188,958	179,771
3 months to 1 year	856,245	794,434
1 year to 5 years	3,990,553	3,665,657
Over 5 years	8,700,396	7,309,898
	13,850,098	12,113,274

11. Appropriated assets

	31.12.2019 ISK 000s	31.12.2018 ISK 000s
Real estate	441,010	325,010
Marine vessels	0	22,500
	441,010	347,510

	Rateable value ISK 000s	Size m^2
Eyrarland 1, Hvammstangi	9,270	159.2
Grænigarður, Ísafjörður	78,017	1,366.7
Mön, Skeiða- og Gnúpverjahreppur	138,250	6,308.7
Hraunbú, Skeiða- og Gnúpverjahreppur	63,470	50,753.3
Nesbraut 7, Reyðarfjörður	38,000	722.4
Pálsbergsgata 3 & 5, Ólafsfjörður	42,230	1,851.4
Sandhorn, Hrísey	23,850	832.7
Sólvellir 23, Breiðdalsvík	90,057	2,081.6
Strandarvegur 29-33, 29R, Seyðisfjörður	13,150	601.0
Strandgata 37, Tálknafjörður	13,500	456.1
Valgerðarstaðir 4, Fljótsdalshérað	144,350	5,148.3
	654,144	70,281.4

Appropriated assets are entered in the annual accounts at a value of ISK 441,010,000.

	2019	2018
Number of appropriated assets in the ownership of the Institute at the start of the year	10	11
Appropriated assets redeemed in settlement of claims in the year	3	1
Appropriated assets sold in the year	(2)	(2)
Appropriated assets in the ownership of the Institute at the end of the year	11	10

12. Management of appropriated assets

	2019 ISK 000s	2018 ISK 000s
Rental income	30,240	26,886
Management costs	31,934	31,758
	(1,694)	(4,872)

13. Depreciation account

The item 'Additions to provision for depreciation of loans issued etc.' on the profit and loss account covers additions to the depreciation account for loans and accounts receivable, plus revaluation of share capital and appropriated assets. The provision for depreciation of loans issued is split between a special depreciation account and a general depreciation account. Under the special depreciation account fall borrowers with arrears of more than 3 months plus those who are adjudged to be poor risks.

The provision for depreciation of loans issued breaks down as follows:

Provision for depreciation of loans issued 2019	**Special deprecation account** ISK 000s	**General depreciation account** ISK 000s	**Total** ISK 000s
Position at 1 January	368,721	773,124	1,141,845
Additions in the year	66,631	98,157	164,788
Loans written off	(23,597)	0	(23,597)
Position at 31 December	411,754	871,281	1,283,035
Provision for depreciation of loans as percentage of loans issued	2.72%	5.76%	8.48%

Provision for depreciation of loans issued 2018	**Special deprecation account** ISK 000s	**General depreciation account** ISK 000s	**Total** ISK 000s
Position at 1 January	251,516	738,894	990,409
Additions in the period	138,562	34,230	172,792
Loans written off	(21,357)	0	(21,357)
Position at 31 December	368,721	773,124	1,141,845
Provision for depreciation account as percentage of loans issued	2.78%	5.83%	8.61%

	2019 ISK 000s	**2018** ISK 000s
Addition in the year	164,788	172,792
Addition to cover accounts receivable	0	(500)
Revaluation of appropriated assets	54,685	40,299
Change in valuation of shares in affiliated companies	(23,076)	(65,948)
Change in valuation of tradable securities	(14,139)	(31,792)
Additions to provision for depreciation as per profit and loss account	182,258	114,851

14. Shareholdings

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

Affiliated companies, ownership share > 20%	**Share of ownership**	**Nominal value** ISK 000s
Ámundakinn ehf	20.05%	43,815
Dýralíf ehf	33.81%	4,000
Eignarhaldsfélag Suðurlands hf	40.00%	109,142
Fasteignafélagið Hvammur ehf	24.85%	16,919
Fasteignafélagið Kirkjuból ehf	30.00%	7,124
Fjallalamb hf	21.26%	27,344
Fjárfestingafélagið Vör hf	40.00%	49,756
Hvetjandi ehf	40.16%	111,529
Molta ehf	30.00%	50,000
Nes-Listamiðstöð ehf	35.71%	5,000
Raflagnir Austurlands ehf	22.37%	3,600
Ullarvinnsla Frú Láru ehf	29.76%	2,500
Útgerðarfélagið Skúli ehf	30.01%	24,274
Vilko ehf	20.72%	21,555
Thörungaverksmiðjan hf	27.67%	7,919
Affiliated companies: total nominal value		484,478

Tradable securities, ownership share ≤ 20%	**Share of ownership**	**Nominal value** ISK 000s
Ásgarður hf	13.78%	15,000
Borg, saumastofa ehf	19.82%	170
Eignarhaldsfélag Suðurnesja hf	19.03%	96,840
Fánasmiðjan ehf	9.95%	4,167
Fiskvinnslan Drangur ehf	4.08%	1,000
Grand Hótel Mývatn ehf	7.22%	10,000
Hótel Flúðir hf	4.77%	1,194
Hótel Húsavík ehf	0.38%	136
Hótel Varmahlíð hf	13.04%	3,000
Hvalamiðstöðin Húsavík ehf	19.70%	2,000
Hæðin á Höfðabraut ehf	12.28%	2,000
P/F Smyril-line (DKK 1,868,000)	1.67%	34,070
Samkaup hf	3.07%	10,801
Snorri Thorfinnsson ehf	19.89%	12,000
Tröllasteinn ehf	19.72%	7,000
Yrkjar ehf	6.21%	1,800
Thórsberg ehf	16.69%	30,191
Tradable securities: total nominal value		231,369
Shareholdings: total nominal value		715,847

Shares in affiliated companies are entered in the annual accounts at a value of ISK 682,252,000. Tradable securities are entered at a value of ISK 585,845,000. The value of shares acquired in connection with financial restructuring stands at ISK 640,233,000.

15. Operating assets

Fixed operating assets break down as follows:

	Land & buildings ISK 000s	Motor vehicles ISK 000s	Software ISK 000s	Total ISK 000s
Base value at 1/1	71,791	19,889	7,216	98,897
Total written down to 1/1	(5,908)	(7,812)	(5,773)	(19,493)
Book value at 1/1	65,883	12,077	1,443	79,403
Additions in the year	341,323	0	0	341,323
Written down in the year	(329)	(3,978)	(1,443)	(5,750)
Book value at 31/12	406,876	8,099	0	414,975
Total base value at 31/12	413,114	19,889	7,216	440,219
Total written down to 31/12	(6,237)	(11,790)	(7,216)	(25,244)
Book value at 31/12	406,876	8,099	0	414,975
Depreciation ratios	2%	20%	20%	

The Institute’s land and buildings are valued as follows. The book value of the properties is given for purposes of comparison:

	Rateable value ISK 000s	Fire insurance valuation ISK 000s	Book value ISK 000s
Háahlíð 4, Sauðárkrókur	46,900	80,950	10,217
Sauðármýri 2, Sauðárkrókur	111,360	0	396,659
	158,260	80,950	406,876

16. Assets and liabilities linked to foreign currencies and subject to price indexation

Foreign:	31.12.2019 ISK 000s	31.12.2018 ISK 000s
Assets in foreign currencies	2,539,883	2,879,413
Liabilities in foreign currencies	2,548,361	3,070,239
Net position of foreign assets and liabilities	(8,478)	(190,826)

Index-linked:		
Index-linked assets	9,838,762	8,722,205
Index-linked liabilities	10,465,957	8,433,856
Net position of index-linked assets and liabilities	(627,195)	288,349

Figures are given inclusive of depreciation of assets.

Foreign assets and liabilities break down as follows by currency:

31.12.2019	**USD**	**JPY**	**EUR**	**Total**
	ISK 000s	ISK 000s	ISK 000s	ISK 000s
Loans issued	458,624	458,120	1,415,904	2,332,648
Cash in hand	150,866	56,374	(5)	207,235
Assets: total	609,489	514,494	1,415,899	2,539,883
Borrowings	640,305	567,810	1,340,246	2,548,361
Net position	(30,816)	(53,315)	75,653	(8,478)

31.12.2018	**USD**	**JPY**	**EUR**	**Total**
	ISK 000s	ISK 000s	ISK 000s	ISK 000s
Loans issued	321,841	509,689	1,482,637	2,314,167
Cash in hand	335,907	96,500	132,839	565,246
Assets: total	657,748	606,189	1,615,476	2,879,413
Borrowings	718,777	672,537	1,678,926	3,070,239
Net position	(61,028)	(66,348)	(63,450)	(190,826)

Figures are given inclusive of depreciation of assets.

17. Borrowings and bond issues

Breakdown by type:

	31.12.2019	**31.12.2018**
	ISK 000s	ISK 000s
Index-linked bond issues	10,465,957	8,433,856
Foreign loans taken out	2,548,361	3,070,239
	13,014,318	11,504,095

Borrowings break down as follows by period to maturity:

	31.12.2019 ISK 000s	31.12.2018 ISK 000s
Fallen due	0	0
Up to 3 months	273,857	172,444
3 months to 1 year	1,266,015	1,143,919
1 year to 5 years	5,116,874	4,670,471
Over 5 years	6,357,573	5,517,261
	13,014,318	11,504,095

Borrowings break down by currency as follows:

	Payment terms	Final maturity	Interest terms	31.12.2019 ISK 000s	31.12.2018 ISK 000s
ISK	Equal payments	2030-2034	1.96-5.0% index-linked	10,465,957	8,433,856
USD	Equal instalments	2025	Libor + 1.5%	640,305	718,777
JPY	Equal instalments	2023	Libor + 1.5%	567,810	672,537
EUR	Equal instalments	2021-2025	Euribor + 0.2 - 1.45%	1,340,246	1,678,926
				13,014,318	11,504,095

18. Capital and reserves

Under the terms of Article 84 of the Act on Financial Undertakings, no. 161/2002, the total capital base shall amount at a minimum to 8% of the risk-weighted asset base; at the end of the year the Institute's capital adequacy ratio was 19.25%. The Financial Supervisory Authority, in accordance with its authorities under Article 86.d (1 and 2) of the Act on Financial Undertakings, has determined for the Institute a countercyclical capital buffer in addition to a capital conservation buffer, as per Article 86.e of the same Act. The aggregate capital buffer requirement is 4.25%. According to a Financial Supervisory Authority ruling, the Icelandic Regional Development Institute shall maintain a countercyclical capital buffer of 2.00% and a capital conservation buffer of 2.5% from and including 1 February 2020. The aggregate capital requirement from this date will therefore be 12.50%.

From and including 1 January 2020 the provisions of Article 501 of Regulation (EU) no. 575/2013 apply in Iceland. This provides for a so-called capital requirements deduction for credit risk on exposures to small and medium-sized enterprises (English *SME factor*), cf Article 92(3) of Regulation no. 233/2017. Although the effects of the deduction are not reflected in the annual accounts for 2019, the Icelandic Regional Development Institute's capital adequacy ratio would be 22.83% if this Regulation was applied, based on the position at 31 December 2019.

	1.1.2018	15.5.2019	1.2.2020
Statutory capital adequacy ratio requirement	8.00%	8.00%	8.00%
Countercyclical capital buffer	1.25%	1.75%	2.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Aggregate capital buffer requirement	3.75%	4.25%	4.50%
Aggregate capital requirement	11.75%	12.25%	12.50%

Capital and reserves and capital adequacy ratio under the terms of the capital provisions of Act no. 161/2002 on Financial Undertakings

	31.12.2019 ISK 000s	31.12.2018 ISK 000s
Capital position at start of year	3,120,680	3,007,293
Profit for the year	95,415	113,387
Capital and reserves at end of year	3,216,095	3,120,680
Fair-value adjustments on financial assets and liabilities	(11,734)	0
Capital base at end of year	3,204,361	3,120,680
Credit risk	14,331,108	12,587,677
Market risk	302,361	82,852
Operational risk	2,009,515	1,875,138
Risk-weighted asset base	16,642,984	14,545,667
Capital adequacy ratio	19.25%	21.45%

19. Guarantees and commitments

The Icelandic Regional Development Institute was not in a position of guarantor of any loans with respect to third parties as at 31 December 2019. At the end of December there were 67 loan commitments pending completion, to the value of ISK 3,279 million. Under the rules of the Icelandic Regional Development Institute, loan commitments lapse after 12 months from the date on which they are approved.

The Institute rents the third floor of the property Ártorg 1, Sauðárkrókur. The tenancy agreement was terminated in December 2019 and the Institute will vacate not later than 1 July 2020. Estimated spending on rents in the year 2020 is ISK 13 million.

20. Other matters

The directors of the Icelandic Regional Development Institute, its key officers and affiliated companies, together with close family members of the above and legal entities under their control, are classified as related parties. No unusual transactions took place with related parties during the year. No guarantees have been provided to related parties on account of commercial debts or claims.

Loans granted to related parties at 31 December 2019 amounted to ISK 340,058,000, of which ISK 4,683,000 were in default.

For the salaries of directors, the audit committee and the chief executive officer, see note 4.

21. Events after the date of submission of accounts

The Icelandic Regional Development Institute has tried to assess the impact of the COVID-19 virus on the Institute's loan portfolio. It is reckoned that the effects will be greatest among its borrowers in tourist services. Loans in this sector amount to around ISK 4 billion. The Institute believes that the effects may have a negative impact on cash flow of up to ISK 500 million in the year 2020 on the assumption that there will be no repayments on loans in the tourist sector, and up to ISK 500 million in the year 2021. The Ministry for Transport and Local Government has been apprised of these findings. The impact will initially be greatest on the Institute's cash flow but may later extend to its performance and financial position. However, the Institute is well placed to meet this setback since its financial position is strong and it has sufficient borrowing authority.

In addition, the decision of the Financial Stability Committee of the Central Bank of Iceland to lift the 2% countercyclical capital buffer requirement on financial institutions will make it easier for the Institute to provide support for companies that get into difficulties.