Byggðastofnun

The Icelandic Regional Development Institute

Annual Accounts 2020

Sauðármýri 2
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 2020

According to the profit and loss account the Institute showed an operating loss for the year of ISK 61.8 million, as compared to a profit of ISK 95.4 million in the year 2019. Capital and reserves at the end of December 2020 as per the balance sheet were ISK 3,154 million. The capital adequacy ratio under the terms of the Act on Financial Undertakings was 19.12%, as compared to 19.25% at the end of the 2019.

The Institute's balance sheet at the end of December 2020 stood at ISK 20,285 million, up by ISK 3,809 million from the end of 2019. The largest individual item on the asset side of the balance sheet is loans issued to clients, amounting to ISK 16,835 million, an increase of ISK 2,985 million since the start of the year. Cash in hand at the end of December 2020 stood at ISK 1,165 million, as compared to ISK 475 million at the end of 2019. Borrowings and bond issues stood at ISK 16,789 million, up by ISK 3,774 million on the year. New loans issued in the year amounted to ISK 3,369 million, as against ISK 2,685 million in 2019.

Under the terms of Article 84 of Act no. 161/2002 on Financial Undertakings, 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 December 2020 the Institute's capital adequacy ratio was 19.12%. Under its authorities set down in 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, in addition to a capital conservation buffer as per Article 86.e of the same Act. The aggregate capital buffer requirement is 2.50%. Under a Central Bank of Iceland ruling, the Institute shall maintain a capital conservation buffer of 2.5%, effective from 19 March 2020. The aggregate capital requirement from this date will therefore be 10.50%.

As of 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. Without the deduction the capital adequacy ratio would have been 16.98%.

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 works are now complete and the Institute moved into the premises in July 2020. The final settlement from Framkvæmdarsýsla ríkisins is not to hand at this stage.

At a board meeting on 22 May 2020 the board agreed rules on the Institute's financial management, laying down a policy and authorities in the management of the Institute's finances.

At a meeting on 22 May 2020 the executive board approved a motion authorising the chief executive officer to enter into an agreement under which the Icelandic Regional Development Institute became a party to the European Investment Fund (EIF) loan guarantee system, the so-called COSME project. The role of COSME is to facilitate access to debt finance for parties within the European Union and EEA which, in one way or another, are disadvantageously placed or have difficulties accessing capital on the open market. This is accomplished in the form of guarantees to lenders which thereby reduce their risk in providing loans to such parties.

At the same meeting the board approved new credit tranches and changes to credit tranches for loans to be issued within the EIF loan guarantee system.

Effects of COVID-19 on the Institute's operations and finances

The effects of COVID-19 on the operations of the Icelandic Regional Development Institute have been seen principally in the number of requests from clients for deferment of interest payments on loans. The Institute was party to an agreement among commercial banks, credit institutions and pension funds for temporary moratoriums on the payments of company loans due to the global COVID-19 pandemic which extended to 30 September 2020. This agreement allowed for the granting of deferral of payments on the grounds of COVID-19 up to the turn of the year at most. The Institute has however gone considerably further in variations to terms and conditions than was set down in the substance of the agreement.

During the year 2020, 160 requests for deferral of payment were registered due to on the grounds of COVID-19. The great majority of these were from parties in tourist services and other service providers. It is clear that the effects are not as yet all apparent and that they will continue to impact on the Institute's cash flow. The government and the Central Bank of Iceland have put in place a large number of measures to mitigate negative financial effects of the pandemic but there is still considerable uncertainty over how it will develop and when it will finally be possible to lift all the restrictions imposed because of it. See further Note 21.

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, at the annual general meeting the Minister appoints seven persons 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 16 April 2020, 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 2021. Those appointed to the executive board were Magnús Björn Jónsson chairman, Halldóra Kristín Hauksdóttir deputy chairman, Gunnar Thorgeirsson, Karl Björnsson, María Hjálmarsdóttir, Sigríður Jóhannesdóttir and Unnar Hermannsson. Seven deputies were appointed at the same time: Bergur Elías Ágústsson, Herdís Thórðardóttir, Thórey Edda Elísdóttir, Lilja Björg Ágústsdóttir, Anna Guðrún Björnsdóttir, Friðjón Einarsson and Heiðbrá Ólafsdóttir. On 11 August 2020 Unnar Hermannsson resigned his seat on the board and Heiðbrá Ólafsdóttir took over his position. The Minister appoints the chairman and deputy chairman and decides on directors' remuneration. The Financial Supervisory Authority of the Central Bank of Iceland vets the competence of directors in accordance with Article 52 of the Act on Financial Undertakings.

During the course of 2020 the executive board of the Icelandic Regional Development Institute held 15 board meetings. Meetings are generally held at the Institute's premises in Sauðárkrókur, but because of the COVID-19 pandemic the board held more meetings, most of which were conducted on line. Minutes of board meetings are published on the Institute's website.

At a board meeting in May 2020 the executive board agreed a statement of governance for the Icelandic Regional Development Institute; this statement is published on the Institute's website byggdastofnun.is.

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 set itself rules for its working functions and these were last reviewed on 26 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 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 outside its maximum credit authority. The Institute also operates a fishing quota committee, a risk committee, and a security committee for which working practices 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 rules were last updated and approved by the board and its meeting on 19 February 2021.

The audit committee operates under the authority 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 no. 3/2006 on Annual Accounts. The executive board of the Icelandic Regional Development Institute ratified new rules on the activities of the Institute's audit committee at its meeting on 22 May 2020.

The executive board is responsible for the appointment of the audit committee and the committee answers 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 the meeting of the board on 22 May 2020, Ragna Hjartardóttir, Sigríður Jóhannesdóttir and Kristbjörg Kristbergsdóttir 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 that fall 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 no. 46/2016 on the Auditor General and the Auditing of Government Accounts, 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. On 10 December 2020 the board agreed to extend the contract with KPMG up to the year 2025.

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 25 members of staff, representing the same number in 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 no. 161/2002 on Financial Undertakings. 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 2020. 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 this puts limits on its appetite for risk. The Institute's executive board decides what constitutes an the acceptable level of risk. Four times a year the board is presented with information on the Institute's current exposure to risk and the performance of it risk management system.

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 February 2020 the Institute finalised borrowing to the tune of ISK 5,295 million from Government Debt Management (Endurlán ríkisjóðs). This loan was in krónur, euros and Japanese yen with terms of 5-15 years. On borrowings, see further Note 17 to the accounts. The loans were based on a borrowing authority granted in the budgets for 2019 and 2020. This was used in part to pay off uneconomic loans with Dexia Credit Local but chiefly to finance new lending. Under the budget provisions for 2021 the Institute has a borrowing authority of ISK 3,000 million.

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 no. 3/2006 on Annual Accounts, 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 2020 the Directorate of Equality granted the Icelandic Regional Development Institute the right to use its Equal Pay Symbol in the years 2020-2023. 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.

The Icelandic Regional Development Institute participates in the initiative *Græn skref í ríkisrekstri* (Green Steps in the Public Sector) and has set itself the target of completing all five steps before 1 June 2021 as required in the Government Office Climate Policy.

Events after the end of accounting period

In February 2021 the Institute drew on the ISK 500 million outstanding balance of a credit agreement with Government Debt Management from 2020. It is anticipated that the Institute will finance it lending for the year in 2021 with Government Debt Management.

Future prospects

In October 2020 the Ministry for Transport and Local Government posted on the official open consultation web portal (Samráðsgátt stjórnvalda) a draft bill for amendments to various laws in the area of the postal services (transferring postal affairs from the Post and Telecom Administration (Póst- og fjarskiptastofnun, PFS) to the Icelandic Regional Development Institute). The bill is one element in a comprehensive overhaul of the legal environment of the PFS and was put before parliament in February 2021 alongside a draft bill for a new integrated Act on the Electronic Communications Office (Fjarskiptastofnun). The purpose of the bill, which was drafted in collaboration with the PFS and the Icelandic Regional Development Institute, is to put forward the legal changes needed to transfer administration and supervision of postal services from the PFS to the Institute. The aim is for the Institute to have more or less the same authorities and responsibilities as the PFS for the transfer, continuing to ensure a cost-effective, efficient and reliable postal service throughout the country and to and from abroad.

The bill is now going through parliamentary process. If it is passed in the form presented to parliament, this change will mean an increase in staff numbers at the Institute's offices. The plan is that the costs of this project will be covered by an operating levy payable to the Institute by operators of postal services and by treasury funding in the budget.

The Institute's capital position is strong, enabling it to provide effective and reliable support to companies in the non-metropolitan regions of Iceland. However, it is clear that, since the Institute's balance sheet has grown rapidly in recent years in line with increased demand for its loans, the situation may arise in the near future that an injection of capital from Treasury funds will be needed for it to be able to meet the Central Bank of Iceland's capital requirements and continue to carry out its important role in 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 2020, its assets, liabilities and financial position at 31 December 2020, 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 its 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 2020 and append their signatures hereto in certification.

Sauðárkŕokur, 25 March 2021

Magnús B. Jónsson
Chairman of the Executive Board

Gunnar Thorgeirsson

Halldóra K. Hauksdóttir

Heiðbrá Ólafsdóttir

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 2020, other than the statement of the executive board and chief executive officer.

It is our opinion that the annual accounts give a true and fair picture of the Institute's performance in the year 2020, its financial position at 31 December 2020, and its cash flows in the year 2020, in accordance with the Act on Annual Accounts and established accounting principles.

Our opinion is in accord with our report to the audit committee.

The annual accounts comprise
- statement of the executive board and chief executive officer
- profit and loss account for the year 2020
- balance sheet as at 31 December 2020
- cash-flow statement for the year 2020
- explanatory notes, containing the principal accounting procedures and other explanations.

The statement of the executive board and chief executive officer is not included in the audit: see section below on Other information.

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.

Independence

We are external to the Icelandic Regional Development Institute in accordance with the terms of the Act on Auditors and Auditing and the ethical standards 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 terms of the ethical standards.

We declare to the best of our knowledge that such other services as we have provided the Institute are in accordance with the provisions of Icelandic laws and regulations and that we have not provided any service that it is not authorised under the terms of Article 5.1 of Regulation (EU) no. 537/2014.

Details are given of other services that we have provided to the Institute in the year 1 January to 31 December 2020 in Note no. 5.

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

Key features of the audit

Key features of the audit are those features that, in our professional judgement, have the greatest significance for our audit of the Institute's annual accounts for the year 2020. As part of our audit of the annual accounts these key features were taken for special examination. We express no particular opinion regarding these key features; our opinion is expressed only on the annual accounts *in toto*.

Key features of the audit	*Auditing procedures*
Valuation of loans issued *See further Notes no. 10 'Loans issued to clients' and no. 13 'Depreciation account'* In our audit we placed special emphasis on the valuation of loans issued since such loans amount to ISK 16,835 million, or 83% of the Institute's total assets. The accumulated provision for depreciation of loans issued stands at ISK 1,373 million, or 7.54% of the Institute's total loans issued. Due to the scope of estimated factors in the calculation of the depreciation provision, this item is a key feature in 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.	Audit of the valuation of loans issued consisted *inter alia* of the following elements: - Lending process gone over 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 was carried out 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, including the statement of the executive board and chief executive officer

The executive board and chief executive officer are responsible for other information. Other information comprises the statement of the executive board and chief executive officer, which was available to us at the time of our signing off the accounts.

Other information also includes the annual report of the Icelandic Regional Development Institute. The annual report is not available at the time of our signing off the 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, including the statement of the executive board and chief executive officer, and we do not certify such information in any way.

In connection with our audit of the Institute's annual accounts we are required to go over other information as specified above when it is available and to assess whether there is significant discrepancy between such information and the annual accounts or the understanding we have obtained during the audit or whether it appears to contain material error. If, on the basis of our work, we conclude that there is material misstatement in the other information, we are required to report this.

As regards the statement of the executive board and chief executive officer, we have, in accordance with Article 104 of Act no. 3/2006 on Annual Accounts, checked that the statement contains such information as is required therein under the terms of the said Act if this does not appear elsewhere in the annual accounts.

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 doubt regarding operational viability or whether circumstances exist that might give rise to significant question of 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 issue 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.

Other matters in accordance with the provisions of laws and regulations

Election of auditors

We were initially nominated as the Institute's auditors by the Icelandic National Audit Office (Ríkisendurskoðun) under Article 7 of the Act no. 46/2016 on the Auditor General and the Auditing of Government Accounts in December 2018. Our nomination was agreed in January 2019 and has been ratified annually since then. We have thus been the Institution's auditors for three years consecutively.

Reykjavík, 25 March 2021

PricewaterhouseCoopers ehf

Arna G. Tryggvadóttir
State Authorised Public Accountant

Profit and Loss Account 2020

	Notes	**2020** ISK 000s	**2019** ISK 000s
Interest earned			
Interest on deposits with credit institutions		4,298	67,825
Interest earned and indexation adjustment on loans issued		1,323,371	1,104,619
		1,327,669	1,172,444
Interest expenses			
Interest expenses and indexation adjustment on borrowings		805,686	662,883
Other interest expenses		126	108
		805,812	662,991
Net interest earned		521,857	509,454
Operating income			
Treasury funding received in the budget	6	385,300	417,000
Foreign exchange adjustment	7	(811)	(1,978)
Other operating income	8	258,519	230,464
		643,008	645,486
Net operating income		1,164,865	1,154,940
Operating expenses			
Subsidies granted to business consultants		209,600	210,700
Other grants provided		164,933	107,736
Salaries and salary-related expenses	3, 4	375,108	367,566
Other operating costs		132,716	183,820
Management of appropriated assets	12	32,314	1,694
Depreciation of fixed operating assets	15	13,973	5,750
Additions to provision for depreciation of loans issued, etc.	2, 13	298,032	182,258
		1,226,676	1,059,525
Profit (loss) for the year		(61,811)	95,415

Balance Sheet 31 December 2020

	Notes	31.12.2020 ISK 000s	31.12.2019 ISK 000s
Assets			
Bank deposits	9	1,165,407	474,679
Loans issued to clients	10	16,834,885	13,850,098
Appropriated assets	11	270,010	441,010
Tradable shares	14	353,283	585,845
Shares in affiliated companies	14	699,594	682,252
Accounts receivable		124,489	26,599
Fixed operating assets	15	837,284	414,975
Assets: total		20,284,952	16,475,459
Liabilities and Capital and reserves			
Borrowings and bond issues	17	16,788,799	13,014,318
Unallocated funds received		241,587	119,710
Other liabilities		100,281	125,336
Liabilities: total		17,130,667	13,259,364
Capital and reserves			
Capital and reserves	2, 18	3,154,284	3,216,095
Liabilities and Capital and reserves: total		20,284,952	16,475,459

Cash-Flow Statement 2020

	2020 ISK 000s	2019 ISK 000s
Cash in hand from operating activities		
Profit (loss) for the year	(61,811)	95,415
Operating items that do not affect cash in hand:		
Additions to provision for depreciation of loans issued and revaluation of shareholdings	280,935	173,600
Depreciation of fixed operating assets	13,973	5,750
Profit from sale of appropriated assets	(3,371)	0
Interest, indexation adjustment and exchange rate adjustment	138,914	152,397
Cash in hand from operating activities	368,640	427,163
Cash flow from investment activities		
Instalment payments on loans issued	558,397	857,958
Loans provided	(3,369,115)	(2,684,662)
Assets redeemed	273,920	(38,380)
Shares	215,366	(16,940)
Fixed operating assets	(436,281)	(341,323)
Accounts receivable	(97,889)	3,114
Cash flow from investment activities	(2,855,602)	(2,220,233)
Cash flow from financing activities		
Instalment payments on borrowings	(2,213,885)	(1,268,229)
New borrowings	5,294,752	2,450,000
Other liabilities and unallocated funds received	96,823	(16,492)
Cash flow from financing activities	3,177,690	1,165,280
Increase (decrease) in cash in hand	690,727	(627,791)
Cash in hand at start of year	474,679	1,102,471
Cash in hand at end of year	1,165,407	474,679

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 legal domicile of the Institute is Sauðármýri 2, 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 2021. Loans and borrowings in foreign currencies are converted to ISK at the last listed mid-market rate at the Central Bank of Iceland at the end of December 2020. Deposits in foreign currency accounts at Icelandic banks are converted to ISK at the last listed buying rate at the relevant commercial bank. The difference that arises from exchange rate movements is entered in the profit and loss account and on the balance sheet. The Central Bank of Iceland ceased publishing buying and selling rates on 1 April 2020; since this date the Icelandic Regional Development Institute has used the mid-market rate at the Central Bank rather than the selling rate for accounting purposes.

Central Bank of Iceland mid-market rate at the end of the year:	**31.12.2020**	**31.12.2019**
USD	127.21	121.10
DKK	20.98	18.18
JPY	1.23	1.12
EUR	156.10	135.83
Arion Bank buying rate at the end of the year:		
USD	127.17	120.62
JPY	1.23	1.11
EUR	155.55	135.42

Landsbanki buying rate at the end of the year:		
EUR	155.64	135.39
Íslandsbanki buying rate at the end of the year:		
USD	127.27	120.53
JPY	1.23	1.11
EUR	155.58	135.35

Price indices at the start of the year		
	1.1.2021	**1.1.2020**
Consumer prices index for the purposes of price indexation	489.1	472.8

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.

Accounts receivable

Accounts receivable are entered according to the original transaction value, adjusted to cover exchange rate movements and less a writing-down allowance made to cover potential bad debts. 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 presented.

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

	2020	**2019**
	ISK 000s	ISK 000s
Salaries	291,656	288,517
Pension contributions	52,351	51,552
Social security contributions	21,108	21,758
Adjustment to accrued holiday pay	3,940	208
Other salary-related expenses	6,052	5,531
Salaries and salary-related expenses: total	375,108	367,566

In the period the Institute had an average workforce of 28 on a full-year basis. On 31 December 2020 there were 25 members of staff on the Institute’s payroll, representing 25 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:

	2020 ISK 000s	2019 ISK 000s
Magnús Björn Jónsson, chairman of the board from 12.04.2019	3,283	2,243
Illugi Gunnarsson, chairman of the board to 12.04.2019	0	892
Einar E. Einarsson, deputy chairman to 05.02.2019	0	192
Fjóla B. Jónsdóttir, chairman of audit committee to 17.05.2019	0	205
Gunnar Thór Sigbjörnsson, director 25.04.2018-30.08.2019	0	1,036
Gunnar Thorgeirsson, director	1,627	1,554
Halldóra K. Hauksdóttir, deputy board chairman from 12.04.2019	1,627	1,111
Heiðbrá Ólafsdóttir, from 11.08.2020	712	0
Karl Björnsson, director	1,627	1,554
Kristbjörg H. Kristbergsdóttir, audit committee from 22.05.2020	299	0
María Hjálmarsdóttir, director from 25.04.2018	1,627	1,554
Ólafur V. Sigurbergsson, audit committee to 22.05.2020	190	466
Ragna Hjartardóttir, chairman of audit committee from 17.05.2019	567	339
Sigríður Jóhannesdóttir, director and audit committee	2,115	1,942
Unnar Hermannsson, director 16.04-11.08.2020	527	0
Thórey Edda Elísdóttir, deputy	0	129
Aðalsteinn Thorsteinsson, chief executive officer	18,624	16,836
Remuneration of directors, audit committee and chief executive officer: total	32,825	30,054

5. Auditors' fees

	2020 ISK 000s	2019 ISK 000s
Audit of annual accounts and review of interim financial statement	4,553	4,217
Other audit-related services	242	0
Other professional services/internal audit	3,753	2,282
Auditors' fees: total	8,548	6,499

6. Treasury funding received in the budget and other Treasury receipts

Funding funding received in the budget	2020 ISK 000s	2019 ISK 000s
General operations	175,700	176,300
Temporary subsidy due to deteriorating position in mink farming	0	30,000
Business consultants in non-metropolitan regions	209,600	210,700
Treasury funding received in the budget	385,300	417,000

Treasury funding reflected on the balance sheet	**2020** ISK 000s	**2019** ISK 000s
Treasury subsidy to project *Brothættar byggðir* ('Fragile communities')	212,000	109,000
Treasury subsidy to individual projects in 'Moving Iceland Forward' campaign regions	192,500	145,000
Treasury subsidy due to collapse in tourist services	150,000	0
Treasury subsidy to social services and child protection	30,000	0
Treasury subsidy to *Byggðarannsóknasjóður* ('Rural Regions Research Fund')	7,000	6,230
Other Treasury funding: total	591,500	260,230

Grants provided from Treasury funding reflected on the balance sheet	**2020** ISK 000s	**2019** ISK 000s
Grant to *Byggðarannsóknasjóður* ('Rural Regions Research Fund')	11,200	6,120
Grants to individual projects within 'Moving Iceland Forward' campaign regions	142,950	141,150
Grants due to collapse in tourist services	120,000	0
Grants for social services and child protection	15,869	0
Grants provided: total	290,019	147,270

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 181,820,000 in the year and are entered on the profit and loss account. Income to the sum of ISK 181,820,000 is entered within Other operating income.

7. Foreign exchange adjustment

	2020 ISK 000s	**2019** ISK 000s
Foreign exchange adjustment on loans issued	282,188	75,898
Foreign exchange adjustment on currency accounts and deposits	93,943	30,518
Foreign exchange adjustment on borrowings	(376,942)	(108,394)
	(811)	(1,978)

8. Other operating income

	2020 ISK 000s	2019 ISK 000s
Repayment of costs on project *Brothættar byggðir* (‘Fragile communities’)	181,820	126,245
Various outlays repaid	57,495	79,249
Share dividends	9,212	16,391
Profit on sale of appropriated assets	3,371	0
Income from operating assets	1,961	1,513
Collection income	1,778	1,658
Other	2,883	5,408
	258,519	230,464

9. Bank deposits

	31.12.2020 ISK 000s	31.12.2019 ISK 000s
Bank deposits in ISK	1,131,407	267,444
Bank deposits in foreign currencies	34,000	207,235
Bank deposits: total	1,165,407	474,679

10. Loans issued to clients

Broken down by currency:	31.12.2020 ISK 000s	31.12.2019 ISK 000s
Loans issued in ISK	15,357,309	12,489,677
Loans issued in foreign currencies	2,850,428	2,643,456
Provision for depreciation of loans issued	(1,372,851)	(1,283,035)
	16,834,885	13,850,098

Broken down by borrowers:	31.12.2020	31.12.2019
Local authorities	0.05%	0.00%
Private individuals	29.32%	31.14%
Broken down by sector :		
Services	37.97%	36.69%
Fisheries	11.21%	13.09%
Industry	7.35%	6.63%
Agriculture	14.11%	12.46%
Financial institutions	0.00%	0.00%
	100%	100%

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

	31.12.2020 ISK 000s	31.12.2019 ISK 000s
Claims fallen due	98,674	113,946
Up to 3 months	214,606	188,958
3 months to 1 year	1,042,285	856,245
1 year to 5 years	4,897,133	3,990,553
Over 5 years	10,582,187	8,700,396
	16,834,885	13,850,098

11. Appropriated assets

	31.12.2020 ISK 000s	31.12.2019 ISK 000s
Real estate	270,010	441,010
Marine vessels	0	0
	270,010	441,010

	Rateable value ISK 000s	Size m^2
Eyrarvegur 8, Thórshöfn	4,250	212.5
Grænigarður, Ísafjörður	79,087	1,366.7
Sólvellir 23, Breiðdalsvík	92,144	2,081.6
Strandarvegur 29-33, 29R, Seyðisfjörður	13,500	601.0
Strandgata 37, Tálknafjörður	13,810	456.1
Valgerðarstaðir 4, Fljótsdalshérað	148,350	5,148.3
	351,141	9,866.2

Appropriated assets are entered in the annual accounts at a value of ISK 270,010,000.

	2020	2019
Number of appropriated assets in the ownership of the Institute at the start of the year	11	10
Appropriated assets redeemed in settlement of claims in the year	2	3
Appropriated assets sold in the year	(7)	(2)
Appropriated assets in the ownership of the Institute at the end of the period	6	11

12. Management of appropriated assets

	2020 ISK 000s	2019 ISK 000s
Rental income	24,095	30,240
Management costs	56,408	31,934
	(32,314)	(1,694)

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 issued 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 2020	**Special deprecation account** ISK 000s	**General depreciation account** ISK 000s	**Total** ISK 000s
Position at 1 January	411,754	871,281	1,283,035
Additions in the year	(25,612)	271,099	245,487
Bad loans written off	(155,671)	0	(155,671)
Position at 31 December	230,471	1,142,380	1,372,851
Provision for depreciation of loans as percentage of loans issued	1.27%	6.27%	7.54%

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
Bad loans written off	(23,597)	0	(23,597)
Position at 31 December	411,754	871,281	1,283,035
Provision for depreciation account as percentage of loans issued	2.72%	5.76%	8.48%

	2020 ISK 000s	2019 ISK 000s
Addition in the year	245,487	164,788
Addition on account of accounts receivable	1,350	0
Revaluation of appropriated assets	51,341	54,685
Change in valuation of shares in affiliated companies	2,900	(23,076)
Change in valuation of tradable securities	(3,045)	(14,139)
Additions to provision for depreciation as per profit and loss account	298,032	182,258

14. 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:

Affiliated companies, ownership share > 20%	**Share of ownership**	**Nominal value** ISK 000s
Ámundakinn ehf, Blönduós	23.24%	53,437
Dýralíf ehf, Egilsstaðir	33.81%	4,000
Eignarhaldsfélag Suðurlands hf, Selfoss	40.00%	109,142
Fasteignafélagið Hvammur ehf, Búðardalur	24.85%	16,919
Fasteignafélagið Kirkjuból ehf, Stöðvarfjörður	30.00%	7,124
Fjallalamb hf, Kópasker	21.26%	27,344
Fjárfestingafélagið Vör hf, Neskaupstaður	40.00%	49,757
Hvetjandi hf eignarhaldsfélag, Ísafjörður	40.16%	100,448
Molta ehf, Akureyri	30.00%	50,000
Nes listamiðstöð ehf, Skagaströnd	35.71%	5,000
Raflagnir Austurlands ehf, Stöðvarfjörður	22.37%	3,600
Ullarvinnsla Frú Láru ehf, Seyðisfjörður	29.76%	2,500
Útgerðarfélagið Skúli ehf, Drangsnes	30.01%	24,274
Thörungaverksmiðjan hf, Reykhólar	27.67%	7,919
Affiliated companies: total nominal value		461,465

Tradable securities, ownership share ≤ 20%	**Share of ownership**	**Nominal value** ISK 000s
Ásgarður hf eignarhaldsfélag, Egilsstaðir	13.78%	15,000
Borg saumastofa ehf, Húnathing vestra	19.82%	170
Eignarhaldsfélag Suðurnesja hf, Reykjanesbær	19.03%	96,840
Fánasmiðjan ehf, Ísafjörður	9.95%	4,167
Fiskvinnslan Drangur ehf, Drangsnes	4.08%	1,000
Grand Hótel Mývatn ehf, Mývatn	7.22%	10,000
Hótel Flúðir ehf, Flúðir	4.77%	1,194
Hótel Varmahlíð ehf, Varmahlíð	13.04%	3,000
P/F Smyril-line, Faroe Islands (DKK 1,868,000)	1.67%	39,199
Samkaup hf, Reykjanesbær	3.07%	10,801
Snorri Thorfinnsson ehf, Hofsós	19.89%	12,000
Tröllasteinn ehf, Laugar	19.72%	7,000
Yrkjar ehf, Eyja- og Miklaholtshreppur	6.21%	1,800
Tradable securities: total nominal value		202,171
Shareholdings: total nominal value		663,636

Shares in affiliated companies are entered in the annual accounts at a value of ISK 699,594,000. Tradable securities are entered at a value of ISK 353,283,000. The value of shares acquired in connection with financial restructuring amounts to ISK 396,202,000.

15. Operating assets

Fixed operating assets break down as follows:

	Land & buildings	Motor vehicles	Furnishings, fittings and machinery	Total
	ISK 000s	ISK 000s	ISK 000s	ISK 000s
Base value at 1/1	413,114	19,889	0	433,003
Total written down to 1/1	(6,237)	(11,790)	0	(18,027)
Book value at 1/1	406,876	8,099	0	414,975
Additions in the year	415,692	0	20,590	436,281
Written down in the year	(8,453)	(3,118)	(2,402)	(13,973)
Book value at 31/12	814,115	4,981	18,187	837,284
Total base value at 31/12	828,805	19,889	20,590	869,284
Total written down to 31/12	(14,690)	(14,908)	(2,402)	(32,000)
Book value at 31/12	814,115	4,981	18,187	837,284
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	Fire insurance valuation	Book value
	ISK 000s	ISK 000s	ISK 000s
Háahlíð 4, Sauðárkrókur	53,700	81,200	9,888
Sauðármýri 2, Sauðárkrókur	140,100	585,050	804,227
	193,800	666,250	814,115

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

Foreign:	31.12.2020	31.12.2019
	ISK 000s	ISK 000s
Assets in foreign currencies	2,572,410	2,539,883
Liabilities in foreign currencies	2,717,005	2,548,361
Net position of foreign assets and liabilities	(144,595)	(8,478)

Index-linked:		
Index-linked assets	10,878,759	9,838,762
Index-linked liabilities	10,588,974	10,465,957
Net position of index-linked assets and liabilities	289,785	(627,195)

Figures are given inclusive of depreciation of assets.

Foreign assets and liabilities break down as follows by currency:

31.12.2020	**USD** ISK 000s	**JPY** ISK 000s	**EUR** ISK 000s	**Total** ISK 000s
Loans issued	435,370	376,162	1,726,878	2,538,410
Cash in hand	30,579	171	3,250	34,000
Assets: total	465,949	376,333	1,730,128	2,572,410
Borrowings	557,751	427,267	1,731,988	2,717,005
Net position	(91,801)	(50,934)	(1,860)	(144,595)

31.12.2019	**USD** ISK 000s	**JPY** ISK 000s	**EUR** ISK 000s	**Total** 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)

Figures are given inclusive of depreciation of assets.

17. Borrowings and bond issues

Breakdown by type:	**31.12.2020** ISK 000s	**31.12.2019** ISK 000s
Index-linked borrowings and bond issues	10,588,974	10,465,957
Non-index-linked borrowings	3,482,820	0
Foreign loans taken out and borrowings in foreign currencies	2,717,005	2,548,361
	16,788,799	13,014,318

Borrowings break down as follows by period to maturity:	31.12.2020 ISK 000s	31.12.2019 ISK 000s
Fallen due	0	0
Up to 3 months	568,049	273,857
3 months to 1 year	1,343,053	1,266,015
1 year to 5 years	6,336,956	5,116,874
Over 5 years	8,540,741	6,357,573
	16,788,799	13,014,318

Borrowings break down by currency as follows (*n.i.l.*, non-index-linked):

	Payment terms	Maturity date	Interest terms	31.12.2020 ISK 000s	31.12.2019 ISK 000s
ISK	Equal payments	2030-2035	0.5-5.0% index-linked	10,588,974	10,465,957
ISK *n.i.l.*	Equal payments	2035	2.7-3.75% non-index-linked	3,482,820	0
USD	Equal instalments	2025	Libor + 1.5%	557,751	640,305
JPY	Equal payments	2030	1.0%	427,267	567,810
EUR	Equal instalments	2021-2025	Euribor + 0.2-1.35%	832,931	1,340,246
EUR	Bullet loan	2025	0.60%	570,431	0
EUR	Equal payments	2030	0.70%	328,626	0
				16,788,799	13,014,318

18. Capital and reserves

Under the terms of Article 84 of the Act no. 161/2002 on Financial Undertakings, 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 19.12%. The Central Bank of Iceland 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 2.50%. According to a Financial Supervisory Authority ruling, the Icelandic Regional Development Institute shall maintain a capital conservation buffer of 2.50% from and including 19 March 2020. The aggregate capital requirement from this date will thus be 10.50%.

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. Without the deduction the capital adequacy ratio would have been 16.98%.

	15.5.2019	1.2.2020	19.3.2020
Statutory capital adequacy ratio requirement	8.00%	8.00%	8.00%
Countercyclical capital buffer	1.75%	2.00%	0.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Aggregate capital buffer requirement	4.25%	4.50%	2.50%
Aggregate capital requirement	12.25%	12.50%	10.50%

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

	31.12.2020 ISK 000s	31.12.2019 ISK 000s
Capital position at start of year	3,216,095	3,120,680
Profit (loss) for the period	(61,811)	95,415
Capital and reserves at end of the period	3,154,284	3,216,095
Fair-value adjustment on financial assets and liabilities	(11,134)	(11,734)
Capital base at end of year	3,143,151	3,204,361
Credit risk	14,125,230	14,331,108
Market risk	190,179	302,361
Operational risk	2,127,639	2,009,515
Risk-weighted asset base	16,443,049	16,642,984
Capital adequacy ratio	19.12%	19.25%

19. Guarantees and commitments

The Icelandic Regional Development Institute did not stand as guarantor of any loans with respect to third parties as at 31 December 2020. At the end of the year there were 66 loan commitments pending completion, to the value of ISK 2,762 million. Under the rules of the Icelandic Regional Development Institute, loan commitments lapse after 12 months from the date on which they are approved.

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 accounts receivable.

Loans granted to related parties at 31 December 2020 amounted to ISK 330,731,000, of which ISK 436,000 were in default.

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

21. Effects of the COVID-19 pandemic on the Institute's operations and finances

The effects of COVID-19 on the operations of the Icelandic Regional Development Institute have been seen principally in the number of requests from clients for deferment of interest payments on loans. The Institute was party to an agreement among commercial banks, credit institutions and pension funds for temporary moratoriums on the payments of company loans due to the global COVID-19 pandemic which extended to 30 September 2020. This agreement allowed for the granting of deferrals of payment on the grounds of COVID-19 up to the turn of the year at most. The Institute has however gone considerably further in variations to terms and conditions than was set down in the substance of the agreement.

In the year 2020, 160 requests for deferral of payment were registered on the grounds of COVID-19, of which 96 were in the first six months of the year. The great majority of these were from parties in tourist services and other service providers. It is clear that the effects are not as yet all apparent and they will continue to impact on the Institute's cash flow. The government and the Central Bank of Iceland have put in place a large number of measures to mitigate negative financial effects of the pandemic but there is still considerable uncertainty over how it will develop and when it will finally be possible to lift all the restrictions imposed because of it.