Byggðastofnun

The Icelandic Regional Development Institute

Annual Accounts 2012

Ártorg 1
550 Sauðárkrókur

ID no. 450679-0389

Contents

Independent auditor's report

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

We have audited the accompanying annual accounts of Byggðastofnun, the Icelandic Regional Development Institute, for the year 2012 on behalf of the National Audit Office. The annual accounts comprise a profit and loss account, a balance sheet, a cash flow statement, details of important accounting practices, and other notes.

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

The directors and the chief executive officer are responsible for the preparation and presentation of the annual accounts in accordance with the terms of the Act on Annual Accounts. The directors and chief executive officer are also responsible for such internal controls as are necessary regarding the preparation and presentation of the annual accounts, so that they contain no material misstatements, whether through fraudulent activity or error.

Auditors' responsibility

Our responsibility consists in the opinion we express on the annual accounts on the basis of the audit. The audit was carried out in accordance with international auditing standards. These standards require that we observe established ethical principles and organise and conduct the audit such that sufficient certainty may be obtained that the annual accounts are free from material misstatements.

An audit includes measures designed to verify the figures and notes in the annual accounts. The choice of auditing procedures is based on the auditor's professional assessment of, among other things, the risk that the annual accounts contain material misstatements, whether through fraudulent activity or error. In the evaluation of this risk, consideration is given to the institution's internal controls in so far as they pertain to the preparation and presentation of the annual accounts, so as to be able to arrange appropriate auditing methods, but not so as to give an opinion on the effectiveness of the institution's internal controls. The audit also includes an assessment of the accounting procedures and valuation methods used by the managers in the preparation of the annual accounts as well as an evaluation of their overall presentation.

We believe that the data we have obtained in our audit is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

It is our opinion that the annual accounts give a true and fair picture of the performance of the Icelandic Regional Development Institute in the year 2012, its financial position as at 31 December 2012, and its cash flows during the year 2012, in accordance with the Act on Annual Accounts and the Regulations on the Financial Statements of Credit Institutions.

Special note

Without entering any caveat regarding this matter, we wish to draw attention to Note no. 17, which deals with legal proceedings that have been brought against the Institute. The outcome of this litigation remains uncertain but it is the view of the Institute and its legal representatives that the Institute's loan agreements are in accordance with Law.

Certification of the Directors' report

In accordance with the provisions of Article 106, paragraph 1, numbered point 5 of the Act on Annual Accounts, no. 3/2006, we certify that to the best of our knowledge the Directors' report which forms part of these annual accounts provides such information as should be applied therein in compliance with the Act on Annual Accounts and which does not appear in the Notes.

Sauðárkrókur, 1 March 2013

Ásbjörn Björnsson
State Authorised Public Accountant
Ernst & Young hf

Report and endorsement of the directors and managers

Functions

The Institute operates under the terms of the Icelandic Regional Development Institute Act, no. 106/1999, and Regulation no. 347/2000. The function of the Icelandic Regional Development Institute is to promote the economic development of the rural regions of Iceland and employment and industry in these areas. In accordance with these functions the Institute contributes to the preparation, organisation and financing of projects and the provision of loans with the aim of ensuring continued regional settlement, promoting employment and supporting innovation in business and industry. The financing of projects shall, where appropriate, be in collaboration with others. The Institute monitors regional settlement trends in the country, among other means through research and the collection of data. The Institute organises and contributes to consultation services in co-operation with economic development agencies, local authorities and others. The Institute may make or have made plans for the development of regional areas and business and industry with the purpose of supporting settlement and employment in the county's non-metropolitan areas. The Institute may also contribute to local planning activities under the terms of the Planning Act.

Operations in the year 2012

According to the profit and loss account, the Institute's operating loss for the year 2012 amounted to ISK 152.8 million. Capital reserves at the end of the year as per the balance sheet were ISK 2,113.5 million. The capital adequacy ratio as defined in the Act on Financial Undertakings was 12.55%. The terms of the Act on Financial Undertakings stipulate that capital reserves shall not at any time be less than 8% of the risk-weighted asset base and the Institute thus fulfilled the provisions of the Law in this regard at the end of the year 2012.

In the Budget for 2012 the Icelandic parliament agreed an authority to increase the Institute's capital reserves by up to ISK 2,000 million. Of this funding, ISK 1,750 million was paid to the Institute in January 2012 and the balance at the start of January 2013.

Two cases are currently in process before the Supreme Court of Iceland and the District Court for the North of Iceland (West) regarding the legality of the Institute's foreign loans. It is the opinion of the Institute and its legal representatives that the Institute's bonds constitute loans in foreign currencies as opposed to illegal loans indexed against foreign currencies. No special contingency provision has been entered in the accounts as a result of these cases. The matter is set out in greater detail in Note 17 to the annual accounts.

Risk management

Risk management and effective internal controls are one of the main supports of the responsible operation of the Institute. The Icelandic Regional Development Institute has defined the principal risk factors affecting its operations. These are operational risk, credit risk, payment risk, commercial risk, interest rate risk and concentration risk. The Institute is also considered to have financial exposure to exchange rate risk and settlement and refinancing risk. The Institute operates effective internal controls and all processes have been recorded. These processes and risk factors are assessed regularly. Appraisals have shown that the regulatory methods laid down are effective. In 2013 a security policy based on standard ISO/IEC 27001 on information security management systems will be introduced at the Institute.

Governance

The current board of the Icelandic Regional Development Institute was appointed by the minister of industries and innovation at the Institute's annual general meeting on 1 June 2012 for one year. The directors of the Institute seek to maintain good management practices and have established rules for the board's working functions as well as ethical guidelines for managers and staff which form part of a 'Handbook for management and staff'. The handbook was first approved in 2002 and may be found on the Institute's website www.byggdastofnun.is. Working rules have also been established for the auditing committee and the compliance officer's role defined by the board. Working within the Institute there is a loans committee which discusses all loan applications and the sale of appropriated assets, as well as making proposals to the board on the sale of stocks and shares. Operational procedures on loan granting activities and financial and asset management have been updated regularly, covering among other matters the authorisational powers of the loans committee.

Declaration of the board of directors and managers

The annual accounts have been prepared in compliance with the Act on Annual Accounts and the Regulations on the Financial Statements of Credit Institutions. They are based on the same accounting procedures as in the previous year.

The directors of the Icelandic Regional Development Institute, its chief executive officer and its operations manager herewith append their signatures in certification of the Institute's annual accounts for the year 2012.

Sauðárkŕokur, 1 March 2013

Operations Manager

Chief Executive Officer

Profit and loss account for the year 2012

	Notes	2012 ISK 000s	2011 ISK 000s
Interest earned			
Interest on deposits with credit institutions		107,060	43,760
Interest earned and indexation adjustment on loans issued		1,132,267	1,281,885
		1,239,328	1,325,644
Interest expenses			
Interest expenses and indexation adjustment on loans taken out		644,600	684,555
Other interest expenses		970	1,156
		645,570	685,712
Net interest earned		593,757	639,933
Operating income			
Funding received from Treasury as per Budget		317,100	306,000
Other Treasury funding received	6	(750)	5,000
Foreign exchange adjustment		(155,484)	(14,703)
Other operating income		32,430	22,754
		193,296	319,051
Net operating income		787,054	958,983
Operating expenses			
Payments made to professional consultants		164,700	160,400
Other subsidies granted		3,429	11,649
Salaries and wage-related expenses	3, 4	194,480	182,166
Other operating costs		125,232	124,583
Depreciation of fixed assets	12	7,046	5,125
Provision to meet losses on loans and revaluation of shares	2, 10	444,940	710,772
		939,827	1,194,695
Loss for year		(152,773)	(235,712)

Balance sheet

	Notes	2012 ISK 000s	2011 ISK 000s
Assets			
Reserves and balances with credit institutions			
Bank deposits and securities	7	2,213,327	2,464,230
Loans granted			
Loans to clients	8	12,565,268	13,362,133
Appropriated assets	9	856,281	852,859
		13,421,549	14,214,991
Shareholdings in companies			
Shares	11	763,001	881,276
		763,001	881,276
Other assets			
Debtors		281,514	34,110
Fixed assets	12	58,587	55,157
		340,102	89,266
Assets: total		16,737,980	17,649,763

31 December 2012

	Notes	2012 ISK 000s	2011 ISK 000s
Liabilities and capital reserves			
Loans taken out			
Securities issued		5,236,796	4,865,650
Loans from credit institutions		9,312,893	12,272,240
	14	14,549,688	17,137,891
Other debts and liabilities			
Reserve to cover guarantees provided	16	11,389	179,352
Creditors		63,380	66,226
		74,769	245,578
Total liabilities		14,624,458	17,383,468
Capital reserves	2, 15	2,113,522	266,295
Liabilities and capital reserves: total		16,737,980	17,649,763
Off-balance-sheet items			
Guarantees provided	16	216,398	218,330

Cash flow statement 2012

	2012 ISK 000s	2011 ISK 000s
Cash in hand from (to) operations		
Loss for year	(152,773)	(235,712)
Items that do not affect cash in hand:		
Provision to meet losses on loans and revaluation of shares	444,940	710,772
Depreciation of fixed assets	7,046	5,125
Interest, indexation adjustment and exchange rate adjustment	345,356	78,194
Unpaid subsidies	(5,692)	(2,493)
Cash in hand from (to) operations	638,877	555,887
Cash flows from investment activities		
Instalment payments on loans granted	969,680	722,515
New loans granted	(214,700)	(309,405)
Assets redeemed	(4,679)	(25,093)
Shares	36,531	(23,457)
Purchase of fixed assets	(10,477)	0
Contingent liabilities and guarantee obligations paid	(161,698)	0
Debtors	2,595	11,420
Cash flows from investment activities	617,252	375,980
Cash flows from financing activities		
Instalment payments on loans taken out	(4,388,721)	(2,355,042)
New loans taken out	1,128,844	1,046,710
Funding received from Treasury	1,750,000	1,000,000
Creditors	2,846	(35,164)
Cash flows from financing activities	(1,507,031)	(343,495)
Increase (decrease) in cash in hand	(250,903)	588,371
Cash in hand at start of year	2,464,230	1,875,859
Cash in hand at end of year	2,213,327	2,464,230

Notes

1. Institutional information

Byggðastofnun (the Icelandic Regional Development Institute), ID no. 450679-0389, is a credit institution whose main business consists in the granting of loans and other financial support. The legal domicile of the Institute is at Ártorg 1, 550 Sauðárkrókur, Iceland.

2. Accounting principles

Basis of preparation of accounts

The annual accounts have been prepared in compliance with the Act on Annual Accounts and the Regulations on the Financial Statements of Credit Institutions. They are based on historical-cost principles. They use the same accounting methods as in the previous year. Financial figures are in ISK (Icelandic krónur) and all such figures are given in thousands of ISK unless otherwise specified.

Valuation methods

Officers are required to value and take individual decisions affecting important items in the annual accounts which by their nature are subject to changing valuation at any time. The valuation methods used 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 determined in the valuation.

Price-indexed and exchange-rate indexed assets and liabilities

Accrued adjustments to the principal value of assets and liabilities as a result of changes in price levels and foreign exchange rates are reflected in the annual accounts. Index-linked assets and liabilities are entered on the basis of price indexes that took effect on 1 January 2013. Assets and liabilities in foreign currencies are converted to ISK at the last listed exchange rate at the end of the year. The difference that arises from exchange rate movement is entered on the profit and loss account.

Exchange rates at end of year:

	31.12.2012	**31.12.2011**
EUR	170.27	159.28
USD	129.05	123.00
JPY	1.50	1.59
DKK	22.83	21.43

Indexes at end of year:

	1.1.2013	**1.1.2012**
Comsumer prices index	402.0	384.6

Fixed assets

Fixed assets are entered at acquisition cost less depreciation. Improvements and enhancements are entered as assets if it is likely that they will yield a future profit to the Institute and if it is possible to estimate the cost in reliable fashion. All maintenance costs are debited to the profit and loss account as and when they are incurred. Depreciation is based on the estimated useful life of individual fixed assets and calculated as a fixed annual percentage of the initial acquisition cost, less estimated residual value, based on the period of ownership during the year.

Reserve to cover losses on loans provided

A reserve account to cover losses on loans provided is set up to cover the exposure that is inherent in credit provision operations and does not imply that the assets are irrevocably written off. Additions to the reserve account to cover losses on loans provided are entered as costs on the profit and loss account, reduced by any repayments arising from loans previously written-off.

Shareholdings in companies and affiliate companies

Shareholdings in companies are entered at purchase price less impairment of value. Affiliate companies are companies in which the Institute owns a share of at least 20%. The Institute’s interests in affiliate companies are entered initially at purchase price and after the initial entry according to the equity method. Revaluations are entered to the profit and loss account.

Loans granted

Loans granted by the Institute are broken down into loans to clients and appropriated assets. They are originally valued at fair value or cost price, inclusive of transaction costs. All transactions undertaken by the Institute arising from its investments are recorded as at the date of transaction, which is taken to be the date on which the Institute has committed itself to the transaction. Accrued interest is included in the value of loans entered in the books. Interest received on loans and deposits are recorded under the item ‘Interest earned’ on the Profit and Loss Account and an adjustment arising from changes in exchange rates under the item ‘Foreign exchange adjustment’. Writing down is based on an estimate of the risk of loss with respect to individual loans made. Loans that are irrevocably lost are written out of the Institute’s books.

Debtors

Claims against debtors are entered at the original transaction price, adjusted to cover currency fluctuations and less a writing-down allowance made to cover potential lost claims. The writing-down allowance is based on an estimate of the risk of loss with respect to individual claims and the claims as a whole. Claims that are irrevocably lost are written out of the Institute’s books.

Cash in hand

Cash in hand (liquid assets) on the balance sheet and in the preparation of the cash flow statement takes in bank deposits and balances with instant access held at credit institutions.

Income

Income is entered in the accounts when there is substantial probability that its financial benefits will accrue to the Institute and when it is possible to assess its value reliably.

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

Dividend income is credited when the Institute's right to collect has been established.

Rental income from the letting of appropriated assets is entered on a straight-line basis over the rental period.

Business with associated parties

Associated parties takes in companies in which the Institute holds a share of more than 20%. No exceptional transactions took place with associated parties in the period covered by these accounts. Transactions with associated parties were conducted in the same way as if with a non-associated party and consisted solely of business relating to loan agreements.

3. Salaries and wage-related expenses

	2012 ISK 000s	2011 ISK 000s
Salaries	158,601	147,269
Pension contributions	19,416	17,995
Other wage-related expenses	16,454	16,902
Salaries and wage-related expenses: total	194,480	182,166

On a full-year employment basis, the Institute had an average workforce of 21 in the year, which is one more than in 2011. At the end of the year there were 21 members of staff on the Institute's payroll, with a full-day equivalent of 21.

4. Remuneration of directors and chief executive officer

Salaries paid to the directors and chief executive officer break down as follows:

	2012 ISK 000s	2011 ISK 000s
Anna Kristín Gunnarsdóttir, chair of the board of directors up to 22 August 2011	0	1,802
Thóroddur Bjarnason, chair of the board of directors from 23 August 2011	1,933	532
Arndís Soffía Sigurðardóttir	0	772
Ásmundur Sverrir Pálsson	0	772
Ásta Dís Óladóttir	875	337

Bjarni Jónsson	0	862
Dríta Hjartadóttir	0	862
Guðmundur R. Gíslason	955	337
Gunnar Svavarsson	955	337
Herdís Sæmundardóttir	0	862
Ólöf Th. Hallgrímsdóttir	955	337
Sigurbjörg Kr. Hannesdóttir	955	337
Sturla Böðvarsson	0	690
Valdímar Haftsteinsson	955	337
deputies	319	586
Aðalsteinn Thorsteinsson, chief executive officer	13,632	11,278
Remuneration of directors and chief executive officer: total	21,536	21,043

5. Auditors' fees

Auditors' fees break down as follows:

	2012 ISK 000s	2011 ISK 000s
Audit of annual accounts	6,739	7,198
Other professional services	5,765	5,646
Auditors' fees: total	12,504	12,844

6. Other Treasury funding

	2012 ISK 000s	2011 ISK 000s
Treasury funding re industrial development (funding repaid)	(750)	2,000
Treasury funding re economic development projects	0	3,500
Other Treasury funding: total	(750)	5,000

7. Reserves and balances with credit institutions

	2012 ISK 000s	2011 ISK 000s
Bank deposits in ISK	2,170,860	1,475,750
Bank deposits in foreign currencies	42,467	17,493
Government bonds	0	970,987
Reserves and balances with credit institutions: total	2,213,327	2,464,230

8. Loans granted to clients

Broken down by recipients:	2012	2011
Local authorities	0.17%	1.08%
Individuals	8.11%	7.67%
Broken down by sector:		
Services	45.78%	42.69%
Fisheries	27.57%	29.15%
Industry	13.80%	15.24%
Financial institutions	0.10%	0.09%
Agriculture	4.47%	4.08%
	100%	100%

Loans granted break down by period outstanding as follows:

Claims fallen due	617,271	731,215
Up to 3 months	227,428	273,700
3 months to 1 year	953,007	878,009
1 year to 5 years	3,728,888	3,831,493
Over 5 years	7,038.,674	7,647,716
	12,565,268	13,362,133

9. Appropriated assets

	2012 ISK 000s	2011 ISK 000s
Real estate	826,281	827,859
Marine vessels	30,000	25,000
	856,281	852,859

10. Provision to meet losses on loans

Changes in year:

	2012 ISK 000s	2011 ISK 000s
Provision at start of year	3,273,256	4,542,154
Addition to provision during year	369,460	591,975
Loans permanently written off	(1,325,496)	(1,860,873)

Balance at end of year	2,317,220	3,273,256
Provision to meet losses on loans as a proportion of monies loaned	15.57%	19.68%
Addition during year	369,460	591,975
Changes arising from guarantees provided	(6,264)	17,581
Revaluation of shareholdings	81,744	101,216
Additions to provision to meet losses on loans as per Profit and Loss account	444,940	710,772

11. 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:

Property management	**Ownership share**	**Nominal value** ISK 000s
Ámundakinn ehf	13.72%	21,000
Ásgarður hf	13.10%	15,000
Dalagisting ehf	12.11%	8,000
Dýralíf ehf	28.92%	4,000
Fasteignafélagið Borg ehf	29.78%	18,825
Fasteignafélagið Hvammur ehf	24.86%	16,919
Grand hótel Mývatn ehf	7.22%	10,000
Hesthólar ehf	70.99%	14,672
Hótel Hellissandur hf	24.98%	19,534
Hótel Norðurljós ehf	46.40%	2,320
Hæðin á Höfðabraut ehf	12.28%	2,000
Tröllasteinn ehf	18.92%	7,000
Urtusteinn ehf	8.45%	32,818
Property management: total		172,088
Tourism services		
Brimnes hótel ehf	12.00%	4,610
Ferðaskrifstofa Austurlands ehf	5.81%	900
Hótel Flúðir hf	11.94%	3,109
Hótel Húsavík hf	0.38%	136
Hótel Valaskjálf hf	18.80%	4,500
Hótel Varmahlíð hf	13.04%	3,000
Hvalamiðstöðin Húsavík ehf	19.70%	2,000
Nes-Listamiðstöð ehf	41.67%	5,000

P/F Smyril-line	1.30%	67,669
Snorri Thorfinnsson ehf	19.90%	12,000
Textílsetur Íslands ses	32.15%	2,000
Tourism services: total		104,924
Investment companies		
Eignarhaldsfélag Suðurlands hf	40.00%	109,142
Eignarhaldsfélag Suðurnesja hf	19.03%	96,840
Eignarhaldsfélag Vestmannaeyja hf	38.77%	7,850
Fjárfestingafélagið Vör hf	41.83%	35,940
Hvetjandi ehf	49.29%	54,469
Tvídrangi ehf	15.27%	4,991
Investment companies: total		309,232
Agriculture		
Sláturfélag Austurlands fsvf	28.00%	18,000
Yrkjar ehf	7.29%	1,800
Agriculture: total		19,800
Business consultancy		
Atvinnuþróunarfélag Vestfjarða hf	22.10%	1,933
Business consultancy: total		1,933
Industry		
Borg, saumastofa ehf	19.82%	170
Eðalís ehf	11.06%	3,000
Fánasmiðjan ehf	9.95%	4,167
Fjallalamb hf	10.68%	10,000
Raflagnir Austurlands ehf	22.37%	3,600
Trico ehf	33.33%	5,000
Ullarvinnsla Frú Láru ehf	29.76%	2,500
Vilko ehf	8.22%	2,955
Thörungaverksmiðjan hf	27.67%	7,919
Industry: total		39,311
Fisheries		
Bernskan ehf	34.53%	22,444
Eignarhaldsfélagið Gláma hf	36.52%	114,500

Reykofninn-Grundarfirði ehf	15.24%	5,148
Tó hf	10.40%	2,667
Thórsberg ehf	6.09%	2,308
Fisheries: total		147,067
Information technology		
Gagnaveita Skagafjarðar hf	28.71%	51,875
Information technology: total		51.875
Retail and services		
Samkaup hf	2.77%	10,801
Retail and services: total		10,801
Total shareholdings		857,031

Shareholdings are entered in the annual accounts at a value of ISK 763,001,000.

12. Fixed assets

Fixed assets break down as follows:

	Land and buildings ISK 000s	**Fixtures and fittings** ISK 000s	**Motor vehicles** ISK 000s	**Total** ISK 000s
Base value 1/1	70,388	3,219	12,673	86,280
Total depreciation to 1/1	(24,639)	(966)	(5,519)	(31,124)
Additions in year	0	0	10,477	10,477
Depreciation in year	(1,947)	(644)	(4,455)	(7,046)
Book value 31/12	43,802	1,609	13,176	58,587
Total base value 31/12	70,388	3,219	23,150	96,757
Total depreciation 31/12	(26,586)	(1,610)	(9,974)	(38,170)
Book value 31/12	43,802	1,609	13,176	58,587
Depreciation ratios	2-3%	20%	20%	

The Institute's land and buildings are valued as follows. The book value is given for comparative purposes:

	Property valuation	**Insurance valuation**	**Book value**
	ISK 000s	ISK 000s	ISK 000s
Skagfirðingabraut 17-21, Sauðárkrókur	28,784	95,830	31,281
Háuhlíð 4, Sauðárkrókur	31,300	55,600	12,521
	60,084	151,430	43,802

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

	2012	**2011**
Currency-linked:	ISK 000s	ISK 000s
Assets	8,133,158	8,728,795
Liabilities	9,312,892	12,272,241
Net balance of currency-linked assets and liabilities	(1,179,734)	(3,543,446)
Index-linked:		
Assets	4,139,926	4,650,831
Liabilities	5,236,796	4,865,650
Net balance of index-linked assets and liabilities	(1,096,870)	(214,819)

14. Loans taken out

Loans taken out break down as follows by period outstanding:

	2012	**2011**
	ISK 000s	ISK 000s
Fallen due	0	0
Up to 3 months	168,066	2,018,401
3 months to 1 year	1,191,848	1,177,660
1 year to 5 years	9,350,914	8,978,183
Over 5 years	3,838,860	4,963,647
	14,549,688	17,137,891

15. Capital reserves

In Article 6 of the Budget for 2012, passed by the parliament of Iceland in December 2011, the minister of finance was authorised (7.18) to increase the Institute's capital reserves by up to ISK 2,000 million. ISK 1,750 million were paid over to the Institute in January 2012 and the balance of the authority in January 2013.

Under the terms of Act no. 161/2002, the capital adequacy ratio of credit institutions may not fall below 8% of the so-called risk-weighted asset base; at the end of the year the Institute's capital adequacy ratio stood at 12.55%.

Capital reserves and capital adequacy ratio as per the relevant legal provisions

	2012 ISK 000s	**2011** ISK 000s
Position at start of year	266,295	(497,993)
Funding received from Treasury	2,000,000	1,000,000
Loss for the year	(152,773)	(235,712)
	2,113,522	266,295
Capital adequacy ratio	12.55%	1.34%

16. Guarantees provided

The Icelandic Regional Development Institute stands surety for loans to the sum of ISK 227.8 million. At the end of the year an assessment was made of the risk that obligations arising from these guarantees might fall to the Institute. Off-balance-sheet guarantees amount to ISK 216.4 million at the end of the year after deduction of the addition to a provision to meet losses on loans guaranteed.

17. Other matters

A case is currently before the Supreme Court of Iceland regarding the legality of foreign loans granted by the Institute to its clients and whether they constitute legal loans in foreign currency or illegal loans indexed against foreign currencies. It may be expected that the Supreme Court's ruling will be seen as providing a precedent as regards the Institute's other loan agreements in foreign currencies. If the ruling is that the agreements are illegal and that the loans must be recalculated, this will have a major influence on the Institute's loan portfolio. It is the opinion of the Institute and its legal representatives that the Institute's bonds constitute loans in foreign currencies rather than illegal loans indexed against foreign currencies. The Institute has thus not entered any special contingency provision in the allowance to meet losses on loans on this account.

A case is currently before the District Court for the North of Iceland (West) regarding the legality of the Institute's foreign loans in which an index-linked loan in Icelandic krónur has been restructured by an addendum into a loan in a foreign currency. The Institute has entered a plea for the case to be dismissed and this part of the case will probably be heard in March 2013. The plaintiff's loan recalculated up to date currently stands at ISK 215 million but if his claims are accepted this will decrease by up to 50%. The claim value of corresponding loans granted by the Institute stands at ISK 985 million. No special contingency provision has been entered in the allowance to meet losses on loans on this account.

18. Changes to the comparative figures for the year 2011

The following changes were made to figures in the annual accounts for 2011 and included here for comparative purposes. A correction was made in the cash flow statement to loans granted to cover cases of non-payment and to renegotiated interest on loans granted which does not entail a cash movement. The comparative figures for 2011 in the annual accounts for 2012 have been changed as follows from the annual accounts for 2011 previously agreed:

Effect on cash flow:

	As per agreed annual accounts ISK 000s	**Correction** ISK 000s	**Corrected annual accounts** ISK 000s
Interest, indexation adjustment and exchange rate adjustment	229,539	(151,345)	78,194
Cash in hand from business operations	707,232	(151,345)	555,887
Instalment payments on loans granted	755,443	(32,928)	722,515
New loans granted	(493,678)	184,273	(309,405)
Cash flows from investment activities	224,635	151,345	375,980