



# **Annual Accounts of Byggðastofnun**

Institute of Regional Development in Iceland

**2006**

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## Signatures of the Board of Directors of the Institute of Regional Development

The annual accounts of the Institute of Regional Development for the year 2006 have been prepared in accordance with similar accounting principles to those in previous years. According to the profit and loss account, the Institute operated at a profit of ISK 10.1 million. According to the balance sheet, equity capital amounted to ISK 1,051 million at year-end.

The equity ratio, as defined by the Act on Credit Institutions other than Commercial and Savings Banks, was 8.91%.

The Board of Directors, Director-General and Director of Finance hereby affix their signatures in attestation to the annual accounts of the Institute of Regional Development for the year 2006.

Reykjavík, 23. February 2007

*Heraða Samunskildottir*  
Chairman of the Board

<i>Gudjón Gudmundsson</i>	<i>Arnþjórg Sveinsdóttir</i>
<i>Drífa Þjartardóttir</i>	<i>Gunnlaugur Stefánsson</i>
<i>Þorvaldur T. Jónsson</i>	<i>Örlygur Hnefíf Jónsson</i>

*Adalsteinn Þorsteinsson*  
Director-General

*Magnús Helgason*  
Director of Finance

## Auditors' report

On behalf of the National Audit Office we have audited the 2006 annual accounts of the Institute of Regional Development. The annual accounts consist of a profit and loss account, balance sheet, statement of cash flow, and notes. The annual accounts are submitted by the Directors of the Institute and on their responsibility, in accordance with laws and regulations. Our responsibility rests in the opinions we express concerning these annual accounts on the basis of our audit.

The audit was carried out in accordance with generally accepted auditing standards. According to such standards, we are to organise and perform our audit in order to ascertain with reasonable certainty that the annual accounts have no substantial flaws or limitations. The audit includes analysis, random spot checks and other investigations of data to verify the amounts and information presented in the annual accounts. The audit also includes investigation of the accounting practices used and assessment rules followed in compiling the annual accounts, together with an evaluation of their overall presentation. We believe that our audit provides a sufficiently trustworthy basis for our opinion.

It is our opinion that the annual accounts provide a true and fair picture of the performance of the Institute of Regional Development for the year 2006, its financial position as of 31 December 2006 and changes in liquid assets for the year 2006, in conformity with law, regulations and generally accepted accounting principles.

Reykjavík, 23 February 2007

Ernst & Young hf.

*Árni Snæbjörnsson*

## Profit and loss account 2006

	<b>Notes</b>	<b>2006</b>	<b>2005</b>
<b>Financial income</b>		ISK 000s	ISK 000s
Interest from securities		153.894	184.483
Interest on loans		947.154	810.772
		<b>1.101.048</b>	<b>995.256</b>
<b>Financial expenses</b>			
Interest on borrowings		1.061.077	853.518
Other interest expense		1.953	1.280
		1.063.030	854.798
<i>Net financial income</i>		<b>38.018</b>	<b>140.458</b>
<b>Other income</b>			
Regular budget allocation		339.100	319.900
Allocations from supplementary budget	7	31.699	86.575
Foreign exchange earnings (losses)		305.631	(24.104)
Miscellaneous income		28.505	22.089
		704.935	404.461
<i>Net income</i>		<b>742.953</b>	<b>544.919</b>
<b>Other expenses</b>			
Grants to economic development companies		134.785	122.294
Other grants		34.549	84.175
Wages and wage-related expenses	5, 6	139.322	134.431
General operating expenses		107.361	127.741
Depreciation of fixed assets		5.308	7.836
Allowance for losses on loans and reduction in share capital	2, 11	311.524	340.635
		732.850	817.112
<b>Net profit (loss)</b>		<b>10.103</b>	<b>(272.193)</b>

**Balance sheet**

<b>Assets</b>	<b>Notes</b>	<b>31.12.2006</b> ISK 000s	<b>31.12.2005</b> ISK 000s
<b>Bank deposits and securities</b>			
Funds and bank deposits	8	<u>1.330.946</u>	<u>1.196.834</u>
<b>Loans</b>			
Loans to customers	1,9	9.252.850	8.739.154
Appropriated assets	10	223.258	280.608
		<u>9.476.108</u>	<u>9.019.762</u>
<b>Shares held in companies</b>			
Shares	12	<u>1.324.381</u>	<u>1.377.409</u>
		<u>1.324.381</u>	<u>1.377.409</u>
<b>Other assets</b>			
Accounts receivable		16.196	62.829
Real estate	1,13	57.367	81.823
		<u>73.562</u>	<u>144.651</u>
<b>Total assets</b>		<b><u>12.204.998</u></b>	<b><u>11.738.656</u></b>

## as of 31 December 2006

<b>Liabilities and equity</b>	<b>Note</b>	<b>31.12.2006</b> ISK 000s	<b>31.12.2005</b> ISK 000s
<b>Borrowings</b>			
Securities issued	1,15	6.163.924	7.837.682
Loans from financial institutions		4.864.108	2.773.408
		<hr/> 11.028.031	<hr/> 10.611.091
<b>Other liabilities</b>			
Allowance for losses on collateral		13.185	12.337
Creditors		98.285	68.604
		<hr/> 111.469	<hr/> 80.941
<b>Calculated obligations</b>			
Allowance for pension fund	3	13.605	4.835
		<hr/> 13.605	<hr/> 4.835
<b>Total liabilities</b>		<hr/> <b>11.153.106</b>	<hr/> <b>10.696.867</b>
<b>Equity capital</b>	4,16	<hr/> <b>1.051.892</b>	<hr/> <b>1.041.789</b>
<b>Total liabilities and equity</b>		<hr/> <b>12.204.998</b>	<hr/> <b>11.738.656</b>
<b>Outside the balance sheet items</b>			
Guarantees provided		426.300	398.912

## Statement of cash flow, 2006

	<b>2006</b>	<b>2005</b>
	ISK 000s	ISK 000s
<b>Cash flow from operations</b>		
Net profit (loss)	10.103	(272.193)
<i>Items not affecting liquid assets:</i>		
Allowance for losses on loans and reduction in share capital	321.283	358.374
Allocations due to pension obligations	8.770	(3.208)
Depreciation of fixed assets	5.308	7.836
Profit of sold properties	(2.561)	0
Interest, indexation and exchange rate difference	(268.746)	836.145
Unpaid grants	2.173	(10.765)
<b>Cash flow from operations</b>	<b>76.331</b>	<b>916.191</b>
 <b>Investment activities</b>		
Repayment of loans	1.942.879	2.734.004
New loans made	(1.505.384)	(1.416.942)
Redeemed assets	(220.358)	96.980
Shares	87.608	(48.928)
Sold property	21.000	0
Pension obligations paid	0	(641.558)
Guarentees paid	0	(140.731)
Loans and appropriated assets bought from the Fisheries Development Fund	0	(900.578)
Debtors	46.633	24.491
<b>Investment activities</b>	<b>372.378</b>	<b>(293.263)</b>
 <b>Financing activities</b>		
Repayment of borrowings	(2.076.106)	(1.945.945)
New borrowings	1.734.000	0
Accounts payable	27.508	(100.674)
<b>Financial activities</b>	<b>(314.597)</b>	<b>(2.046.619)</b>
 <b>Increase (decrease) in cash on hand</b>	<b>134.112</b>	<b>(1.423.691)</b>
<b>Cash on hand at beginning of year</b>	<b>1.196.834</b>	<b>2.620.525</b>
<b>Cash on hand at year-end</b>	<b>1.330.946</b>	<b>1.196.834</b>

## Notes to the 2006 financial statements

### 1. Accounting methods

The annual accounts of the Institute of Regional Development are prepared according to the Annual Accounts Act and rules on the preparation of annual accounts for commercial banks, savings institutions and other credit institutions. The depreciation of fixed assets is calculated as an annual percentage of the purchase price. Further details on depreciation appear in Note 13. Accrued exchange rate differences and the indexation of principal on property and debts are entered in the annual accounts. Indexed property and debts are entered based on the indices that began to apply on 1 January 2007. Foreign currency assets are converted to Icelandic kronur at the closing exchange rate quoted at year's end and debts in foreign currencies to Icelandic kronur at the closing exchange rate quoted at year's end.

### 2. Allowance for losses on loans

Allowance is made for losses on loans in order to meet the risk incurred in lending operations, although this provision does not reflect the final losses on lending. Allowance for losses on loans are entered as expenses in the profit and loss account, after deducting repayments on loans that were previously written off.

### 3. Pension liabilities

According to actuarial calculations, pension obligations are estimated at ISK 13.6 million at the end of the year 2006. In accordance with the regulations on the compilation of the financial statements of commercial banks, saving banks and other credit institutions, interest and indexation are calculated on accrued pension obligations that are entered under interest charges and balanced against increases in pension obligations.

### 4. Equity Capital

According to provisions in Act No. 161/2002 on Financial Undertakings, the equity of a lending institution may at no time amount to a smaller sum than the equivalent of 8% of credit risk. On this basis, the equity ratio of the Institute of Regional Development at the close of 2006 was 8.91%.

### 5. Wages and wage-related expenses

	2006	2005
	ISK 000s	ISK 000s
Wages	106,685	111,319
Pension contributions	12,468	13,318
Other wage-related expenses	20,170	9,793
	<u>139,324</u>	<u>134,431</u>

In terms of full-year positions, the Institute had an average of about 19 employees in 2006. At year-end 2006 the company had 20 employees on the payroll.

### 6. Payments to the Board and Director-General

Wages to the Board and Director-General of the Institute of Regional Development were as follows:

	2006	2005
Herdís Á. Sæmundardóttir, Chairman of the Board	2,004	1,948
Other Board Members (6)	6,185	5,973
Aðalsteinn Þorsteinsson, Director-General	9,831	9,596
Total	<u>18,020</u>	<u>17,517</u>

### 7. Allocations from supplementary budget

Budget allocations for harbour building in Bildudalur	15,000	35,000
Budget allocations for economic development projects	16,699	51,575
	<u>31,699</u>	<u>86,575</u>

### 8. Cash and claims on credit institutions

Cash on hand consists of unrestricted bank deposits in domestic and foreign currencies and claims due at credit institutions.

Bank deposits in ISK	386,022	555,024
Bank deposits in foreign currencies	22,893	114,444
Other bank deposits	922,031	527,366
	<u>1,330,946</u>	<u>1,196,834</u>

### 9. Loans

Breakdown by sector:

Municipalities	1.49%	1.75%
Individuals	6.24%	8.60%
Industry:		
Fisheries	40.61%	38.98%
Manufacturing	14.34%	12.58%
Services	35.63%	33.21%
Agriculture	1.66%	2.75%
Other	0.03%	2.13%
	<u>100,00%</u>	<u>100,00%</u>

Loans by maturity:

On demand	375,694	350,465
Up to 3 months	671,359	264,520
Less than 1 year	1,177,246	798,679
1 to 5 years	2,624,823	3,209,369
Over 5 years	4,403,729	4,116,121
	<u>9,252,850</u>	<u>8,739,154</u>

### 10. Appropriated assets

Real estate	220,258	279,308
Moveable assets	3,000	1,300
	<u>223,258</u>	<u>280,608</u>

### 11. Provision to loan-loss account

According to the Regulation on the Institute of Regional Development, a loan-loss account is to be established which reflects the Institute's current exposure as a result of loans granted. Whenever decisions are taken on granting loans or guarantees, or purchasing shares in an enterprise, the risks involved shall be assessed and



provision made to the loan-loss account. Thus the loan-loss account includes provision for each loan granted by the Institute.

### Changes during year (ISK 000s)

	2006	2005
Acct. balance at beginning of year	939,495	1,210,616
Provision from Fisheries Development Fund	0	48,251
Provisions to loan-loss account	327,331	310,065
Loans written off	(368,925)	(629,437)
<b>Balance at end of year</b>	<b>897,901</b>	<b>939,495</b>
Allowance during the year	327,331	310,065
Provision for guarantees	847	(47,983)
Guaranties written off	0	100,368
Changes in shares	(6,894)	(4,076)
Recoveries on loans previously written off	(9,760)	(17,739)
Allowance for credit losses, according to profit and loss statement	311,524	340,635
Allowance for credit losses, as a percentage of loans	8.85%	9.78%

### 12. Shareholdings

Breakdown of shares held by the RDI at year-end, by nominal value and holding proportion:

	Share %	Nominal value ISK 000s
<b>Holding companies:</b>		
Eignarhaldsfélag Suðurnesja hf.	19.40%	96,840
Eignarhaldsfélagið Gláma hf.	36.52%	114,500
Hvetjandi ehf.	35.07%	45,429
Eignarhaldsfélag Suðurlands hf. Eignarhaldsfélag	40.00%	109,142
Vestmannaeyja hf.	38.77%	78,500
Eignarhaldsfélag Austurlands hf.	40.00%	120,000
<b>Total, holding companies</b>		<b>564,411</b>
<b>Business development companies:</b>		
Atvinnuþróunarfélag Vestfjarða hf.	21.35%	1,933
Atvinnuþróunarfélag Þingeyinga hf.	33.30%	1,833
<b>Total bus. dev. companies</b>		<b>3,766</b>
<b>Other companies:</b>		
Ásgarður ehf.	13.10%	15,000
Baðfélag		
Mývatnssveitar ehf.	20.83%	25,000

Bakkavík hf.	16.61%	31,097
Brimnes hótél ehf.	12.00%	4,610
Bæjarkort - Fyrirtæki og stofnanir ehf.	50.00%	3,000
Dalagisting ehf.	12.11%	8,000
Dýralíf ehf.	28.92%	4,000
Eðalís ehf.	11.06%	3,000
Eignarfélagið Hallormur ehf.	20.00%	2,814
Eldisfóður hf.	40.00%	1,200
Fasteignafélagið Borg ehf. Ferðaskrifstofa	31.03%	6,468
Austurlands ehf.	29.03%	4,500
Feyging ehf.	14.44%	17,491
Fjallalamb	13.55%	10,000
Fjarðaraldan hf.	29.88%	15,000
Forsvar ehf.	13.33%	2,000
Fossvík ehf.	21.60%	13,636
Fóðuriðjan Ólafsdal ehf.	28.57%	6,000
Frumkvöðlas. Austurl. ehf.	18.76%	5,600
Gagnaveita Skagafjarðar hf.	20.63%	10,000
Gjöll ehf.	22.04%	4,000
Globodent á Íslandi ehf.	7.18%	2,353
Grand hótél Mývatn ehf.	7.22%	10,000
Gunnólfur ehf.	28.57%	244
HotMobileMail ehf.	24.53%	15,000
Hótél Flúðir hf.	19.38%	6,218
Hótél Hellissandur hf.	38.05%	19,534
Hótél Húsavík ehf.	0.38%	136
Hótél Valaskjál hf.	18.80%	4,500
Hótél Varmahlíð ehf.	13.04%	3,000
Hvalamiðstöðin Húsavík ehf.	19.70%	2,000
Íslenskur kúfiskur ehf.	11.90%	25,000
Kjörorka ehf.	8.25%	2,000
MT bílar ehf.	25.00%	199
Norðurskel ehf.	6.32%	1,264
ORF Líftækni hf.	3.74%	3,339
Óley ehf.	42.02%	10,000
P/F Smyril-line	3.22%	55,650
Plastmótun ehf.	7.82%	733
Rennex ehf.	10.71%	600
Reykofninn ehf.	30.17%	11,667
Reynihlíð ehf.	27.47%	5,000
Saumastofan Borg ehf.	19.82%	1,700
Saxa smiðjufélag ehf.	28.48%	12,000
Skaginn hf.	8.89%	2,984
Sláturfélag Austurlands fsvf	28.00%	18,000
Sláturhúsið Búðardal ehf.	24.86%	16,924
Snorri Þorfinnsson ehf.	19.89%	12,000
Sundatangi ehf.	27.27%	31,702
Sæferðir ehf.	25.09%	20,000
Textílsetrið ses	32.15%	2,000
Trico ehf.	33.33%	5,000
Tröllasteinn ehf.	18.92%	7,000
Ullarvinnsla frá Láru ehf.	29.76%	2,500

Yrkjar ehf.	7.29%	1,800
Bóroddur ehf.	14.60%	10,000
Þvottatækni ehf.	30.00%	729
Þörungaverksmiðjan hf.	27.67%	7,919

**Total other companies 515,082**

**Total shares 1,083,258**

The value of shares held by the Institute is entered in the financial statement as ISK 1,324,381.

### 13. Real estate

Fixed asset revaluation and depreciation of real estate:

	Real Estate	Fixtures
Total value 1/1	95,806	29,601
Sold during the year	(25,418)	0
<b>Total value as of 31 December</b>	<b>70,388</b>	<b>29,601</b>
Depreciated 1/1	20,674	22,909
Depreciated during the year	1,577	3,731
Depreciated out	(6,270)	0
Total depreciated	15,981	26,640
<b>Book value as of 31 December 2006</b>	<b>54,407</b>	<b>2,961</b>

The assessed value of land and buildings totalled ISK 44.5 million.  
Insured replacement value of buildings totalled ISK 93.8 million.

### 14. Assets and liabilities linked to foreign currencies or inflation-indexed

	2006 ISK 000s	2005 ISK 000s
Exchange rate-indexed:		
Assets	5,600,284	4,418,787
Liabilities	4,864,108	2,773,408
Difference	736,176	1,645,379
Inflation-indexed:		
Assets	3,674,678	4,434,812
Liabilities	6,163,923	7,837,682
Difference	(2,489,245)	(3,402,870)

**15. Borrowing**

Breakdown of liabilities by maturity:

	<b>2006</b>	<b>2005</b>
	<b>ISK 000s</b>	<b>ISK 000s</b>
Up to 3 months	1,296,514	193,371
Less than 1 year	955,385	638,254
1 to 5 years	4,862,258	5,436,505
Over 5 years	<u>3,913,875</u>	<u>4,342,961</u>
Total	<u>11,028,031</u>	<u>10,611,091</u>

**16. Equity capital**

Equity capital and equity ratio, as stipulated by law:

Equity capital A	<u>1,051,892</u>	1,041,789
Total equity capital	<u>1,051,892</u>	1,041,789
Risk-adjusted asset base	<u>11,805,472</u>	12,703,924
Equity ratio	<u>8.91%</u>	8.20%

	<b>Retained earnings</b>	<b>Total</b>
Balance as of 1 Jan. 2006	1,041,789	1,041,789
Profit for the year	<u>10,103</u>	<u>10,103</u>
	<u>1,051,892</u>	<u>1,051,892</u>

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

	<b>2006</b>	<b>2005</b>
	<b>ISK 000s</b>	<b>ISK 000s</b>
Auditing	1,299	2,090
Other professional services	2,696	5,176
Total	<u>3,995</u>	<u>7,266</u>