



Annual Accounts of Byggðastofnun

Institute of Regional Development in Iceland

2005

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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 2005 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 loss of ISK 272.2 million. According to the balance sheet, equity capital amounted to ISK 1042 million at year-end.

The equity ratio, as defined by the Act on Credit Institutions other than Commercial and Savings Banks, was 8.20%.

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 2005.

Reykjavík, 24 February 2006

Herdís Samundardóttir
Chairman of the Board

<i>Audjón Guðmundsson</i>	<i>Arnþjórg Sveinsdóttir</i>
<i>Drifa Hjartardóttir</i>	<i>Soffía Vagnadóttir</i>
<i>Þorvaldur T. Jónsson</i>	<i>Örlygur Hnefíll Jónsson</i>

Adalsteinn Þorsteinsson
Director-General

Magnús Helgason
Director of Finance

Auditors' report

On behalf of the National Audit Office we have audited the 2005 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 2005, its financial position as of 31 December 2005 and changes in liquid assets for the year 2005, in conformity with law, regulations and generally accepted accounting principles.

Reykjavík, 24 February 2006

Ernst & Young hf.

Árni Snæbjörnsson

Profit and loss account 2005

	<i>Notes</i>	2005	2004
Financial income		ISK 000s	ISK 000s
Interest from securities		184.483	112.782
Interest on loans		810.772	1.045.500
		995.256	1.158.282
Financial expenses			
Interest on borrowings		853.518	819.020
Other interest expense		1.280	70.081
		854.798	889.101
<i>Net financial income</i>		140.458	269.180
Other income			
Regular budget allocation		319.900	307.100
Allocations from supplementary budget	7	86.575	44.502
Foreign exchange earnings (losses)		(24.104)	(106.295)
Miscellaneous income		22.089	28.440
		404.461	273.747
<i>Net income</i>		544.919	542.928
Other expenses			
Grants to economic development companies		122.294	120.218
Other grants		84.175	56.660
Wages and wage-related expenses	5, 6	134.431	158.513
General operating expenses		127.741	122.602
Depreciation of fixed assets		7.836	7.836
Allowance for losses on loans and reduction in share capital	2, 11	340.635	462.563
		817.112	928.391
<i>Net profit (loss)</i>		(272.193)	(385.463)

Balance sheet

Assets	Notes	31.12.2005 ISK 000s	31.12.2004 ISK 000s
Bank deposits and securities			
Funds and bank deposits	8	<u>1.196.834</u>	<u>2.620.525</u>
Loans			
Loans to customers	1,9	8.739.154	10.159.621
Appropriated assets	10	<u>280.608</u>	<u>227.120</u>
		<u>9.019.762</u>	<u>10.386.741</u>
Shares held in companies			
Shares	12	<u>1.377.409</u>	<u>1.324.478</u>
		<u>1.377.409</u>	<u>1.324.478</u>
Other assets			
Accounts receivable		62.829	87.320
Real estate	1,13	<u>81.823</u>	<u>89.659</u>
		<u>144.651</u>	<u>176.979</u>
Total assets		<u>11.738.656</u>	<u>14.508.723</u>

as of 31 December 2005

Liabilities and equity	Note	31.12.2005	31.12.2004
		ISK 000s	ISK 000s
Borrowings			
Securities issued	1,15	7.837.682	7.418.524
Loans from financial institutions		2.773.408	4.886.253
		<u>10.611.091</u>	<u>12.304.777</u>
Other liabilities			
Allowance for losses on collateral		12.337	60.321
Creditors		68.604	180.043
		<u>80.941</u>	<u>240.363</u>
Calculated obligations			
Allowance for pension fund	3	4.835	649.601
		<u>4.835</u>	<u>649.601</u>
Total liabilities		<u>10.696.867</u>	<u>13.194.741</u>
Equity capital	4,16	<u>1.041.789</u>	<u>1.313.982</u>
Total liabilities and equity		<u>11.738.656</u>	<u>14.508.723</u>
Off balance sheet items			
Guarantees provided		398.912	421.929

Statement of cash flow, 2005

	2005	2004
	ISK 000s	ISK 000s
Cash flow from operations		
Net profit (loss)	(272.193)	(385.463)
<i>Items not affecting liquid assets:</i>		
Allowance for losses on loans and reduction in share capital	358.374	465.349
Allocations due to pension obligations	(3.208)	77.552
Depreciation of fixed assets	7.836	7.836
Interest, indexation and exchange rate difference	836.145	698.678
Unpaid grants	(10.765)	(7.270)
Cash flow from operations	916.191	856.682
 Investment activities		
Repayment of loans	2.734.004	2.607.894
New loans made	(1.416.942)	(1.331.231)
Redeemed assets	96.980	(9.612)
Shares	(48.928)	(220.461)
Pension obligations paid	(641.558)	0
Guarentees paid	(140.731)	0
Loans and appropriated assets bought from the Fisheries Development Fund	(900.578)	0
Debtors	24.491	4.429
Investment activities	(293.263)	1.051.018
 Financing activities		
Repayment of borrowings	(1.945.945)	(1.932.584)
New borrowings	0	1.560.787
Accounts payable	(100.674)	16.774
Financial activities	(2.046.619)	(355.023)
 Increase (decrease) in cash on hand	(1.423.691)	1.552.677
Cash on hand at beginning of year	2.620.525	1.067.848
Cash on hand at year-end	1.196.834	2.620.525

Notes to the 2005 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 2006. 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

Last year an agreement with the Pension Fund for State Employees was concluded in regard to settling the Institute's pension liabilities, and the Institute paid the Pension Fund ISK 641.5 million. According to an actuarial analysis, the Institute's pension liabilities, excluding those to the Pension Fund for State Employees, are estimated as having been ISK 4.8 million at year-end.

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 2005 was 8.20%.

5. Wages and wage-related expenses

	2005	2004
	ISK 000s	ISK 000s
Wages	111,319	120,912
Pension contributions	13,318	28,997
Other wage-related expenses	9,793	8,603
	<u>134,431</u>	<u>158,513</u>

In terms of full-year positions, the Institute had an average of about 22 employees in 2005. At year-end 2005 the company had 21 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:

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

7. Allocations from supplementary budget

Budget allocations for harbour building in Bildudalur	35,000
Budget allocations for economic development projects	<u>51,575</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.

	2005	2004
	ISK 000s	ISK 000s
Bank deposits in ISK	555,024	590,957
Bank deposits in foreign currencies	114,444	82,066
Other bank deposits	<u>527,366</u>	<u>1,947,502</u>
	<u>1,196,834</u>	<u>2,620,525</u>

9. Loans

Breakdown by sector:

Municipalities	1,75%
Individuals	8,60%
Industry:	
Fisheries	38,98%
Manufacturing	12,58%
Services	33,21%
Aquaculture	2,75%
Other	<u>2,13%</u>
	<u>100,00%</u>

Loans by maturity:

On demand	350,465	671,147
Up to 3 months	264,520	818,175
Less than 1 year	798,679	671,043
1 to 5 years	<u>3,209,369</u>	<u>3,251,148</u>
Over 5 years	<u>4,116,121</u>	<u>4,748,108</u>
	<u>8,739,154</u>	<u>10,159,621</u>

10. Appropriated assets

Real estate	279,308	226,820
Moveable assets	<u>1,300</u>	<u>300</u>
	<u>280,608</u>	<u>227,120</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)

	2005	2004
Acct. balance at beginning of year	1,210,616	1,512,509
Provision from Fisheries		
Development Fund	48,251	0
Provisions to loan-loss account	310,065	384,387
Loans written off	(629,437)	(686,280)
Balance at end of year	939,495	1,210,616
Allowance during the year	310,065	384,387
Provision for guarantees	(47,983)	1,509
Guarantee written off	100,368	0
Changes in shares	(4,076)	79,453
Recoveries on loans previously written off	(17,739)	(2,786)
Allowance for credit losses, according to profit and loss statement	340,635	462,563
Allowance for credit losses, as a percentage of loans	9,78%	10,65%

12. Shareholdings

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

	Share	Nominal value ISK 000s
Holding companies		
Eignarhaldsfélag Suðumesja hf.	19,40%	96.840
Eignarhaldsfélagið Gláma hf.	40,00%	102.000
Hvetjandi ehf.	29,44%	19.400
Tækifæri ehf.	39,99%	217.072
Eignarhaldsfélag Suðurlands hf.	40,00%	109.142
Eignarhaldsfélag Vestmannaeyja hf.	33,76%	78.500
Eignarhaldsfélag Austurlands hf.	40,00%	120.000
Total, holding companies		742.954
Business development companies:		
Atvinnuþróunarfélag Vestfjarða hf.	21,35%	1.933
Atvinnuþróunarfélag Þingeyinga hf.	33,30%	1.500
Total bus. dev. companies		3.433

Other companies:

Aðlögun ehf.	5,42%	1.714
Álfasteinn ehf.	22,86%	4.000
Ámundarkinn ehf.	16,21%	8.000
Ásgarður ehf.	15,47%	15.000
Baðfélag Mývatnssveitar ehf.	20,83%	25.000
Bakkavík hf.	16,61%	31.097
Bíldælingur	30,00%	4.500
Brimnes hótél ehf.	12,00%	4.610
Bæjarkort - Fyrirtæki og stofnanir ehf.	50,00%	3.000
Dalagisting ehf., Búðardal	12,11%	8.000
Dyngja ehf.	19,98%	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.	31,03%	6.468
Ferðaskrifstofa Austurlands ehf.	29,03%	4.500
Feyging ehf.	14,44%	17.491
Fjallalamb	15,43%	10.000
Fjarðaraldan hf.	29,88%	15.000
Fjarvinnsla Suðureyrar ehf.	27,03%	300
Fjölnet hf.	20,63%	10.000
Forsvar ehf.	30,00%	4.500
Fossvík ehf.	21,60%	13.636
Frumkvöðlasetur Austurlands	20,68%	4.200
Fóðuriðjan Ólafsdal ehf.	28,57%	6.000
Gjöll ehf.	22,04%	4.000
Globodent á Íslandi ehf.	7,18%	2.353
Grand hótél Mývatn ehf.	15,50%	10.000
Gunnólfur ehf.	28,57%	244
HotMobileMail ehf.	24,53%	15.000
Hótél Flúðir hf.	19,38%	9.327
Hótél Hellissandur	8,62%	5.000
Hótél Húsavík	0,38%	136
Hótél Ísafjörður hf.	17,55%	8.680
Hótél Valaskjál hf.	18,80%	4.500
Hótél Varmahlíð	13,04%	3.000
Hvalamiðstöðin Húsavík ehf.	19,70%	2.000
Íslenska pólyölfélagið ehf.	26,18%	5.000
Íslenskur kúfiskur ehf.	11,90%	25.000
Kjörorka ehf.	8,25%	2.000
Laugarhóll ehf.	17,15%	5.000
Lónið ehf.	28,44%	6.106
MT bílar ehf.	25,00%	199
Norðurós ehf.	20,10%	7.500
Norðurskel ehf.	6,32%	1.264
ORF Líftækni hf.	5,96%	3.339

Óley ehf.	42,02%	10.000	Trico ehf.	9,09%	1.000
P/F Smyril-line	3,22%	55.650	Tröllasteinn ehf.	18,92%	7.000
Plastmótun ehf.	7,82%	733	Ullarvinnsla frá Láru ehf.	29,76%	2.500
Rennex ehf.	10,71%	600	Vesturferðir	20,48%	4.000
Reykofninn ehf.	30,17%	11.667	Yrkjar ehf.	17,14%	1.800
Reynihlíð ehf.	27,47%	5.000	Þóroddur ehf.	14,60%	10.000
Saumastofan Borg ehf.	19,82%	1.700	Þvottatækni ehf.	30,00%	729
Saxa smiðjufélag	28,48%	12.000	Þörungaverksmiðjan	32,16%	7.919
Skaginn hf.	8,89%	2.984	Hagfélagið hf.	28,90%	500
Sláturfélag Austurlands fsvf	28,00%	18.000			
Sláturhúsið Búðardal ehf.	50,05%	16.924	Total other companies		547.134
Snerpa ehf.	21,43%	750			
Snorri Þorfinnsson ehf.	22,18%	12.000	Total shares		1.293.520
Sumarbyggð ehf.	23,36%	2.500			
Sæferðir ehf.	25,09%	20.000			
Textílsetrið ses		2.000			
Textíll ehf.	28,91%	3.500			

The value of shares held by the Institute is entered in the financial statement as ISK 1,377,408.

13. Real estate

Fixed asset revaluation and depreciation of real estate:

	Real Estate	Fixtures
Total value 1/1	95.806	29.601
Total value as of 31 December	95.806	29.601
Depreciated 1/1	18.758	16.990
Depreciated during the year	1.916	5.921
	20.674	22.911
Book value as of 31 December	75.132	6.690

The assessed value of land and buildings totalled ISK 49,4 million.

Insured replacement value of buildings totalled ISK 110,9 million.

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

	2005 ISK 000s	2004 ISK 000s
Exchange rate-indexed:		
Assets	4.418.787	5.041.423
Liabilities	2.773.408	4.059.974
Difference	1.645.379	981.449
Inflation-indexed:		
Assets	4.434.812	5.065.437
Liabilities	7.837.682	8.244.803
Difference	(3.402.870)	(3.179.366)

15. Borrowing

Breakdown of borrowing by maturity:

	2005	2004
	ISK 000s	ISK 000s
Up to 3 months	193.371	919.186
Less than 1 year	638.254	622.092
1 to 5 years	5.436.505	3.702.277
Over 5 years	4.342.961	7.061.222
Total	<u>10.611.091</u>	<u>12.304.777</u>

16. Equity capital

Equity capital and equity ratio, as stipulated by law:

	2005	2004
	ISK 000s	ISK 000s
Equity capital A	<u>1.041.789</u>	1.313.982
Total equity capital A	<u>1.041.789</u>	1.313.982
Risk-adjusted asset base	<u>12.703.924</u>	13.698.142
Equity ratio	<u>8,20%</u>	9,59%
	Retained	Total
	earnings	
Balance as of 1 Jan. 2005	1.313.982	1.313.982
Losses for the year	(272.193)	(272.193)
	<u>1.041.789</u>	<u>1.041.789</u>

17. Remuneration to auditors was distributed as follows:

	2005	2004
	ISK 000s	ISK 000s
Auditing	2.090	3.099
Other professional services	5.176	4.713
Total	<u>7.266</u>	<u>7.812</u>