

BYGGÐASTOFNUN

Byggðastofnun

The Icelandic Regional Development Institute

Annual Accounts 2021

Sauðarmýri 2

550 Sauðárkrókur

ID ref.: 450679-0389

Contents

Statement of the executive board and chief executive officer of the Icelandic Regional Development Institute	1
Independent auditors' report	7
Profit and loss account	11
Balance sheet	12
Cash-flow statement	13
Notes	14

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 particular emphasis on levelling up the opportunities of all people in Iceland to employment and location of residence. In accordance with its function the Institute prepares, organises and funds projects and provides loans with the aim of underpinning regional settlement, creating employment and encouraging business innovation. The Institute organises and contributes to consultancy services in collaboration with regional associations of local authorities, 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 business activity with the aim of supporting settlement and employment in the country's non-metropolitan regions. Under amendments to the Icelandic Regional Development Act that came into force on 1 July 2021 the Institute's functions have been expanded to include the implementation the Postal Services Act, no. 98/2019, and the regulation of postal services as laid down more specifically in relevant legislation.

Performance in the year 2021

According to the profit and loss account the Institute showed an operating profit for the year of ISK 167.3 million, as compared to a loss of ISK 61.8 million in the year 2020. Capital and reserves at the end of December 2021 as per the balance sheet stood at ISK 3,322 million. The capital adequacy ratio under the terms of the Act on Financial Undertakings was 18.17%, as compared to 19.12% at the end of the 2020.

The Institute's balance sheet at the end of December 2021 stood at ISK 22,049 million, up by ISK 1,764 million from the end of 2020. The largest individual item on the asset side of the balance sheet is loans issued to clients, amounting to ISK 18,625 million, an increase of ISK 1,790 million from the end of 2020. Cash in hand at the end of December 2021 stood at ISK 1,118 million, as compared to ISK 1,165 million at the end of 2020. Borrowings and bond issues stood at ISK 18,160 million, up by ISK 1,371 million on the year. New loans issued in the year 2021 amounted to ISK 3,899 million, as against ISK 3,369 million in the year 2020.

Under the terms of Article 84 of Act no. 161/2002 on Financial Undertakings, the total capital base shall not fall below 8% of the risk-weighted asset base; as noted above, at the end of December 2021 the Institute's capital adequacy ratio stood at 18.17%. 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 currently 2.50%. Under a Central Bank of Iceland ruling, the Institute shall maintain a capital conservation buffer of 2.5% plus a 2.0% countercyclical capital buffer, effective from 29 September 2022. The aggregate capital requirement from this date will thus be 12.50%.

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 appeared principally in the number of requests for deferment of installment payments on its clients' loans, as noted previously in the annual accounts for the year 2020.

Although the effects of the pandemic are now diminishing, the Institute anticipates that clients who have been most affected by the pandemic will continue to be limited in their ability to pay, which may result in on-going freezing of payments. It is however assumed that such deferments will not be as extensive as hitherto. There is still uncertainty over tourist numbers in Iceland and the rollout of vaccination in other countries, and this may impact on clients' ability to pay.

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 6 May 2021, 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 2022. Those appointed to the executive board were Magnús Björn Jónsson chairman, Halldóra Kristín Hauksdóttir deputy chairman, Gunnar Thorgeirsson, Heiðbrá Ólafsdóttir, Karl Björnsson, Kári Gautason and María Hjálmarsdóttir. Seven deputies were appointed at the same time: Rannveig Ólafsdóttir, Haraldur Einarsson, Thórey Edda Elísdóttir, Lilja Björg Ágústsdóttir, Anna Guðrún Björnsdóttir, Friðjón Einarsson and Hannes Karlsson. On 18 June 2021 Rannveig Ólafsdóttir resigned her position as deputy director. The Minister appoints a 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.

In 2021 the executive board held ten board meetings. Most of the meetings were conducted on line as a result of the COVID-19 pandemic. Minutes of board meetings are published concurrently on the Institute's website, with all information that falls under Article 58 of the Act on Financial Undertakings, no. 161/2002, removed from the web edition.

At a board meeting in June 2021 the executive board agreed a statement of governance practice for the Icelandic Regional Development Institute; this statement can be viewed on the Institute's website byggdastofnun.is.

The duties of the executive board are set out in greater detail in Article 4 of the Icelandic Regional Development Institute Act. The executive board has set itself rules for its working functions; these were last reviewed on 15 June 2021.

At a board meeting on 19 February 2021 the executive board agreed changes to its procedural rules on the granting of loans. The main changes to the operating procedures concern increasing the authority of the loans committee for the granting of loans without the endorsement of the executive board, plus the sale of appropriated assets and share capital.

The executive board of the Icelandic Regional Development Institute seeks to maintain good governance practices and has set itself rules and procedures 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 and shareholdings, as well as making proposals to the board on the sale of shares and appropriated assets and the handling of loan cases beyond its maximum credit authority. The Institute also operates a fishing catch quota committee, a risk committee, and a security committee for which working procedures have been established. Operating 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 procedures were last updated and approved by the board at its meeting on 19 February 2021.

The audit committee acts on behalf of the executive board and has a statutory supervisory role over the Institute's auditing. 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 alongside the activities of the Institute's internal and external auditors as further specified in its operating procedures and in accordance with Article 108.b of Act no. 3/2006 on Annual Accounts.

The executive board is responsible for the appointment of the audit committee and the committee shall answer directly to the executive 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 its members shall also be independent of the Institute. At the meeting of the board on 15 June 2021, Ragna Hjartardóttir, Halldóra Kristín Hauksdóttir and Kristbjörg Kristbergsdóttir were appointed to act as the Institute's audit committee for one year, with María Hjálmarsdóttir 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 Financial Supervisory Authority ruling 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 carry out its internal auditing over the years 2016-2020. In 2020 the contract with KPMG was extended up to the year 2025.

The functions of the chief executive officer are set out 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 24 members of staff, representing the same number in full-time equivalents.

Risk management

Under a Financial Supervisory Authority ruling from the year 2015, the Icelandic Regional Development Institute is exempted 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 operating duties of a risk committee lie with the Institute's executive board.

The executive board of the Icelandic Regional Development Institute first established a risk policy for the Institute in 2015 and this policy is reviewed and approved annually, most recently in September 2021. The executive board is responsible for the Institute's risk management. 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 places a limit on its appetite for risk; the Institute's executive board decides what constitutes an acceptable level of risk. Details of the current position of the principal risk factors risk and on the performance of its risk management system are presented to the board four times a year.

Risk management and effective internal control is one of the central pillars of the Institute's responsible operation. 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 procedures 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.

Funding

In 2021 the Institute finalised borrowing to the tune of ISK 2,500 million from Government Debt Management (Endurlán ríkisjóðs). This loan was in krónur and euros with a term of 15 years. On borrowings, see further Note 17 to the annual accounts. The loans were based on a borrowing facility in the national budgets for 2020 and 2021. The loans were used to finance new lending. Under the budget provisions for 2022 the Institute has a borrowing facility of ISK 3,000 million. It is anticipated that the Institute will finance its borrowing in the year through Government Debt Management.

Non-financial disclosure as per Article 66.d of the Act on Annual Accounts, no. 3/2006

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 executive board of the Icelandic Regional Development Institute has set itself working procedures that *inter alia* stipulate that the Institute's chairman is forbidden to undertake 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 significant financial interests, or in which he is deemed in some

other way to be an insider, as well as concerns competitors of such companies. The same applies to involvement in the handling of any matter that is connected to a party that is related to the chairman personally or financially. Full members of the Institute's executive board 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. Any other business applications from directors and/or deputies, and from companies that they might own or act as representative for, shall be referred to the Institute's executive board.

The administration of postal affairs was transferred to the Icelandic Regional Development Institute on 1 July 2021. In December 2021 the Institute's executive board established rules and procedures on the case treatment of decisions in the area of postal affairs at the Institute. These rules and procedures are intended to increase transparency in the Institute's handling of issues in the adoption of government decisions in the area of postal affairs and to help ensure that administrative matters are well researched and their solution in line with good administrative practice.

The Institute's executive board has also established ethical rules applying 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 requirements made of them and thus contribute to underpinning the trust and credibility that the Institute needs to operate.

The Icelandic Regional Development Institute observes the laws, rules and agreements in force at all times in the area of equal rights. The Institute is a place of work where staff 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 the status of all genders within the Institute and the integration of gender and equal-rights perspectives in the Institute's operations 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 regularly 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 operations in order 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.

In November 2021 the executive board of the Icelandic Regional Development Institute agreed for the first time an atmosphere policy for the Institute. Up to the year 2030 the Institute will reduce emissions of greenhouse gases by a total of 30% compared to the year 2019. The Institute aims to offset its remaining carbon emissions from the year 2020.

The Institute will concentrate primarily on reducing emissions in its operations and also offset all remaining carbon emission through, for example, an agreement on tree cultivation with a recognised party or the purchase of verified carbon units starting from the year 2021.

The Icelandic Regional Development Institute is a signatory to the initiative *Græn skref í ríkisrekstri* (Green Steps in the Public Sector) and has set itself the target of completing all five steps during the course of 2022.

Events after the end of accounting period

On 14 January 2022, Aðalsteinn Thorsteinsson, chief executive officer of the Icelandic Regional Development Institute, was appointed acting chief executive officer of Registers Iceland (Thjóðskrá) for six months, from 1 February to 31 July 2022, during the absence of leave of Registers Iceland's appointed CEO. Arnar Már Elíasson, head of the Institute's companies division, was appointed acting CEO of the Institute for the same period.

On 21 January 2022, Kári Gautason resigned from the executive board of the Icelandic Regional Development Institute in order to take up a position as special advisor to the minister of fisheries and agriculture. Acting deputy Thórey Edda Elísdóttir took over his seat on the Institute's board.

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 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 acting 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 2021, its assets, liabilities and financial position at 31 December 2021, and its cash flows during the year.

It is further our opinion that the annual accounts and statement of the executive board and acting chief executive officer present a true and fair overview 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 acting chief executive officer have discussed the annual accounts for the year 2021 and append their signatures hereto in certification.

Sauðárkrókur, 18 March 2022

Magnús B. Jónsson
Chairman of the Executive Board

Gunnar Thorgeirsson
Heiðbrá Ólafsdóttir
María Hjálmarsdóttir
Arnar Már Elíasson
Acting Chief Executive Officer

Halldóra K. Hauksdóttir
Karl Björnsson
Thórey Edda Elísdóttir

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 2021, 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 2021, its financial position at 31 December 2021, and its cash flows in the year 2021, 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 2021
- balance sheet as at 31 December 2021
- cash-flow statement for the year 2021
- 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 conducted in accordance 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 to the Institute are in accordance with the provisions of Icelandic laws and regulations and that we have not provided any service that it is forbidden 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 2021 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, had the greatest significance in our audit of the Institute's annual accounts for the year 2021. As part of our audit of the annual accounts these key features were taken for special consideration. We express no particular opinion regarding these key features; our opinion expressed pertains solely to the annual accounts *in toto*.

Key features of the audit

Valuation of loans issued

See further Notes no. 10 'Loans issued to clients' and no. 13 'Depreciation account'

A particular emphasis in our audit was placed on the valuation of loans issued, since such loans amount to around ISK 18,625 million, or 84% of the Institute's total assets. The accumulated provision for loan depreciation stands at ISK 1,467 million, or 7.30% of the Institute's total loans issued. Due to the extent of estimated factors in the calculation of the depreciation provision, this item is a key feature 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.

Auditing procedures

Re-evaluation 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 conducted 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 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, 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 that it contains

material error. If, on the basis of our work, we conclude that the other information contains material misstatement, 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 such internal control as is necessary to have in place as concerns 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 assess 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 operations. 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 applied 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 users' financial decisions 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 acquire auditing data that provides sufficient and appropriate grounds for our opinion. The risk of failure to identify material inaccuracy arising from fraud is greater than the risk of inaccuracy due to error, since fraud can result from forgery, misleading presentation of the annual accounts, 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 associated notes are appropriate and sufficient.

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 of the Institute or whether circumstances exist that might give rise to significant doubts as to its 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 materials we have obtained up to the date of our endorsement. This notwithstanding, events or circumstances in the future can result in the Institute becoming 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 all details of potential connections 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 may 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 approved in January 2019 and has been ratified annually since then. We have thus been the Institution's auditors for four years consecutively.

Reykjavík, 18 March 2022

PricewaterhouseCoopers ehf

Arna G. Tryggvadóttir
State Authorised Public Accountant

Profit and Loss Account 2021

	<i>Notes</i>	2021 ISK 000s	2020 ISK 000s
Interest earned			
Interest on deposits with credit institutions		7,566	4,298
Interest earned and indexation adjustment on loans issued		1,561,202	1,323,371
		1,568,767	1,327,669
Interest expenses			
Interest expenses and indexation adjustment on borrowings		1,008,322	805,686
Other interest expenses		107	126
		1,008,429	805,812
Net interest earned		560,338	521,857
Operating income			
Treasury funding in national budget	6	395,200	385,300
Foreign exchange adjustment	7	(17,967)	(811)
Income from appropriated assets	12	16,799	24,095
Other operating income	8	176,805	258,519
		570,837	667,103
Net operating income		1,131,175	1,188,960
Operating expenses			
Subsidies granted to business consultants		207,300	209,600
Other grants provided		105,204	164,933
Salaries and salary-related expenses	3, 4	358,210	375,108
Other operating costs		122,076	132,716
Management of appropriated assets	12	12,117	56,408
Depreciation of fixed operating assets	15	24,052	13,973
Additions to provision for depreciation of loans issued, etc.	2, 13	134,913	298,032
		963,872	1,250,771
Profit (loss) for the year		167,303	(61,811)

Balance Sheet 31 December 2021

	<i>Notes</i>	31.12.2021 ISK 000s	31.12.2020 ISK 000s
Assets			
Bank deposits	9	1,117,627	1,165,407
Loans issued to clients	10	18,625,315	16,834,885
Appropriated assets	11	320,010	270,010
Tradable shares	14	357,899	353,283
Shares in affiliated companies	14	739,368	699,594
Accounts receivable		57,993	124,489
Fixed operating assets	15	831,179	837,284
Assets: total		22,049,391	20,284,952
 Liabilities and Capital and reserves			
Borrowings and bond issues	17	18,159,786	16,788,799
Unallocated funds received		442,533	241,587
Other liabilities		125,485	100,281
Liabilities: total		18,727,803	17,130,667
 Capital and reserves			
Capital and reserves	2, 18	3,321,587	3,154,284
Liabilities and Capital and reserves: total		22,049,391	20,284,952

Cash-Flow Statement 2021

	2021 ISK 000s	2020 ISK 000s
Cash in hand from business operations		
Profit (loss) for the year	167,303	(61,811)
Operating items that do not affect cash in hand:		
Additions to provision for depreciation of loans issued and revaluation of shareholdings	124,421	280,935
Depreciation of fixed operating assets	24,052	13,973
Profit from sale of appropriated assets	(5,474)	(3,371)
Interest, indexation adjustment and exchange rate adjustment	169,345	138,914
Cash in hand from business operations	479,647	368,640
Cash flow from investment activities		
Instalment payments on loans issued	2,163,099	558,397
Loans issued	(3,899,063)	(3,369,115)
Assets redeemed	(136,242)	273,920
Shares	(4,547)	215,366
Fixed operating assets	(12,473)	(436,281)
Accounts receivable	66,496	(97,889)
Cash flow from investment activities	(1,822,730)	(2,855,602)
Cash flow from financing activities		
Instalment payments on borrowings	(1,442,196)	(2,213,885)
New borrowings	2,511,350	5,294,752
Other liabilities and unallocated funds received	226,149	96,823
Cash flow from financing activities	1,295,304	3,177,691
Increase (decrease) in cash in hand	(47,780)	690,727
Cash in hand at start of year	1,165,407	474,679
Cash in hand at end of year	1,117,627	1,165,407

NOTES

1. The Institute

Byggðastofnun (the Icelandic Regional Development Institute), ID no. 450679-0389, is a credit institution whose main business is the granting of loans and other financial support, together with monitoring regional development trends in Iceland, implementing the law on postal services and overseeing postal services. The Institute's legal domicile 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 that affect 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 as per 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 entered in the annual accounts. Index-linked assets and liabilities are entered on the basis of price indices that came into force on 1 January 2022. 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 2021. 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.

Central Bank of Iceland mid-market rate

at the end of the year:	31.12.2021	31.12.2020
USD	130.38	127.21
DKK	19.85	20.98
JPY	1.13	1.23
EUR	147.60	156.10

Arion Bank buying rate at the end of the year:

USD	129.33	127.17
JPY	1.12	1.23
EUR	147.08	155.55

Landsbanki buying rate at the end of the year:

EUR	147.11	155.64
-----	--------	--------

Íslandsbanki buying rate at the end of the year:		
USD	129.33	127.27
JPY	1.12	1.23
EUR	147.11	155.58

Price indices at the start of the year		
	1.1.2022	1.1.2021
Consumer prices index for the purposes of price indexation	513.0	489.1

Fixed operating assets

Fixed operating assets are credited 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 time 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 of loans issued are charged to 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 share of ownership is less than 20% but the Institute is represented on the company's board, the holding is entered on the basis of its 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

Loans issued denotes loans issued by the Institute 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 factored into the book value of loans. Interest received on loans and deposits is listed 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 receivables 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. The 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

	2021	2020
	ISK 000s	ISK 000s
Salaries	281,501	291,656
Pension contributions	50,881	52,351
Social security contributions	19,615	21,108
Adjustment to accrued holiday pay	611	3,940
Other salary-related expenses	5,601	6,052
	<hr/>	<hr/>
Salaries and salary-related expenses: total	358,210	375,108
	<hr/> <hr/>	<hr/> <hr/>

In the year there were 27 members of staff working at the Institute on a full-year basis. On 31 December 2021 there were 24 members of staff on the Institute's payroll, representing 24 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:

	2021	2020
	ISK 000s	ISK 000s
Magnús Björn Jónsson, chairman of the board	3,446	3,283
Gunnar Thorgeirsson, director	1,707	1,627
Halldóra K. Hauksdóttir, deputy chairman of the board & audit committee	1,985	1,627

Heiðbrá Ólafsdóttir, director from 11.08.2020	1,707	712
Karl Björnsson, director	1,707	1,627
Kári Gautason, director from 15.05.2021	1,112	0
Kristbjörg H. Kristbergsdóttir, audit committee from 22.05.2020	512	299
María Hjálmarsdóttir, director	1,707	1,627
Ólafur V. Sigurbergsson, audit committee to 22.05.2020	0	190
Ragna Hjartardóttir, chairman of audit committee	595	567
Sigríður Jóhannsdóttir, director & audit committee to 15.05.2021	774	2,115
Unnar Hermannsson, director 16.04-11.08.2020	0	527
Aðalsteinn Thorsteinsson, chief executive officer	21,086	18,624
Remuneration of directors, audit committee and chief executive officer: total	<u>36,339</u>	<u>32,825</u>

5. Auditors' fees

	2021	2020
	ISK 000s	ISK 000s
Audit of annual accounts and review of interim financial statement	5,027	4,553
Other audit-related services	0	242
Other professional services/internal audit	780	3,753
Auditors' fees: total	<u>5,807</u>	<u>8,548</u>

6. Treasury funding as per national budget and other Treasury receipts

Funding received from national budget	2021	2020
	ISK 000s	ISK 000s
General operations	187,900	175,700
Business consultants in non-metropolitan regions	207,300	209,600
Treasury funding as per national budget	<u>395,200</u>	<u>385,300</u>
Treasury funding that goes through the balance sheet	2021	2020
	ISK 000s	ISK 000s
Treasury subsidy to <i>Sóknaráætlanir landshluta</i> (regional plans of action)	806,000	0
Treasury subsidy towards transport cost equalisation grants	354,695	0
Treasury subsidy to individual projects in action plan regions	223,300	192,500
Treasury subsidy to project <i>Brothættar byggðir</i> ('Fragile Communities')	140,000	212,000
Treasury subsidy to <i>Byggðarannsóknasjóður</i> ('Rural Regions Research Fund')	7,000	7,000
Treasury subsidy due to collapse in tourist services	0	150,000
Treasury subsidy to social services and child protection	0	30,000
Other Treasury funding: total	<u>1,530,995</u>	<u>591,500</u>

	2021	2020
	ISK 000s	ISK 000s
Grants provided from Treasury funding reflected on the balance sheet		
Grants on account of <i>Sóknaráætlanir landshluta</i> (regional plans of action)	741,062	0
Grants towards transport cost equalisation	213,987	0
Grants to individual projects in action-plan regions	206,267	142,950
Grants due to collapse in tourist services	28,600	120,000
Grants to social services and child protection	14,131	15,869
Grants to <i>Byggðarannsóknasjóður</i> ('Rural Regions Research Fund')	13,530	11,200
Grants provided: total	<u>1,217,576</u>	<u>290,019</u>

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

The Institute's costs from the project *Brothættar byggðir* ('Fragile Communities') amounted to ISK 117,328,000 in the year and are entered in the profit and loss account. Income amounted to ISK 117,328,000 and is included within Other operating income.

7. Foreign exchange adjustment

	2021	2020
	ISK 000s	ISK 000s
Foreign exchange adjustment on loans issued	(122,329)	282,188
Foreign exchange adjustment on currency accounts and deposits	429	93,943
Foreign exchange adjustment on borrowings	103,933	(376,942)
	<u>(17,967)</u>	<u>(811)</u>

8. Other operating income

	2021	2020
	ISK 000s	ISK 000s
Repayment of costs due to project <i>Brothættar byggðir</i> ('Fragile communities')	117,328	181,820
Various outlays repaid	36,767	57,495
Share dividends	12,901	9,212
Profit on sale of appropriated assets	5,474	0
Income from operating assets	1,682	1,961
Collection income	1,082	1,778
Other	1,572	2,883
Profit on sale of appropriated assets	0	3,371
	<u>176,805</u>	<u>258,519</u>

9. Bank deposits

	31.12.2021	31.12.2020
	ISK 000s	ISK 000s
Bank deposits in ISK	1,058,496	1,131,407
Bank deposits in foreign currencies	59,131	34,000
Bank deposits: total	<u>1,117,627</u>	<u>1,165,407</u>

10. Loans issued to clients

	31.12.2021	31.12.2020
	ISK 000s	ISK 000s
Broken down by currency:		
Loans issued in ISK	17,314,556	15,357,309
Loans issued in foreign currencies	2,778,024	2,850,428
Provision for depreciation of loans issued	(1,467,265)	(1,372,851)
	<u>18,625,315</u>	<u>16,834,885</u>

	31.12.2021	31.12.2020
Broken down by recipients:		
Local authorities	0.00%	0.05%
Private individuals	29.07%	29.32%

	31.12.2021	31.12.2020
Broken down by sector :		
Services	35.27%	37.97%
Fisheries	13.14%	11.21%
Industry	7.60%	7.35%
Agriculture	14.92%	14.11%
Financial institutions	0.00%	0.00%
	<u>100%</u>	<u>100%</u>

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

	31.12.2021	31.12.2020
	ISK 000s	ISK 000s
Claims fallen due	172,927	98,674
Up to 3 months	364,173	214,606
3 months to 1 year	1,521,913	1,042,285
1 year to 5 years	6,046,120	4,897,133
Over 5 years	10,520,182	10,582,187
	<u>18,625,315</u>	<u>16,834,885</u>

11. Appropriated assets

	31.12.2021 ISK 000s	31.12.2020 ISK 000s
Real estate	320,010	270,010
	<u>320,010</u>	<u>270,010</u>
	Rateable value ISK 000s	Size m²
Aðalgata 6, Blönduós	105,300	1,118.9
Eyrarvegur 8, Thórshöfn	4,270	212.5
Grænigarður, Ísafjörður	86,214	1,366.7
Strandarvegur 29-33, 29R, Seyðisfjörður	14,650	601.0
Strandgata 37, Tálknafjörður	14,990	456.1
Valgerðarstaðir 4, Fljótisdalshérað	161,200	5,148.3
	<u>386,624</u>	<u>8,903.5</u>

Appropriated assets are entered in the annual accounts at a value of ISK 320,010,000.

	2021	2020
Number of appropriated assets held by the Institute at the start of the year	6	11
Appropriated assets redeemed in settlement of claims in the year	1	2
Appropriated assets sold in the year	(1)	(7)
Appropriated assets held by the Institute at the end of the period	<u>6</u>	<u>6</u>

12. Management of appropriated assets

	2021 ISK 000s	2020 ISK 000s
Rental income	16,799	24,095
Management costs	12,117	56,408
	<u>4,682</u>	<u>(32,314)</u>

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, together with revaluations 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 in excess of 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 2021	Special depreciation account ISK 000s	General depreciation account ISK 000s	Total ISK 000s
Position at 1 January	230,471	1,142,380	1,372,851
Additions in the year	31,391	94,734	126,125
Bad loans written off	(31,712)	0	(31,712)
Position at 31 December	<u>230,150</u>	<u>1,237,115</u>	<u>1,467,265</u>
Provision for depreciation of loans as percentage of loans issued	1.15%	6.16%	7.30%
Provision for depreciation of loans issued 2020	Special depreciation 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	<u>230,471</u>	<u>1,142,380</u>	<u>1,372,851</u>
Provision for depreciation account as percentage of loans issued	1.27%	6.27%	7.54%
		2021 ISK 000s	2020 ISK 000s
Addition in the year		126,125	245,487
Addition on account of accounts receivable		3,066	1,350
Revaluation of appropriated assets		15,126	51,341
Change in valuation of shares in affiliated companies		(8,652)	2,900
Change in valuation of tradable securities		(753)	(3,045)
Additions to provision for depreciation as per profit and loss account		<u>134,913</u>	<u>298,032</u>

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	38.17%	100,448
Molta ehf, Akureyri	30.00%	50,000
Nes listamiðstöð ehf, Skagaströnd	35.71%	5,000
Útgerðarfélagið Skúli ehf, Dranganes	38.02%	30,755
Thörungaverksmiðjan hf, Reykhólar	27.67%	7,919
Affiliated companies: total nominal value		461,847
		<hr/>
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
Fiskmarkaður Hólmavíkur ehf, Hólmavík	15.56%	278
Fiskvinnslan Drangur ehf, Dranganes	4.08%	1,000
Grand Hótel Mývatn ehf, Mývatn	7.22%	10,000
Hótel Flúðir ehf, Flúðir	4.77%	1,194
P/F Smyril-line, Faroe Islands (DKK 1,868,000)	1.67%	37,082
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		192,332
		<hr/>
Shareholdings: total nominal value		659,178
		<hr/> <hr/>

Shares in affiliated companies are entered in the annual accounts at a value of ISK 739,368,000. Tradable securities are entered at a value of ISK 357,899,000. The value of shares acquired in connection with financial restructuring amounts to ISK 498,499,000.

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	828,805	19,889	20,590	869,284
Total written down to 1/1	(14,690)	(14,908)	(2,402)	(32,000)
Book value at 1/1	<u>814,115</u>	<u>4,981</u>	<u>18,187</u>	<u>837,284</u>
Additions in the year	2,642	18,036	0	20,678
Written down in the year	(16,629)	(3,305)	(4,118)	(24,052)
Sold in the year	0	(8,205)	0	(8,205)
Profit on sales	0	5,474	0	5,474
Book value at 31/12	<u>800,128</u>	<u>16,981</u>	<u>14,070</u>	<u>831,179</u>
Total base value at 31/12	831,447	22,536	20,590	874,572
Total written down to 31/12	(31,319)	(5,555)	(6,520)	(43,394)
Book value at 31/12	<u>800,128</u>	<u>16,981</u>	<u>14,070</u>	<u>831,179</u>
Depreciation ratio	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	56,800	89,950	9,559
Sauðármýri 2, Sauðárkrókur	142,200	628,600	790,569
	<u>199,000</u>	<u>718,550</u>	<u>800,128</u>

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

	31.12.2021	31.12.2020
	ISK 000s	ISK 000s
Foreign:		
Assets in foreign currencies	2,555,616	2,572,410
Liabilities in foreign currencies	2,605,025	2,717,005
Net position of foreign assets and liabilities	<u>(49,409)</u>	<u>(144,595)</u>

Index-linked:		
Index-linked assets	9,829,730	10,878,759
Index-linked liabilities	10,765,809	10,588,974
Net position of index-linked assets and liabilities	<u>(936,080)</u>	<u>289,785</u>

Figures are given inclusive of depreciation of assets.

Foreign assets and liabilities break down as follows by currency:

31.12.2021	USD	JPY	EUR	Total
	ISK 000s	ISK 000s	ISK 000s	ISK 000s
Loans issued	415,176	288,645	1,792,664	2,496,485
Cash in hand	21,830	31,977	5,324	59,131
Assets: total	<u>437,006</u>	<u>320,622</u>	<u>1,797,988</u>	<u>2,555,616</u>
Borrowings	457,310	354,733	1,792,982	2,605,025
Net position	<u>(20,304)</u>	<u>(34,111)</u>	<u>5,006</u>	<u>(49,409)</u>
31.12.2020	USD	JPY	EUR	Total
	ISK 000s	ISK 000s	ISK 000s	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	<u>465,949</u>	<u>376,333</u>	<u>1,730,128</u>	<u>2,572,410</u>
Borrowings	557,751	427,267	1,731,988	2,717,005
Net position	<u>(91,801)</u>	<u>(50,934)</u>	<u>(1,860)</u>	<u>(144,595)</u>

Figures are given inclusive of depreciation of assets.

17. Borrowings and bond issues

Icelandic Regional Development Institute bonds are backed by the National Treasury of Iceland.

Breakdown by type:	31.12.2021	31.12.2020
	ISK 000s	ISK 000s
Index-linked bonds	9,759,947	10,080,703
Index-linked borrowings	1,005,863	508,271
Non-index-linked borrowings	4,788,952	3,482,820
Foreign loans taken out and borrowings in foreign currencies	2,605,025	2,717,005
	<u>18,159,786</u>	<u>16,788,799</u>

	31.12.2021	31.12.2020
	ISK 000s	ISK 000s
Borrowings break down as follows by period to maturity:		
Fallen due	0	0
Up to 3 months	593,928	568,049
3 months to 1 year	1,396,737	1,343,053
1 year to 5 years	6,947,924	6,336,956
Over 5 years	9,221,197	8,540,741
	<u>18,159,786</u>	<u>16,788,799</u>

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

	Payment terms	Maturity date	Interest terms	31.12.2021	31.12.2020
				ISK 000s	ISK 000s
ISK	Equal payments	2030-2036	0.5-5.0% index-linked	10,765,809	10,588,974
ISK	Equal payments	2035-2036	2.7-4.6% non-index-linked	4,788,952	3,482,820
<i>n.i.l.</i>					
USD	Equal instalments	2025	Libor + 1.5%	457,310	557,751
JPY	Equal payments	2030	1.0%	354,733	427,267
EUR	Equal instalments	2025	Euribor + 1.35%	472,639	832,931
EUR	Bullet loan	2025	0.60%	539,360	570,431
EUR	Equal payments	2036	0.5-0.7%	780,983	328,626
				<u>18,159,786</u>	<u>16,788,799</u>

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; on 31 December 2021 the Institute's capital adequacy ratio was 18.17%. 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 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 currently 2.50%. Under a Financial Supervisory Authority ruling, the Icelandic Regional Development Institute shall maintain a countercyclical capital buffer of 2.0% and a capital conservation buffer of 2.50% from and including 29 September 2022. The aggregate capital requirement from this date will thus 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. Without the deduction the capital adequacy ratio would have been 16.22%.

	1.2.2020	19.3.2020	29.9.2022
Statutory capital adequacy ratio requirement	8.00%	8.00%	8.00%
Countercyclical capital buffer	2.00%	0.00%	2.00%
Capital conservation buffer	2.50%	2.50%	2.50%
Aggregate capital buffer requirement	<u>4.50%</u>	<u>2.50%</u>	<u>4.50%</u>
Aggregate capital requirement	<u>12.50%</u>	<u>10.50%</u>	<u>12.50%</u>

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

	31.12.2021	31.12.2020
	ISK 000s	ISK 000s
Capital position at start of year	3,154,284	3,216,095
Profit (loss) for the year	167,303	(61,811)
Capital and reserves at end of the year	<u>3,321,587</u>	<u>3,154,284</u>
Fair-value adjustment on financial assets and liabilities	<u>(10,857)</u>	<u>(11,134)</u>
Capital base at end of year	<u>3,310,730</u>	<u>3,143,151</u>
Credit risk	15,837,048	14,125,230
Market risk	233,545	190,179
Operational risk	<u>2,146,363</u>	<u>2,127,639</u>
Risk-weighted asset base	<u>18,216,956</u>	<u>16,443,049</u>
Capital adequacy ratio	<u>18.17%</u>	<u>19.12%</u>

19. Guarantees and commitments

As of 31 December 2021 the Icelandic Regional Development Institute was not acting as guarantor of any loans with respect to third parties. At the end of December there were 52 loan commitments pending completion, to the value of ISK 2,245 million. Under Icelandic Regional Development Institute rules, 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 2021 amounted to ISK 300,647,000, of which ISK 6,125,000 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 appeared principally in the number of requests for deferment of installment payments on its clients' loans, as noted previously in the annual accounts for the year 2020.

Although the effects of the pandemic are now diminishing, the Institute anticipates that clients who have been most affected by the pandemic will continue to be limited in their ability to pay, which may result in on-going freezing of payments. It is however assumed that such deferments will not be as extensive as hitherto. There is still uncertainty over tourist numbers in Iceland and the rollout of vaccination in other counties, and this may impact on clients' ability to pay.