

ANNUAL ACCOUNTS

BYGGÐASTOFNUN

The Icelandic Regional Development Institute

2015

INDEPENDENT AUDITORS' REPORT

We have audited the following annual accounts of Byggðastofnun, the Icelandic Regional Development Institute, for the year 2015. The annual accounts comprise the report of the executive board and chief executive officer, a profit and loss account, a balance sheet, a cash-flow statement, and details of significant accounting procedures and other explanatory information.

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, the Act on Financial Undertakings, and the Regulation on the Annual Accounts of Credit Institutions. The board and chief executive officer are also responsible for such internal control as is necessary in the preparation and presentation of the annual accounts, such that they are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility consists of 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 follow established ethical principles and organise and conduct the audit such that sufficient certainty may be obtained that the annual accounts are free from material misstatement.

The audit involves procedures designed to verify the figures and explanations in the annual accounts. The selection of auditing procedures is based on the auditor's professional judgement of, among other things, the risk that the annual accounts may contain material misstatement, whether due to fraud or error. In the assessment of this risk, regard is given to the Institute's internal control, its structure and effectiveness. The audit also includes an assessment of the appropriateness of the accounting procedures and valuation methods used by the officers 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 the 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 Institute's performance in the year 2015, its financial position as at 31 December 2015, and its cash flows in the year 2015, in accordance with the Act on Annual Accounts and the Regulation on the Annual Accounts of Credit Institutions.

Reykjavík, 17 March 2016

Endurskoðendathjónustan ehf

Sævar Thór Sigurgeirsson
State Authorised Public Accountant

Hinrik Gunnarsson
State Authorised Public Accountant

REPORT OF THE EXECUTIVE BOARD AND OFFICERS

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 rural settlement and economic activity, with special emphasis on the creation of equal opportunities for all inhabitants to employment and habitation. In accordance with its function the Institute prepares, organises and funds projects and provides loans with the aim of bolstering regional settlement, boosting employment and encouraging innovation in business and industry. The financing of projects shall, where appropriate, be in collaboration with others. The Institute organises and contributes to consultancy services in co-operation with economic development agencies, local authorities, and other interested parties. The Institute monitors regional development trends in Iceland, through among other means research and the collection of data. The Institute may draw up or have drawn up plans for regional development and economic activity with the aim of supporting settlement and employment in the country's non-metropolitan areas.

Operations in the year 2015

According to the profit and loss account, the Institute's operating profit for the year was ISK 98.9 million. Capital and reserves at the end of the year 2015 as per the balance sheet stood at ISK 2750.5 million. The capital adequacy ratio under the terms of the Act on Financial Undertakings was 21.56%. The provisions of the Act on Financial Undertakings state that capital and reserves may not be less than 8% of the risk-weighted asset base and the Institute thus satisfied the provisions of the Act in this respect at the end of the year 2015. The Financial Supervisory Authority has authority under Article 84, clauses 1 and 2, of Act no. 161/2002 on Financial Undertakings to require the maintenance of a countercyclical capital buffer at 0-2.5% of the risk-weighted asset base. According to a letter from the Financial Supervisory Authority dated 22 January 2016, it is required that all financial institutions maintain a countercyclical capital buffer of 1% and this will come into effect at the start of next year.

A case was heard before the District Court for the North of Iceland (West) in 2013 regarding the legality of the restructuring of index-linked loans in Icelandic krónur into loans in foreign currencies through the issue of an addendum. A judgement in this case was delivered on 29 November 2013 in which the legality of the Institute's loans restructured in this way was upheld and this judgement was not appealed to the Supreme Court. Hótel Mývatn ehf filed a claim against the Institute regarding the legality of the same loans as were treated in the aforementioned case. Judgement was delivered on 6 August last at the District Court for the North of Iceland (West) in which the Institute was cleared of the claims of the plaintiff, Hótel Mývatn ehf. The case has been appealed to the Supreme Court and the Institute has entered a counterappeal. Further details of these matters are given in Note no. 21.

Risk management

In 2015 a risk policy was ratified by the executive board of the Icelandic Regional Development Institute. Risk management and effective internal control is one of the central pillars of the responsible operation of the Institute. The Institute has identified and

categorised the principal risk factors in its operations. These are 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 all processes have been logged. These processes and risk factors are assessed regularly. Appraisals have shown that the designated monitoring methods are operating effectively.

Governance

The current executive board of the Icelandic Regional Development Institute was appointed by the minister of industries and innovation at the Institute's annual general meeting on 10 April 2015. The board will serve up to the Institute's next annual general meeting, which shall be held before 1 July 2016. The board of the Icelandic Regional Development Institute seeks to maintain good governance and have established rules for the board's working functions as well as ethical rules for staff and officers that form part of a 'Handbook for staff and officers'. The handbook was first approved in 2002 and can be found on the Institute's website, byggdastofnun.is. Rules of operation have also been established for the auditing committee and the executive board has defined the functions of the compliance officer. Operating within the Institute there is a loans committee which discusses all loan applications and the sale of appropriated assets, along with making proposals to the board on the sale of shares. Operational procedures on loan granting activities and financial and asset management have been updated regularly and lay down, among other matters, the authorisational powers of the loans committee.

Events since the end of the accounting period

In a letter from the Financial Supervisory Authority dated 1 March 2016 the Icelandic Regional Development Institute was notified that the FSA had determined that the aggregate capital buffer demand that the Institute was required to maintain from 1 January 2016 inclusive would be a countercyclical capital buffer of 1%, coming into force 12 months after the date of the FSA's decision. The Institute is additionally required to maintain a capital conservation buffer of 1% from 1 January 2016 under the terms of Article 84(e) of the Act on Financial Undertakings, cf. Article 84 of the same Act. According to the statutory provisions cited, the capital conservation buffer will increase in stages, first to 1.75% on 1 June 2016, then to 2.5% on 1 January 2017. The aggregate requirement shall be maintained simultaneously on a consolidated basis. Based on the increases in the capital conservation buffer on 1 June 2016 and 1 January 2017 and the coming into force of the countercyclical capital buffer on 1 March 2017, the aggregate requirement will be 3.5%, all else being equal.

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. Applications for new loans rose in the year 2015 and a continuing increase in loans issued is anticipated in the year 2016.

Declaration of the executive board and officers

The annual accounts have been prepared in compliance with the Act on Annual Accounts and the Regulation on the Financial Statements of Credit Institutions.

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 2015.

Sauðárkúkur, 17 March 2016

Herdís Á. Sæmundardóttir
Chairman of the Executive Board

Einar E. Einarsson
Oddný María Gunnarsdóttir
Sigríður Jóhannesdóttir
Aðalsteinn Thorsteinsson
Chief Executive Officer

Karl Björnsson
Páll Baldursson
Valdimar Hafsteinsson
Magnús Helgason
Operations Manager

PROFIT AND LOSS ACCOUNT FOR THE YEAR 2015

	<i>Notes</i>	2015 ISK 000s	2014 ISK 000s
INTEREST EARNED			
Interest on deposits with credit institutions		73,037	104,937
Interest earned and indexation adjustment on loans issued		764,750	708,856
		837,787	813,793
INTEREST EXPENSES			
Interest expenses and indexation adjustment on loans received		382,837	414,210
Other interest expenses		159	161
		382,996	414,371
		454,791	399,422
OPERATING INCOME			
Funding received from Treasury under Budget provisions	6	334,400	371,400
Other Treasury funding received	6	0	1,500
Foreign exchange adjustment	7	(12,657)	25,316
Other operating income	8	63,377	50,724
		385,120	448,940
		839,911	848,362
OPERATING EXPENSES			
Disbursements to business consultants		182,600	172,400
Other subsidies granted		29,312	6,950
Salaries and salary-related expenses	3, 4	263,988	240,946
Other operating costs		128,612	146,156
Management of appropriated assets	12	67,904	42,754
Depreciation of fixed operating assets	16	7,593	7,183
Additions to provision to meet losses on loans issued etc.	2, 14	61,012	(117,243)
		741,021	499,145
		98,891	349,217
		98,891	349,217

BALANCE SHEET

	<i>Notes</i>	2015 ISK 000s	2014 ISK 000s
ASSETS			
Reserves and balances with credit institutions			
Bank deposits	9	3,081,232	2,062,688
Loans issued			
Loans issued in Icelandic króna	10	6,167,088	5,022,716
Loans issued in foreign currencies	10	3,470,930	4,750,406
Appropriated assets	11, 13	669,510	1,048,510
		<u>10,307,529</u>	<u>10,821,631</u>
Shares and other variable income securities			
Tradable shares	15	372,768	388,993
		<u>372,768</u>	<u>388,993</u>
Interests in affiliated companies			
Tradable shares	15	574,736	513,402
		<u>574,736</u>	<u>513,402</u>
Other assets			
Debtors		25,127	68,969
Fixed operating assets	16	55,384	61,247
		<u>80,511</u>	<u>130,216</u>
	Assets: total	<u>14,416,775</u>	<u>13,916,931</u>

31 DECEMBER 2015

	<i>Notes</i>	2015 ISK 000s	2014 ISK 000s
LIABILITIES AND CAPITAL AND RESERVES			
Loans received			
Index-linked securities issued		5,704,361	5,821,615
Loans from foreign institutions		5,791,042	5,340,160
	<i>18</i>	<u>11,495,402</u>	<u>11,161,775</u>
Other debts and liabilities			
Reserve to cover losses on guarantees provided	<i>20</i>	0	990
Unallocated funds received		120,629	41,349
Other liabilities		50,197	61,161
		<u>170,826</u>	<u>103,500</u>
		<u>11,666,228</u>	<u>11,265,275</u>
Capital and reserves	<i>2, 19</i>	<u>2,750,547</u>	<u>2,651,656</u>
		<u>14,416,775</u>	<u>13,916,931</u>
Liabilities and capital and reserves: total			
Off-balance-sheet items			
Guarantees provided	<i>20</i>	0	18,807

CASH FLOW STATEMENT 2015

	2015 ISK 000s	2014 ISK 000s
Cash in hand from business operations		
Profit for the year	98,891	349,217
<i>Operating items that do not affect cash in hand:</i>		
Provisions to meet losses on loans issued and revaluation of shares	22,382	(203,947)
Depreciation of operating assets	7,593	7,183
Loss (profit) on sale of fixed operating assets	726	(420)
Interest, indexation adjustment and exchange rate adjustment	77,802	404,680
<i>Cash in hand from operations</i>	<u>207,394</u>	<u>556,712</u>
Cash flows from investment activities		
Instalment payments on loans issued	1,724,791	1,393,050
New loans issued	(1,563,207)	(959,000)
Assets redeemed	124,897	243,352
Shares	45,816	(41,824)
Purchase of operating assets	(2,456)	(11,191)
Debtors	43,842	(54,779)
<i>Cash flows from investment activities</i>	<u>373,684</u>	<u>569,609</u>
Cash flows from financing activities		
Instalment payments on loans received	(5,312,249)	(1,477,090)
New loans received	5,685,899	0
Creditors	63,816	(7,751)
<i>Cash flows from financing activities</i>	<u>437,466</u>	<u>(1,484,841)</u>
Increase (decrease) in cash in hand	1,018,544	(358,520)
Cash in hand at start of year	2,062,688	2,421,208
Cash in hand at end of year	<u>3,081,232</u>	<u>2,062,688</u>

NOTES

1. About the Institute

Byggðastofnun (the Icelandic Regional Development Institute), ID no. 450679-0389, is a credit institution whose main business consists in the granting of loans and other financial support, together with monitoring regional development trends in Iceland. The Institute's legal domicile 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 Regulation on the Financial Statements of Credit Institutions. They are based on historical cost principles. They employ for the most part the same accounting procedures 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 assess and take specific decisions affecting important items in the annual accounts which 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 determined in the valuation.

Price-indexed 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 levels are entered in the annual accounts. Index-linked assets and liabilities are entered on the basis of price indices that took effect on 1 January 2016. Loans issued or received in foreign currencies are converted to ISK at the last listed selling rate at the Central Bank of Iceland at the end of the year. Balances in foreign currency accounts at Icelandic banks are converted to ISK at the last listed buying rate at the relevant commercial banks. The difference that arises from exchange rate movements is entered on the profit and loss account and the balance sheet.

Central Bank of Iceland exchange rate at end of year:

	31.12.2015	31.12.2014
EUR	141.71	154.70
USD	129.90	127.20
JPY	1.08	1.07

Arion Bank exchange rate at end of year:

EUR	140.83	153.84
DKK	18.87	20.66

Landsbanki exchange rate at end of year:

EUR	140.88	153.79
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Íslandsbanki exchange rate at end of year:

EUR	140.83	153.79
USD	129.71	127.07
JPY	1.08	1.06

Price indices at start of year:

	1.1.2016	1.1.2015
Consumer prices index for purposes of price indexation	429.4	421.0

Operating assets

Permanent operating 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 it is possible to make a reliable estimate of the cost. 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 operating assets and calculated as a fixed annual percentage of the initial acquisition cost, less estimated residual value, based on the period of ownership during the year.

Reserve to cover losses on loans issued

A depreciation account to cover losses on loans issued has been created to cover the exposure that is inherent in lending activities but does not imply that the assets are irrevocably written off. Additions to the depreciation account for loans issued are entered as costs on the profit and loss account, reduced by any repayments on account of 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 these companies. Holdings in other companies are entered at purchase cost less impairment. Revaluations are reflected in the profit and loss account and balance sheet.

Appropriated assets

Appropriated assets are entered at their estimated sale value. Revaluations are reflected in the profit and loss account and balance sheet.

Loans issued

Loans issued by the Institute are broken down into loans to clients and appropriated assets. They are originally measured at fair value, i.e. the amount of the loan inclusive of all transaction costs, and subsequently valued at amortised cost. All transactions undertaken by the Institute arising from its investments are entered as at the date of transaction, which is taken to be the date on which the Institute committed itself to the transaction. Accrued interest and indexation adjustment are included in the book value of loans. Interest received on loans and deposits are entered 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'. Depreciation is based on an evaluation of the risk of loss with respect to individual loans. Irrecoverable loans are written out of the Institute's books.

Debtors

Claims against debtors are entered according to the original transaction price, adjusted to cover foreign exchange movements, less a writing-down allowance made to cover doubtful accounts receivable. The writing-down allowance 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

Balances held with banks are included in 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 established.

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

	2015	2014
	ISK 000s	ISK 000s
Salaries	212,409	194,815
Pension contributions	27,596	24,293
Accrued holiday pay in the year	3,183	2,383
Social security contributions	18,240	17,005
Other wage-related expenses	2,559	2,449
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Salaries and wage-related expenses: total	263,988	240,946
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The Institute had an average workforce of 24 in the year on a full-year basis, which is an increase of one over the year 2014. At the end of the year there were 24 members of staff on the Institute's payroll, with a full-day equivalent of 24.

4. Remuneration of directors and chief executive officer

Salaries paid to the directors and chief executive officer of the Icelandic Regional Development Institute break down as follows:

	2015 ISK 000s	2014 ISK 000s
Herdís Á. Sæmundardóttir, chairman of the board from 10.04.2015	1,568	0
Thóroddur Bjarnason, chairman of the board to 10.04.2015	675	2,211
Anna Guðrún Björnsdóttir (deputy)	0	86
Ásthildur Sturludóttir, director to 15.09.2015	733	683
Einar E. Einarsson, deputy chairman	1,247	683
Guðmundur R. Gíslason	0	374
Halla Björk Reynisdóttir (deputy)	43	43
Karl Björnsson	1,063	683
Kolfinna Jóhannesdóttir (deputy)	0	43
Matthildur Helgadóttir Jónudóttir	0	331
Oddný María Gunnarsdóttir	1,063	683
Ólafía Jakobsdóttir	0	331
Ólöf Th. Hallgrímsdóttir	0	486
Páll Baldursson, director from 15.09.2015	415	86
Reynir Arnarson (deputy)	0	43
Rögnvaldur Ólafsson	0	331
Sigríður Jóhannesdóttir	1,063	683
Sveinn Auðunn Sæland (deputy)	133	0
Valdímar Haftsteinsson	1,063	1,014
Aðalsteinn Thorsteinsson, chief executive officer	15,070	14,695
Remuneration of directors and chief executive officer: total	24,134	23,487

5. Auditors' fees

Auditors' fees break down as follows:

	2015 ISK 000s	2014 ISK 000s
Audit of annual accounts and review of interim financial statement	5,380	4,792
Other professional services/internal audit	5,093	8,973
Auditors' fees: total	10,472	13,766

6. Treasury funding as per Budget and other Treasury funding

	2015	2014
	ISK 000s	ISK 000s
General operations	152,300	150,200
Business consultants in the rural regions	182,100	171,200
Project <i>Brothættar byggðir</i> ('Fragile Communities')	0	50,000
Treasury funding as per Budget	334,400	371,400

	2015	2014
	ISK 000s	ISK 000s
Treasury grant for <i>Brothættir byggðir</i> project	50,000	0
Treasury grant to Byggðarannsóknasjóður ('Rural Regions Research Fund')	7,000	0
Treasury grant to Raufarhöfn research centre	0	1,500
Treasury grant towards offset of transportation costs	150,000	196,500
Treasury grant to <i>Sóknaráætlun Landshluta</i> campaign ('Moving Iceland Forward: Regional Development')	317,301	0
Treasury grant to the Ministry of Fisheries and Agriculture AVS R&D Fund	0	50,215
Other Treasury funding: total	524,301	248,215

	2015	2014
	ISK 000s	ISK 000s
Subsidies granted out of Treasury funding		
Grant to Byggðarannsóknasjóður ('Rural Regions Research Fund')	3,000	0
Grant to Raufarhöfn research centre	0	1,500
Subsidies towards offset of transportation costs	113,358	154,960
Grants to <i>Sóknaráætlun Landshluta</i> campaign ('Moving Iceland Forward: Regional Development')	293,243	0
Subsidies to Ministry of Fisheries and Agriculture AVS R&D Fund	0	50,215
Subsidies granted: total	409,601	206,675

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

Costs to the Institute arising from the project *Brothættar byggðir* ('Fragile Communities') amounted to ISK 37,985,000 in the year and are entered on the profit and loss account.

7. Foreign exchange adjustment

	31.12.2015 ISK 000s	31.12.2014 ISK 000s
Foreign exchange adjustment on loans issued	(205,922)	(46,052)
Foreign exchange adjustment on loans received	193,266	71,368
	(12,657)	25,316

8. Other operating income

	2015 ISK 000s	2014 ISK 000s
Rental income	1,181	1,164
Miscellaneous operating income	62,195	49,561
	63,377	50,724

9. Reserves and balances with credit institutions

	31.12.2015 ISK 000s	31.12.2014 ISK 000s
Bank deposits in Icelandic krónur	1,508,932	1,893,902
Bank deposits in foreign currencies	1,572,300	168,785
Reserves and balances with credit institutions: total	3,081,232	2,062,688

10. Loans issued to clients

Broken down by borrowers:

Local authorities	0.27%	0.45%
Private individuals	11.62%	8.92%

Broken down by sector:

Services	42.07%	44.78%
Fisheries	12.10%	26.45%
Industry	27.38%	15.22%
Agriculture	6.45%	4.08%
Financial institutions	0.10%	0.10%
	100%	100%

Loans issued inclusive of accrued interest break down by period outstanding as follows:	31.12.2015 ISK 000s	31.12.2014 ISK 000s
Claims fallen due	183,530	465,125
Up to 3 months	151,641	178,691
3 months to 1 year	723,164	776,298
1 year to 5 years	3,106,263	2,765,611
Over 5 years	5,473,421	5,587,396
	9,638,019	9,773,122

11. Appropriated assets

	31.12.2015 ISK 000s	31.12.2014 ISK 000s
Real estate	669,510	1,048,510
	669,510	1,048,510

12. Management of appropriated assets

	2015 ISK 000s	2014 ISK 000s
Rental income	44,608	59,341
Management costs	112,512	102,095
	(67,904)	(42,754)

13. Appropriated assets

	Rateable valuation ISK 000s	Size m²
Eyrarland 1, Hvammstangi	7,860	159.2
Eyrarland 1. Hvammstangi	7,460	150.9
Grænigarður, Ísafjörður	57,494	1,366.7
Héðinsbraut 4, Húsavík	47,800	1,129.4
Karlmansvellir 3, Akranes	19,850	293.7
Langanesvegur 2, Thórshöfn	8,865	170.7
Nesbraut 7, Reyðarfjörður	32,250	722.4
Pálsbergsgata 3 & 5, Ólafsfjörður	32,840	1,851.4
Sandhorn, Hrísey	19,900	832.7
Seljavogur 10, Hafnir	22,985	231.8
Sindragata 27, Ísafjörður	34,800	659.6
Sólvellir 23, Breiðdalsvík	70,368	2,081.6
Strandarvegur 29-33, 29R, Seyðisfjörður	10,300	601.0
Strandgata 37, Tálknafjörður	10,550	456.1
Valgerðarstaðir 4, Fljótshérað	103,250	5,148.3
Vallarás 7-9, Borgarnes	141,500	1,919.1
Vatneyri machine workshop, Patreksfjörður	9,605	736.1
	637,677	18,510.7

Appropriated assets are entered in the annual accounts at a value of ISK 669,510,000.

14. Provision to meet losses on loans

The item ‘Additions to provision to meet losses on loans issued etc.’ on the profit and loss account covers additions to the depreciation account for loans issued and accounts receivable and the revaluation of share capital and appropriated assets. The provision to meet losses on loans issued is divided into a special depreciation account and a general depreciation account. Under the special depreciation account come borrowers with arrears of over 3 months.

Provisions to meet losses on loans issued break down as follows.

Provision to meet losses on loans issued	Special depreciation account ISK 000s	General depreciation account ISK 000s	Total ISK 000s
Position at 1 January	569,082	670,968	1,240,049
Additions in year	9,171	21,279	30,449
Write-offs	(102,155)	—	(102,155)
	476,097	692,246	1,168,344
Provision to meet losses on loans issued as proportion of loans issued	4.41%	6.41%	10.81%
		2015 ISK 000s	2014 ISK 000s
Addition in the year		139,342	160,480
Sale of prawn quota		0	(247,100)
Addition to cover guarantees provided		(990)	(197)
Addition to cover accounts receivable		2,048	2,000
Revaluation of shareholdings		(79,388)	(30,936)
Recovery of loans previously written off		0	(1,491)
Additions to provision to meet losses on loans as per profit and loss account		61,012	(117,243)

15. Shareholdings

At the end of the year the Icelandic Regional Development Institute held the following shares, broken down as follows by nominal value and share of ownership:

Affiliated companies, ownership share > 20%	Share of ownership	Nominal value ISK 000s
Atvinnuthróunarfélag Vestfjarða hf	22.10%	1,933
Bernskan ehf	34.53%	22,444
Dýralíf ehf	33.81%	4,000
Eignarhaldsfélagið Gláma hf	30.01%	114,500
Eignarhaldsfélag Suðurlands hf	39.99%	109,142
Fasteignafélagið Borg ehf	29.80%	18,825
Fasteignafélagið Hótel Hellissandur ehf	24.98%	19,534
Fasteignafélagið Hvammur ehf	24.85%	16,919
Fasteignafélagið Kirkjuból ehf	30.35%	7,124
Fjárfestingafélagið Vör hf	41.95%	35,940
Hvetjandi ehf	45.90%	129,635
Molta ehf	30.00%	50,000
Nes-Listamiðstöð ehf	35.71%	5,000
Raflagnir Austurlands ehf	22.37%	3,600
Ullarvinnsla Frú Láru ehf	29.76%	2,500
Vilko ehf	29.13%	2,955
Thórsberg ehf	22.74%	30,191
Thörungaverksmiðjan hf	27.66%	7,919
Affiliated companies: total nominal value		582,160

Tradable securities, ownership share ≤ 20%	Share of ownership	Nominal value ISK 000s
Ámundakinn ehf	16.45%	26,000
Ásgarður hf	13.10%	15,000
Borg, saumastofa ehf	19.82%	170
Dalagisting ehf	12.11%	8,000
Eðalís ehf	11.06%	3,000
Eignarhaldsfélag Suðurnesja hf	19.02%	96,840
Fasteignafélagið HN ehf	3.09%	2,320
Fánasmiðjan ehf	9.95%	4,167
Fiskvinnslan Drangur ehf	8.20%	2,000
Fjallalamb hf	10.69%	10,000
Grand Hótel Mývatn ehf	7.22%	10,000
Hótel Flúðir hf	11.94%	3,109
Hótel Húsavík ehf	0.38%	136
Hótel Varmahlíð hf	13.04%	3,000
Hvalamiðstöðin Húsavík ehf	19.70%	2,000
Hæðin á Höfðabraut ehf	12.28%	2,000
P/F Smyril-line	1.67%	DKK 1,868
Saga Eignarhaldsfélag hf	0.37%	18
Samkaup hf	2.77%	10,801
Snorri Thorfinnsson ehf	19.89%	12,000
Tó hf	13.57%	2,667
Tröllasteinn ehf	18.92%	7,000
Tvídrangi ehf	15.27%	4,991
Urtusteinn ehf	8.45%	32,818
Yrkjar ehf	7.29%	1,800
Tradable securities: total nominal value		295,093
Shareholdings: total nominal value		877,253

Shares in affiliated companies are entered in the annual accounts at a value of ISK 372,768,000. Tradable securities are entered at a value of ISK 574,736,000. The value of shares acquired in connection with financial reorganisation amounts to ISK 402,217,000.

16. Operating assets

Permanent operating assets break down as follows:

	Land & buildings ISK 000s	Fixtures & fittings ISK 000s	Motor vehicles ISK 000s	Software ISK 000s	Total ISK 000s
Base value at 1/1	70,388	3,219	23,499	7,216	104,322
Total depreciation to 1/1	(30,480)	(2,897)	(9,698)	0	(43,075)
Additions in the year	0	0	5,873	0	5,873
Written off in the year	(1,947)	(322)	(3,881)	(1,443)	(7,593)
Sold in the year	0	0	(3,417)	0	(3,417)
Profit (loss) on sales	0	0	(726)	0	(726)
Book value at 31/12	37,961	0	11,650	5,773	55,384
Total base value 31/12	70,388	3,219	22,830	7,216	103,653
Total depreciation 31/12	(32,427)	(3,219)	(11,180)	(1,443)	(48,269)
Book value at 31/12	37,961	0	11,650	5,773	55,384
Depreciation ratios	2-3%	20%	20%	20%	

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

	Rateable valuation ISK 000s	Insurance valuation ISK 000s	Book value ISK 000s
Skagfirðingabraut 17-21, Sauðárkrókur	29,855	105,525	26,428
Háuhlíð 4, Sauðárkrókur	36,700	61,850	11,534
	66,555	167,375	37,961

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

	2015 ISK 000s	2014 ISK 000s
Foreign:		
Assets in foreign currencies	5,043,230	4,919,190
Liabilities in foreign currencies	5,791,042	5,340,160
Net balance of foreign assets and liabilities	(747,811)	(420,970)
Index-linked:		
Index-linked assets	5,419,493	4,581,482
Index-linked liabilities	5,070,315	5,822,031
Net balance of index-linked assets and liabilities	349,179	(1,240,549)

Figures are given net of write-down of assets.

Foreign assets and liabilities by currency:

	USD ISK 000s	DKK ISK 000s	JPY ISK 000s	EUR ISK 000s	Total ISK 000s
Loans issued	486,992	0	1,197,087	1,786,852	3,470,930
Cash in hand	637,369	1,281	13,151	920,499	1,572,300
Assets: total	<u>1,124,361</u>	<u>1,281</u>	<u>1,210,238</u>	<u>2,707,350</u>	<u>5,043,230</u>
Borrowings	1,345,074	0	1,425,816	3,020,152	5,791,042
Net balance	<u>(220,713)</u>	<u>1,281</u>	<u>(215,578)</u>	<u>(312,802)</u>	<u>(747,811)</u>

Figures are given net of write-down of assets.

18. Borrowings

Borrowings break down as follows by period outstanding:

	2015 ISK 000s	2014 ISK 000s
Fallen due	634,046 (*)	0
Up to 3 months	143,075	4,870,812
3 months to 1 year	1,456,032	984,201
1 year to 5 years	4,183,251	3,085,711
Over 5 years	5,078,999	2,221,051
	<u>11,495,402</u>	<u>11,161,775</u>

The tranche of bonds BYG 03, issued by the Icelandic Regional Development Institute in 2003, matured on 10 March 2013. For the purposes of refinancing, the Institute issued a new tranche BYG 15 on 6 March 2015 which was listed on the stock exchange. BYG 15 is for a period of 15 years, at a fixed index-linked rate of 3.2%.

(*) The holders of ISK 200 million nominal value of tranche BYG 03 have not come forward and their identity is unknown. Under the terms of the issue the securities do not bear interest and are not subject to price indexation or penalty interest after their maturity date.

On 11 June 2015 a loan agreement was signed with NIB (Nordic Investment Bank) to the sum of 12 million euros for a period of 10 years. The loan was paid over in two parts: USD 6,558,000 and EUR 6,000,000.

19. Capital and reserves

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 was 21.56%.

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

	31.12.2015 ISK 000s	31.12.2014 ISK 000s
Tier I capital	2,750,547	2,651,656
Total	<u>2,750,547</u>	<u>2,651,656</u>
Credit risk	10,328,038	11,044,175
Exchange rate risk	748,900	436,750
Operational risk	1,678,425	1,645,388
Risk-weighted asset base	<u>12,755,363</u>	<u>13,126,313</u>
Position at start of the year	2,651,656	2,302,439
Profit for the year	98,891	349,217
	<u>2,750,547</u>	<u>2,651,656</u>
Capital adequacy ratio	21.56%	20.20%

20. Guarantees provided

The Icelandic Regional Development Institute did not act as guarantor for any loans with respect to third parties at the end of the year 2015.

21. Other matters

A case was heard before the District Court for the North of Iceland (West) in 2013 regarding the legality of the restructuring of index-linked loans in Icelandic krónur into loans in foreign currencies through the issue of an addendum. A judgement was delivered on 29 November 2013 in which the legality of the Institute's loans restructured in this way was upheld and this judgement was not appealed to the Supreme Court. Hótel Mývatn ehf filed a claim against the Institute regarding the legality of the same loans as were treated in the aforementioned case. Judgement was delivered on 6 August last at the District Court for the North of Iceland (West) in which the Institute was cleared of the claims of the plaintiff, Hótel Mývatn ehf. The case has been appealed to the Supreme Court and the Institute has entered a counterappeal.

22. Business with related parties

The directors of the Icelandic Regional Development Institute, its key officers and affiliated companies are defined as related parties, together with close family members of the above and legal entities under their control. No unusual transactions took place with related parties during the year. No guarantees have been granted to related parties on account of commercial debts or claims.

Loans provided to related parties at the end of the year amounted to ISK 480,789,000, of which ISK 22,650,000 were in arrears.