

Heimavellir hf.

Consolidated Financial Statements
2019

*These Consolidated Financial Statements are translated from the original Icelandic version. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

Heimavellir hf.
Lágmúli 6
108 Reykjavík

Reg.no. 440315-1190

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Endorsement and Statement by the Board of Directors and the CEO

Heimavellir hf. is a limited liability Company (hereafter also referred to as "the Company"). The purpose of the Company is to invest, sell, operate, hold and to administrate real estate.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Icelandic disclosure requirements for consolidated financial statements of listed companies.

The Consolidated Financial Statements comprise of financial statements for the Company and its six subsidiaries.

Operations and Financial Position

Profit for the year 2019 amounted to ISK 1.361 million (2018: ISK 48 million). Total equity at year end 2019 amounted to ISK 20.056 million (Year end 2018: ISK 18.796 million). Equity ratio at year end was 37,2% (2018: 33,1%).

Rental revenue in 2019 amounted to ISK 3.372 million which is a decrease of ISK 313 million or 8,5%, from the previous year. The re-organisation of the apartment portfolio was considerable. The company sold 370 under-performing rental apartments for ISK 11.505 million for the purpose of improving the Group's property portfolio and operations and reducing the need for refinancing. The total number of apartments at the beginning of 2019 was 1.892 units and was reduced by 13% to 1.637 units at year end. The net sales profit of the asset sales amounted to ISK 412 million in 2019 or 3,7%.

The operations improved throughout the year. The EBIT ratio for the first half of 2019 was 60,0% compared to 62,9% for the second half. The estimate for 2020 is planning a further reduction in the number of apartments to about 1.500 units at year end. The rental revenue is expected to be about ISK 3.100 million and the EBIT ratio is expected to be 62,5-63,5%.

Fair value adjustment in 2019 amounted to ISK 1.695 millions in comparison to ISK 112 million in 2018. The primary reason for this sizable difference from year to year is that the decrease in interest rates in the valuation model led to lower equity yield compared to 2018. The consumer price index increased by 2,7% from year to year leading to a positive change in fair value of assets since all lease agreements are indexed. In contrast, an increase in Official Assessment Values of properties led to a decrease in fair value of assets from year to year, as the increase led to higher real estate taxes and fees.

Net finance expenses amounted to ISK 2.458 million in 2019 compared to ISK 1.798 million in the previous year. The biggest change between years is due to the amount of the consumer price indexation charges which amounted to ISK 712 million in 2019 (2018: ISK 863 million) but inflation in 2019 amounted to 2,7% (2018: 3,3%). The company issued listed inflation linked bonds last year in the amount of ISK 2.420 billion at an average 3,53% real interest rate.

The shares of the Company at the beginning of the year amounted to ISK 11.251 million. In the year 2019 own shares were purchased in the nominal amount of ISK 87,4 million. Shares at year end amount to ISK 11.164 million. Total number of shareholders are 452 at year end but were 584 at the beginning of the year. The ten major shareholders at year end, owning 59,7% of the shares, are:

	Share
Birta lífeyrissjóður	9,8%
Stálskip ehf.	8,6%
Snæból ehf.	7,5%
Grani ehf.	7,5%
Arion banki hf.	6,6%
Sjóvá - Almennar tryggingar hf.	4,8%
Vátryggingafélag Íslands hf.	3,9%
Klasi ehf.	3,9%
M75 ehf.	3,8%
Kvika Banki hf.	3,5%

Endorsement and statement by the board of directors and the CEO, contd.:

There is no authorization to pay dividends to shareholders in 2020. Reference is made to the financial statements for further information on allocation of profit and other changes in equity.

Corporate Governance Statement

The Board of Directors of Heimavellir hf. emphasizes maintaining good corporate governance and adhering to the Icelandic Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, Nasdaq OMX Iceland and SA Confederation of Icelandic Enterprise in June of 2015. The Board has implemented rules of procedures detailing the scope of its authority and its responsibilities to the Chief Executive Director. The Company has its shares listed on the Nasdaq OMX Iceland stock exchange and is obligated to adhere to the Icelandic Guidelines on Corporate Governance in accordance with the rules of Nasdaq OMX Iceland. The aforementioned information is put forth in an annex, *Statement on Corporate Governance*, to the Consolidated Financial Statements.

In 2019, the Board of Directors of Heimavellir hf. was comprised of three men (60%) and two women (40%), thus fulfilling the provisions of the Act respecting Public Limited Companies regarding gender ratios in boards of directors of public limited companies.

Non-Financial Disclosure

The Company publishes information necessary to evaluate the development, scope, status and impact of the Company on environmental, social and human resource matters, in accordance with the Act on Annual Accounts. The Company's policy regarding human rights and other issues are also made public. The aforementioned information is put forth in an annex, *Non-financial disclosure*, to the Consolidated Financial Statements

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO, the Consolidated Financial Statements are in accordance with International Financial Reporting Standards as adopted by the EU and it is the opinion of the Board of Directors and the CEO that the Consolidated Financial Statements give a true and fair view of the consolidated financial performance of the Group in the year 2019, its assets, liabilities and financial position as at December 31st, 2019 and its consolidated cash flows for 2019.

Furthermore, it is the opinion of the Board of Directors and the CEO that the Consolidated Financial Statements and the endorsement by the Board of Directors and the CEO contain a true and fair overview of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO of Heimavellir hf. have today discussed the Company's Consolidated Financial Statements for the year 2019 and confirmed them with their signatures. The Board of Directors and the CEO propose to the Annual General Meeting that the financial statements be approved.

Reykjavík, February 12, 2020.

Board of directors:

Erlendur Magnússon

Anna Þórðardóttir

Árni Jón Pálsson

Halldór Kristjánsson

Hildur Árnadóttir

CEO:

Arnar Gauti Reynisson

Independent auditor's report

To the Board of Directors and Shareholders of Heimavellir hf.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Heimavellir hf. ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional disclosure requirements for listed companies in Iceland.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of consolidated financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the matter was addressed in the audit
<p>Investment properties amounted at year end 2019 to ISK 45.299 million. The value adjustment of investment properties amounted to ISK 1.695 million. Investment properties are disclosed at fair value at year end. The fair value assessment is based on discounted cash flows of individual assets, and is further disclosed in note no. 11.</p> <p>The Company's operations comprise of investments, operating, holding and administrating real estate. The fair value assessment of investment properties is a Key Audit Matter in our audit, investment properties are 84% of the Company's total assets. All of the Company's revenue is based on its investment properties and the fair value assessment relies on external factors and management's judgement.</p>	<p>Our audit included the following procedures:</p> <p>The audit team reviewed the methods management used in determining fair value of investment properties.</p> <p>We reviewed and assessed the underlying factors for the fair value determination. The fair value determination is based on the recoverable amount of investment properties, market price for similar properties in similar locations. We assessed important factors such as market rent, estimates on real increase in rent and operating expenses.</p> <p>We reviewed the condition for the required rate of return which the Company's assessments are based on and compared them with market rate and required rate of return on the market.</p> <p>We reviewed samples of the Company's calculations to ensure they were correct.</p> <p>We reviewed the notes and disclosures in the consolidated interim financial statements to ensure that required information and disclosures by laws are disclosed</p> <p>In our audit on the fair value determination we received help from KPMG's valuation experts.</p>

Independent Auditor's Report, contd.:

Responsibilities of the Board of Directors and CEO for the Consolidated Financial Statements

The Board of Directors and CEO are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union and additional disclosure requirements for listed companies in Iceland, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and CEO are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and CEO are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report, contd.:

We communicate with The Board of Directors and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide The Board of Directors and audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with The Board of Directors and audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statement Act No. 3/2006, we confirm that, to the best of our knowledge, the report of the Board of Directors and CEO accompanying the consolidated financial statements includes the information required by the Financial Statement Act if not disclosed elsewhere in the consolidated financial statements.

The engagement partner on the audit resulting in this independent auditor's report is Matthías Þór Óskarsson.

Reykjavik, February 12, 2020.

KPMG ehf.

Consolidated Statement of Comprehensive Income

for the Year 2019

	Not.	2019	2018
Rental revenue	5	3.372.239	3.685.788
Operating expenses of investment properties	6	(950.994)	(1.015.929)
Net rental income		2.421.245	2.669.859
Other income		5.290	0
Other operating expenses	8	(375.125)	(419.992)
Operating profit before fair value adjustment.....		2.051.410	2.249.867
Profit from sale of investment properties	11,15	412.290	496.020
Fair value adjustment of investment properties	11	1.695.137	111.918
Operating profit before finance income and finance expenses.....		4.158.837	2.857.805
Finance income		44.444	11.169
Finance expenses		(2.503.037)	(2.809.076)
Net finance expenses	9	(2.458.593)	(2.797.907)
Profit before income tax		1.700.244	59.898
Income tax	10	(339.268)	(12.084)
Profit and comprehensive profit for the year.....		1.360.976	47.814
Profit per share			
Basic and diluted profit per share	18	0,121	0,004

Notes on pages 12 - 25 are an integral part of these Consolidated Financial Statements

Consolidated Statement of Financial Position as on 31 December 2019

	Not.	31.12.2019	31.12.2018
Assets			
Investment properties	11	45.299.393	53.142.221
Investment properties under construction	13	370.211	1.232.941
Fixed assets	14	27.541	33.442
Long-term bonds		42.982	20.848
Non-current assets		45.740.127	54.429.452
Trade receivables	24	15.725	24.007
Investment properties for sale	15	4.613.531	0
Other receivables	16	1.840.653	1.201.513
Cash and cash equivalents		1.740.164	1.171.714
Current assets		8.210.073	2.397.234
Total assets		53.950.200	56.826.686
 Equity			
Share capital		11.163.998	11.251.398
Share premium		584.633	1.155.558
Statutory reserve		6.324	6.324
Restricted share reserve		8.300.631	6.383.004
Total equity	17	20.055.586	18.796.284
 Non-current liabilities			
Deferred income-tax liability	22	2.935.705	2.596.437
Lease liability	21	717.539	0
Loans and borrowings	19	28.607.088	33.431.652
Non-current liabilities		32.260.332	36.028.089
 Current liabilities			
Loans and borrowings	19,20	387.590	1.269.989
Trade and other payables	23	1.246.692	732.324
Current liabilities		1.634.282	2.002.313
Total liabilities		33.894.614	38.030.402
Total equity and liabilities		53.950.200	56.826.686

Notes on pages 12 - 25 are an integral part of these Consolidated Financial Statements

Consolidated Statement of Changes in Equity for the year 2019

	Share capital	Share premium	Statutory reserve	Restricted share reserve	Retained earnings	Total
Year 2018						
Equity as on 1. January 2018	10.282.420	1.470.265	6.324	5.828.412	0	17.587.421
Profit and total comprehensive income					47.814	47.814
Reserved equity						
Share premium transferred				554.592	(554.592)	
Transactions related to the shareholders of the Company:		(506.778)			506.778	
Increased capital	968.978	192.071				1.161.049
Equity as on 31. December 2018	<u>11.251.398</u>	<u>1.155.558</u>	<u>6.324</u>	<u>6.383.004</u>	<u>0</u>	<u>18.796.284</u>
Year 2019						
Equity as on 1. January 2019	11.251.398	1.155.558	6.324	6.383.004	0	18.796.284
Profit and total comprehensive income					1.360.976	1.360.976
Reserved equity				1.917.627	(1.917.627)	
Share premium transferred		(556.651)			556.651	
Transactions related to the shareholders of the Company:						
Repurchasing of own shares	(87.400)	(14.274)				(101.674)
Equity as on 31. December 2019	<u>11.163.998</u>	<u>584.633</u>	<u>6.324</u>	<u>8.300.631</u>	<u>0</u>	<u>20.055.586</u>

Notes on pages 12 - 25 are an integral part of these Consolidated Financial Statements

Consolidated Statement of Cash Flows for the Year 2019

	Not.	2019	2018
Cash flows from operating activities			
Profit for the year		1.360.976	47.814
Adjusted for:			
Value adjustment of investment properties	11 (	1.695.137)	(111.918)
Profit from sale of investment properties	11 (	412.290)	(496.020)
Depreciation	14	13.803	18.865
Net finance expenses		2.458.593	2.797.907
Income tax		339.268	12.084
		2.065.213	2.268.732
Change in operating assets and liabilities:			
Current assets, decrease		43.359	62.804
Current liabilities, increase		116.755	1.148
		160.114	63.952
Net cash provided by operating activities before financial income and expenses		2.225.327	2.332.684
Interest income received		44.444	11.169
Interest expenses paid .....	(	1.659.084)	(1.946.169)
Net cash provided by operating activities		610.687	397.684
Cash flows from investing activities			
Investment in investment properties	11 (	563.876)	(758.281)
Investment in investment properties under construction	13 (	3.558.062)	(3.633.991)
Sales price of investment properties	11	10.764.943	5.122.271
Investment in fixed assets	14 (	15.619)	(7.802)
Sales price of fixed assets	14	5.099	600
Long-term bonds, change .....	(	22.134)	(16.878)
Net cash used in investing activities		6.610.351	705.919
Cash flows from financing activities			
Increased capital		0	1.161.049
Repurchasing of own shares .....	(	101.674)	0
New long-term borrowings	19	8.818.432	11.689.075
Repayments and settlements of interest bearing liabilities	19 (	14.589.736)	(11.180.228)
Interest bearing short-term liabilities, change	19 (	779.611)	(1.607.723)
Related companies, change		0	(149.994)
Net cash provided by financing activities		(6.652.589)	(87.821)
Increase in cash and cash equivalents		568.449	1.015.782
Cash and cash equivalents at the beginning of the year		1.171.714	155.932
Cash and cash equivalents at the end of the year		1.740.163	1.171.714
Investing and financing activities not affecting cash flows			
Investment in investment properties, under construction		397.613	0
Investment in investment properties	23 (	397.613)	0
Sales price of investment properties	11	1.768.464	1.094.247
Unpaid sales price of investment properties	16 (	1.768.464)	(1.094.247)

Notes on pages 12 - 25 are an integral part of these Consolidated Financial Statements

Notes to the Consolidated Financial Statements

1. General information

Heimavellir hf. ("the Company") is an Icelandic limited liability Company. The Company's headquarters are based in Lágmúli 6, Reykjavík. The consolidated financial statements for the Year 2019 comprise of the financial statements of the Company and its subsidiaries; Heimavellir III ehf., Heimavellir VI ehf., Heimavellir XX ehf., BP 14-16 ehf., HV900 ehf. and Heimavellir rekstur ehf. together referred to as "the Group" and individually as "Group entities".

2. Basis of preparation

a. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The Consolidated Financial Statements and additional requirements are also in accordance with the Icelandic Financial Statement Act No. 3/2006. A summary of significant accounting policies is disclosed in Note 3.

The Consolidated Financial Statements were approved by the Board of Directors on 13th February 2020.

b. Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except that investment properties are measured at fair value. Methods for fair value adjustments are disclosed in notes no. 3d and 11.

c. Presentation and functional currency

These Consolidated Financial Statements are presented in Icelandic krona (ISK), which is the Company's functional currency. All amounts are presented in thousand of ISK unless otherwise stated.

d. Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the carrying amount of assets recognized in the financial statements is included in note 11 - valuation of investment properties.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the periods when the changes are made and in subsequent periods if the changes also affect those periods.

The determination of fair value is based on assumptions which are dependent on management's judgement regarding development of various factors in the future. Actual selling prices of assets and settlement values of liabilities may differ from these estimates.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by Group entities, except changes regarding IFRS 16, disclosed in note 3l.

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

b. Revenue

Rental income from investment properties is recognized in the income statement on a straight-line basis over the term of the lease. Discounts are recognized with the same approach.

Notes, contd.:

3. Significant accounting policies, contd.:

c. Properties and equipment for own use

(i) Recognition and measurement

Properties and equipment for own use are measured at cost less depreciation and impairment losses.

The gain on sale of properties and equipment for own use is the difference between the selling price and the carrying amount of the asset and it is recognized among other income in profit or loss. Loss on sale of property and equipment for own use is recognized among other operating expenses.

(ii) Depreciation

The depreciation method, useful life and residual value are evaluated at each reporting date and adjusted if appropriate. Depreciation is recognized on a straight-line basis over the estimated useful life of individual parts of operating assets.

Vehicles	5 years
Other operating assets	3-5 years

d. Investment properties

Investment properties are real estate (land and buildings) held by the Group either to earn rental income, for capital appreciation or both. Investment properties are exclusively residential properties and are recognized at fair value cf. Note 11.

Changes in the fair value of investment properties are recognized in profit or loss under the line item "Fair value adjustment of investment properties". Investment properties are not depreciated.

Investment properties are measured initially at cost, which comprises the purchase price and any directly attributable expenditure on preparing the properties for their intended use, including related transaction costs. Expenditure incurred subsequent to the acquisition of an investment property in order to add to, replace part of, or service a property is capitalised only if it meets the general asset recognition criteria. Interest expense on loans used to finance the cost value of investment property under development is capitalised at the time of construction. Expenditure directly attributable to the acquisition of properties and equipment for own use is capitalised when incurred if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are expensed in profit or loss as incurred.

The gain (loss) on sale of investment properties is calculated as the difference between the carrying amount and selling price less selling costs and it is recognized in profit or loss in the line item "Fair value adjustment of investment properties".

e. Financial instruments

The Group's financial instruments comprise trade receivables and other receivables, cash and cash equivalents, borrowings, trade payables and other short-term liabilities.

Financial instruments are recognized initially at fair value. When financial instruments are not recognized at fair value through profit or loss any direct transaction cost is recognized as an increase in their value upon initial recognition. Subsequent to initial recognition financial instruments are recognized as follows

All of the Group's financial instruments are payables and liabilities.

(i) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially measured at fair value plus all related transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents, trade receivables and other receivables.

Cash and cash equivalents comprise of cash funds and bank accounts that are unrestricted within three months.

(ii) Financial liabilities

Financial liabilities are initially measured at fair value plus all direct transaction costs. Subsequent to initial recognition they are measured at amortized cost using the effective interest method.

Financial assets and financial liabilities are offset and the net amount is shown in the Statement of Financial Position when the Group has a legally enforceable right to offset the amounts and intends to either settle the contracts on a net basis or at the same time.

Notes, contd.:

3. Significant accounting policies, contd.:

e. Financial instruments, contd.:

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities including liabilities designated at fair value through profit or loss are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities comprise loans and borrowings and trade and other payables.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

f. Deferred tax

Deferred tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for goodwill, not deductible for tax purposes, the initial recognition of assets or liabilities that do not affect accounting, or taxable profit or differences relating to investment in subsidiaries.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date.

g. Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

h. Finance income and finance costs

Finance income consists of interest income on receivables and bank deposits. Interest income is recognized in profit or loss as it accrues using the effective interest method.

Finance expenses consist of interest expense on borrowings. Borrowing costs are recognized in profit or loss using the effective interest method.

i. Impairment

Financial assets

At each reporting date it is assessed whether there is any objective evidence that financial assets are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events that occurred after the initial recognition of the asset have had a negative effect on the estimated future cash flows of that asset and it is possible to estimate the value of the asset reliably.

The impairment loss on financial assets measured at amortized cost is calculated as the difference between their carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment loss on financial assets available for sale is determined on the basis of their fair value at each time. Individual significant financial assets are specifically assessed for impairment. Other financial assets are grouped together on the basis of similar credit risk characteristics and each group specifically assessed for impairment.

Impairment losses are expensed in profit or loss.

Notes, contd.:

3. Significant accounting policies, contd.:

j. Earnings per share

The Group presents basic and diluted earnings per share for its ordinary shares. Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are the same as basic earnings per share since no share options have been granted to employees or others and the Company has not taken loans convertible into share capital.

k. Segment reporting

Information to management does not contain segment reporting, since the Group operates in a single segment.

l. New standards and interpretations

The Group has adopted IFRS 16 Leases from 1 January 2019. A few other accounting standards have also taken effect from 1. January 2019 but their effect on the Group are immaterial.

The Group applied IFRS 16 using the modified retrospective approach, where the lease assets at the beginning of 2019 are the same as lease liabilities, ISK 796,2 m. The application of IFRS 16 does not affect the Company's equity at 1.1.2019 and comparative amounts from 2018 remain unchanged.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

The Group leases out its investment property, including own property and right-of-use assets. The Group has classified these leases as operating leases.

Impact on financial statements

i. Impact on transition

When assessing lease assets and lease liabilities at 1.1.2019, the Group uses discounted cash flows of individual lease agreements. The Group discounts cash flows using its incremental borrowing rate at 1.1.2019. The same application is used for all contracts. The assessment is done by employees of the parent company.

Lease assets and lease liabilities stem from lease agreements that the Group leases from a third party, that is land and lots for the Group's buildings and properties. Lease assets that the Group recognizes due to these agreements are accounted as investment properties, cf. note 7 and are measured at fair value at reporting dates. Lease liabilities are initially measured based on discounted lease payments that are unpaid at the initial date. Lease payments are discounted by using the interest rates implicit in the lease, if they can easily be determined. If they are cannot easily be determined, then the lease payments are discounted using the Group's incremental borrowing rate. After reporting dates, the lease liabilities are measured at amortized costs using the effective interest method, where lease payments are reported as amortization charges and interest payments in the balance sheet.

	1. January 2019
Lease assets - Investment properties	796.191
Lease liabilities	(796.191)

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(i) Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its leases of building lot rights and buildings. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

(ii) Leases in which the Group is a lessor

No impact is expected for other leases in which the Group is a lessor.

Notes, contd.:

3. Significant accounting policies, contd.:

(iii) Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. Based on available information, the lease liabilities are estimated to amount ISK 778 million on 1 January 2019 and the right of use assets the same amount. The adoption of IFRS 16 will not have impact on book value of equity and is not considered to have impact on loan terms.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Changes in the references to the Conceptual Framework of the International Accounting Standards.
- Definition of a Business (change in IFRS 3).
- Definition of Material (changes in IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts

4. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. The Group's Directors have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The Group's Directors regularly review significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in note 11.

5. Lease contracts

The lease contracts entered into by the Group as a lessor have an average lease term between 1 and 3 years. The Group also has indefinite lease contracts that have a mutual 6 or 12 month period of notice depending on the time elapsed since the beginning of the contract, in accordance with Icelandic law. The contracts are linked to the consumer price index and indexed monthly. The average lease period of temporary lease contracts is 10 months (2018: 15 months). Temporary leases comprise 76% of all lease contracts and 24% are indefinite at year end 2019 (2018: 78% and 22%).

5. Lease contracts cont.

The Groups rental income specifies as follows:

	2019	2018
Capital area	44,60%	42,60%
East Iceland	2,80%	2,80%
North Iceland	7,70%	8,20%
South Iceland	4,70%	5,00%
Southern Peninsula	36,60%	36,10%
West Iceland	3,60%	5,30%
	<u>100,0%</u>	<u>100,0%</u>

Estimated losses for unrented apartments are estimated by the rental price to a third party.

Estimated losses in lease income related to unrented apartments in the year 2019 amounted to ISK 164,5 million (2018: ISK 150,7 million). Properties usage percentage amounts to 95.3% (2017: 96.1%)

Notes, contd.:

6. Operating expenses of investment properties

Operating expenses of investment properties are specified as follows:

	2019	2018
Property tax, water and sewage fees and rent of land	351.584	377.178
Maintenance and operating expenses of investment properties	174.213	176.464
Insurance	63.231	61.343
Salaries and related expenses	101.504	81.388
Energy and heating	123.020	136.829
Common property fees	55.906	68.787
Service rendered	72.149	86.936
Other operating expenses	9.387	27.004
	<u>950.994</u>	<u>1.015.929</u>

Operating expenses of investment properties that made no revenue are immaterial.

Operating expenses of investment properties for sale are specified in note nr. 15.

7. Salaries and related expenses

Salaries and related expenses are specified as follows:

Salaries	224.362	224.048
Pension contributions	31.869	31.858
Other salary-related expenses	22.728	44.998
Total salaries and related expenses	<u>278.959</u>	<u>300.904</u>

Salaries and related expenses are specified as follows on operating items:

Operating expenses of investment properties	101.504	81.388
Other operating cost	177.455	219.516
Total salaries and related expenses	<u>278.959</u>	<u>300.904</u>
Average number of employees	15	17

8. Other operating expenses

Other operating expenses are specified as follows:

Salaries and related expenses	177.455	219.516
Depreciation	13.803	18.865
Accounts payable, losses	11.275	8.131
Other operating expenses	172.592	173.480
	<u>375.125</u>	<u>419.992</u>

9. Finance income and (expenses)

Finance income and expenses are specified as follows:

Interest income of cash and cash equivalents	40.275	6.489
Interest income of trade receivables	4.169	4.680
	<u>44.444</u>	<u>11.169</u>
Interest expenses	2.458.810	2.791.618
Other financial expenses	44.227	17.458
	<u>2.503.037</u>	<u>2.809.076</u>

10. Income tax

Income tax is specified as follows:

	2019	2018
Profit for the year	1.700.244	59.898
Income tax according to current tax rate	20,0% (340.049)	20,0% (11.980)
Other factors	(0,0%) 781	(0,6%) (104)
Effective income tax	<u>20,0% (339.268)</u>	<u>15,7% (12.084)</u>

Notes, contd.:

11. Investment properties

Investment properties are specified as follows:

	31.12.2019			31.12.2018
	Investment properties	Lease assets	Total	Investment properties
Investment properties at 1.1	53.142.221	796.191	53.938.412	53.618.702
Additions during the year	563.876		563.876	758.281
Transf. from investment properties under construction	4.740.976		4.740.976	4.245.520
Sold during the year	(7.586.794)		(7.586.794)	(6.088.220)
Indexation		2.493	2.493	0
Changes due to sale of properties		(66.702)	(66.702)	0
Profit from sale of investment properties	341.948		341.948	496.020
Fair value adjustment for the year	1.695.137		1.695.137	111.918
Depreciation		(11.826)	(11.826)	0
Transferred to investment properties for sale	(8.318.127)		(8.318.127)	0
Investment properties at 31.12	<u>44.579.237</u>	<u>720.156</u>	<u>45.299.393</u>	<u>53.142.221</u>
Purchase price of investment properties			32.089.952	41.428.827
Fair value adjustments			<u>12.489.285</u>	<u>11.713.394</u>
Investment properties at 31.12			<u>44.579.237</u>	<u>53.142.221</u>

Investment properties are specified as follows:

Capital area	24.259.046	25.833.522
East Iceland	730.950	1.078.696
North Iceland	3.393.771	4.429.015
South Iceland	1.112.792	2.282.757
Southern Peninsula	14.826.198	17.158.146
Westfjords	0	124.812
West Iceland	256.480	2.235.273
Investment properties at 31.12	<u>44.579.237</u>	<u>53.142.221</u>

Official assessment value and assessed value for fire insurance

Official real estate value of investment properties of the Group amounted to ISK 46.803 million at the year end (2018: 55.015 million) there of is the lot evaluation ISK 2.766 million (2018: ISK 4.996 million). The insurance value of these assets amounted to ISK 47.566 million (2018: ISK 56.826 million).

Determination of fair value

The fair value measurement is performed by outside specialist consultation in the same manner as the previous year and it includes furnishings and other equipment necessary to ensure the cash flows from the assets. Fair value measurement is based on assumptions dependent on management's judgement and actual sales price may differ from the measurements.

Investment properties are recognized at fair value in accordance with the International Accounting Standard IAS 40 - Investment Property and International Financial Reporting Standard IFRS 13 - Fair Value Measurement.

In estimating the fair value of investment assets, discounted future cash flow of individual assets is relied upon. The cash flow model is based on free cash flow to the Group, discounted at the Weighted Average Cost of Capital (WACC) of the Company.

Estimated cash flows are based on current lease agreements and their expected development. When estimating the cash flows each individual lease agreement is reviewed and all important risk factors are taken into account, such as quality and term of current lease agreements and the estimated market rent expected after the end of the agreement.

Operating expenses such as real estate tax, insurance, maintenance and operations in real estates where appropriate, are deducted from the estimated income from rental of each property. Furthermore, bad debt expenses and share in administrative costs are taken into account. In this way each property is assessed as an independent unit.

The key assumptions that weigh in on the decision of the fair value at year end 2019 are rental income according to the existing rental agreements in addition to changes in market rent and changes in rental income. In the calculations of weighted average cost of capital the real interest rates were 3,6% - 4,2% (2018: 3,6% - 4,2%). Return on equity is estimated 8,7% - 12,7% using the real interest rate (2018: 9,17%-13,7%) and 35% equity ratio (2018: 25%). Weighted average cost of capital without tax (WACC) was 5,39%-7,18% and differs from location of assets (2018: 5,55%-7,34%). Utilization rate is estimated 90 - 97% and differs from location of assets.

Key assumptions in the value model are:

	2019	2018
Projected rental income per square meter per month	980 - 4.914	980 - 5.000
Estimated average rental per square meter per month	1.974	2.102
Weighted average cost of capital (WACC)	5,39% -7,18%	5,55%-7,34%
Weighted average	5,6%	5,8%

Notes, contd.:

11. Investment properties contd.:

Sensitivity analysis

	Change	Effect on fair value 2019		Effect on fair value 2018	
		Increase	Decrease	Increase	Decrease
Market rent	+/- 5%	3.421.031	(3.421.031)	3.999.677	(3.999.677)
WACC	-/+ ½%	4.698.014	(3.894.008)	5.254.062	(4.382.358)

Changes in fair values of operating assets are disclosed under value adjustments of investment properties in the consolidated statement of profit or loss. The fair value increase of operating assets was ISK 1.602 million for the year 2019 as compared to ISK 112 million for the year before. The key influencing factors that lead to higher fair value of operating assets are changes in market rent and lower WACC.

12. Pledges and guarantees

At year end 2019 the Groups investment properties in the carrying amount of ISK 49.192 million, were pledged as guarantees for debt amounting to ISK 28.995 million.

13. Investment properties under construction

The Group has entered into purchase agreements for 164 properties at Hlíðarendi. 73 apartments have been handed over to the Group and put up for sale at the end of 2019. At year end 2019, 91 apartments are still under construction. The purchase agreements for those apartments amount to ISK 4.234 m., of which the Group has already paid ISK 370 m.

	31.12.2019	31.12.2018
Investment under construction at the beginning of the year	1.232.941	1.844.470
Investment during the year	3.878.246	3.633.991
Transferred to investment properties	(4.740.976)	(4.245.520)
Investment under construction at the end of the year	370.211	1.232.941

14. Properties and equipment

Properties and equipment are specified as follows:

	Vehicles	Equipment	Total
Cost			
Balance at 31.12.2017	44.058	35.087	79.145
Additions during the year	0	7.801	7.801
Sold during the year	(14.019)	0	(14.019)
Balance at 31.12.2018	30.039	42.888	72.927
Additions during the year	15.619	0	15.619
Sold during the year	(18.628)	0	(18.628)
Balance at 31.12.2019	27.030	42.888	69.918

	Vehicles	Equipment	Total
Depreciation			
Total depreciation 31.12.2017	(20.525)	(13.515)	(34.040)
Depreciated during the year	13.191	0	13.191
Sold during the year	(6.920)	(11.716)	(18.636)
Total depreciation 31.12.2018	(14.254)	(25.231)	(39.485)
Depreciated during the year	(4.691)	(9.112)	(13.803)
Sold during the year	10.911	0	10.911
Total depreciation 31.12.2019	(8.034)	(34.343)	(42.377)

Carrying amount at 31.12.2018	15.785	17.657	33.442
Carrying amount at 31.12.2019	18.996	8.545	27.541
Depreciation %	20%	15-33%	

Insurance value of vehicles and equipment is equal to the cost value.

15. Investment properties for sale

At year-end, the Group had 130 properties specified as being for sale. The properties are valued at their expected selling price.

	31.12.2019	31.12.2018
Transferred to investment properties for sale	8.318.127	0
Sold during the year	(3.774.937)	0
Profit from the sale of investment properties	70.341	0
Investment properties for sale at year-end	4.613.531	0

Unpaid interest-bearing liabilities on investment properties for sale amount to ISK 2.253 m. at year-end 2019.

Official Assessment value and assessed value for fire insurance

The official assessment value of the Group's investment properties for sale at year-end 2019 amounts to ISK 3.804 m., of which lot evaluation amounts to ISK 364 m. The assessed value for fire insurance of those same properties amounted to ISK 4.642,3 m.

Notes, contd.:

15. Investment properties for sale contd.:

The operating profit (loss) from investment properties for sale is reported in the following items in the income statement:

	2019	2018
Rental revenue	80.728	0
Sales income from investment properties for sale	70.341	0
Operating expenses of investment properties	(69.818)	0
Financial expenses	(139.180)	0
Profit (loss) from investment properties for sale	(57.929)	0

16. Other receivables

	31.12.2019	31.12.2018
Other receivables specified as follows:		
Unpaid selling price of investment properties	1.768.464	1.094.247
Short-term bonds	53.401	42.135
Prepaid expenses	15.911	58.358
Other short-term receivables	2.877	6.773
	<u>1.840.653</u>	<u>1.201.513</u>

17. Equity

Share capital

The Company's share capital according to its Articles of Association amounted to ISK 11.251 million at year end 2019. One vote is attached to each share of ISK 1 in the Company. The share capital is paid in full.

Share premium

Share premium represents excess of payments above nominal value that shareholders have paid for shares sold by the Company. According to the Icelandic Companies Act, share premium can be offset against accumulated losses.

Statutory reserve

A statutory reserve is established in accordance with Act No. 2/1995 on limited liability companies, which stipulates that at least 10% of the Company's profit, not utilised to adjust previous years' losses or for other reserves in accordance with law, shall be allocated to the statutory reserve until the reserve amounts to 10% of the Company's share capital. When that benchmark has been reached the contribution to the reserve shall be at least 5% until its value has reached 25% of the Company's share capital.

Unrealized profit of subsidiary

Restricted share reserve includes the Company's share in the profit of subsidiaries from the beginning of 2016 that is in excess of dividends received.

Retained earnings

Accumulated deficit or retained earnings consist of the Group's accumulated, unallocated profits and losses, since the establishment of the parent company, less dividends paid and transfers to and from other equity line items.

Capital management

It is the policy of the Board of Directors to maintain a strong capital base in order to support the stability of future development of the operation and to deal with uncertainty in the external environment. There were no changes in the approach to capital management during the year.

The Group's capital management employs a debt to asset ratio, that is calculated as a ratio of interest-bearing liabilities, investment properties and cash flow conditions according to loan agreements. For the future, the ratio between interest-bearing liabilities and investment properties is targeted at around 65-70%, at year end 2017 the ratio was 70-80%.

The Company and its subsidiaries are not mandated to follow external regulations of minimum equity ratio.

18. Earnings per share

Earnings per share is specified as follows:

	2019	2018
Profit and comprehensive profit for the year	1.360.976	47.814
Share capital at the beginning of the year	11.251.398	10.282.420
Effect of paid-in share capital	0	645.985
Repurchasing of own shares	(21.850)	0
Weighted average number of shares during the year	<u>11.229.548</u>	<u>10.928.405</u>
Basic and diluted earnings per share	<u>0,121</u>	<u>0,004</u>

Notes, contd.:

19. Interest-bearing liabilities

	31.12.2019	31.12.2018
Interest-bearing long-term liabilities are specified as follows during the year:		
Long-term liabilities at the beginning of the year	33.922.029	32.550.277
Long-term borrowing	8.916.474	11.756.752
Long-term borrowing expenses for the year	(98.042)	(67.677)
Indexation of the year	711.713	848.023
Payments of the year	(14.589.736)	(11.180.228)
Long-term borrowing expense-amortization	132.240	14.882
Long-term liabilities at the end of the year	<u>28.994.678</u>	<u>33.922.029</u>
Interest-bearing short-term liabilities are specified as follows during the year:		
Short-term borrowing at the beginning of the year	779.611	2.387.334
Short-term borrowing	1.488.000	1.215.419
Payments of the year	(2.267.611)	(2.823.142)
Short-term liabilities at the end of the year	<u>0</u>	<u>779.611</u>
Long-term liabilities		
Bank loans in ISK, indexed int. 3,65% - 4,95% / 3,90% - 5,10%	15.310.973	25.919.502
Listed bonds, indexed int. 3,2% - 3,90% / 3,90%	9.952.276	4.482.982
Listed bonds, nonindexed int. 7,91%	3.000.000	3.000.000
Non-indexed bonds, int. 5,30% - 5,90% / 7,40 - 8,40%	913.810	717.000
Borrowing cost	(182.381)	(197.454)
Total interest-bearing liabilities	<u>28.994.678</u>	<u>32.550.277</u>
Current maturities	(387.590)	(490.378)
Long-term liabilities at the end of the year	<u>28.607.088</u>	<u>32.059.899</u>
Interest-bearing short-term liabilities		
Non-indexed bank loans, int. 6,55% / 7,60%	0	779.611
Current maturities of interest-bearing long-term liabilities	<u>387.590</u>	<u>490.378</u>
Total interest-bearing short-term liabilities	<u>387.590</u>	<u>2.844.559</u>

20. Repayments of interest-bearing long-term liabilities

Repayments of interest-bearing long-term liabilities over the next years are specified as follows:

Within 12 months	387.590	490.378
From 12 - 24 months	3.093.221	504.385
From 24 - 36 months	897.302	519.010
From 36 - 48 months	3.441.148	533.744
From 48 - 60 months	811.821	3.548.391
From 60 - 72 months	450.203	1.441.175
Later	19.913.393	26.884.947
Total interest-bearing long-term liabilities, including current maturities	<u>28.994.678</u>	<u>33.922.030</u>

At year end 2019 the Group fulfills all obligations in the loan agreements.

21. Trade receivables from lease agreements

Trade receivables from lease agreements are specified as follows:

	31.12.2019
At the beginning of the year	796.191
Indexation adjustment	2.493
Changes due to properties sold	(66.493)
Interest expenses of the year	37.595
Repayments of the year	(52.247)
At the end of the year	<u>717.539</u>
Total repayments of the year	<u>52.247</u>

Notes, contd.:

22. Deferred income tax liability

Deferred income tax liability is specified as follows:

	31.12.2019	31.12.2018
Deferred income tax liability at the beginning of the year	2.596.437	2.584.861
Income tax	339.268	12.084
Income tax of the year	0	(508)
Deferred tax liability at the end of the year	<u>2.935.705</u>	<u>2.596.437</u>
Deferred income tax liability is specified as follows;		
Investment properties	3.406.275	3.213.401
Transferable tax losses - reserve	75.071	87.944
Transferable tax losses	(543.587)	(704.377)
Other items	(2.054)	(531)
Deferred tax liability at the end of the year	<u>2.935.705</u>	<u>2.596.437</u>

Carry forward tax losses at year-end 2019 amount to ISK 2.718 million (2018: ISK 3.522 million). Carry forward losses not used to offset taxable income within ten years expire. Carry forward tax losses can be used as follows:

Loss of the year 2009, to be used before end of 2019	35.485	35.485
Loss of the year 2010, to be used before end of 2020	41.074	137.036
Loss of the year 2011, to be used before end of 2021	52.070	285.343
Loss of the year 2012, to be used before end of 2022	53.904	631.981
Loss of the year 2013, to be used before end of 2023	216.197	472.692
Loss of the year 2014, to be used before end of 2024	13.312	13.443
Loss of the year 2015, to be used before end of 2025	287.084	349.422
Loss of the year 2016, to be used before end of 2026	429.599	571.662
Loss of the year 2017, to be used before end of 2027	360.090	394.002
Loss of the year 2018, to be used before end of 2028	564.835	630.820
Loss of the year 2019, to be used before end of 2029	664.501	0
Total carry-forward tax loss	<u>2.718.151</u>	<u>3.521.886</u>

The Group's management expects, based on business plans, refinancing and organizing of the Group, that there will be sufficient taxable profit in the future to cover the carry-forward tax losses. To be prudent a reserve of ISK 375 million has been made.

23. Trade and other payables

Trade and other payables are specified as follows:

	31.12.2019	31.12.2018
Trade payables	81.057	78.885
Accrued interest	457.072	265.175
Guarantees and prepaid rent	315.951	367.483
Income tax of the year	0	508
Other payables	397.613	20.273
Trade and other payables, total	<u>1.251.693</u>	<u>732.324</u>

24. Financial risk management

(i) Goal

The objective of risk management is to identify and analyse risks, to set risk limits and to control them.

(ii) Structure

The Board of Directors are responsible for implementing and monitoring the Group's risk management. The Board of Directors has assigned control of daily risk management to the CEO of the Company.

(iii) Types of risk

The Group has exposure to the following risks arising from its financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

25. Credit risk

(i) Definition

Credit risk is the risk that the Group will incur a financial loss if a customer or a counterparty to a financial instrument fails to discharge their contractual obligations or that customers' guarantees will not suffice to meet their obligations. Credit risk arises mainly from trade receivables and cash and cash equivalents. Customers provide letters of credit for insurance purposes or make an advance payment equal to 3 months lease payments.

Notes, contd.:

25. Credit risk, contd.:

(ii) Risk factors and management

The Group's exposure to credit risk is influenced mainly by the financial position and operations of each customer. If customers do not discharge their obligations the agreements are terminated or further guarantees requested. In order to guarantee the Group's trade receivables customers must provide a letter of credit or an advance payment up to three months. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The write off amounted to ISK 3,2 million at year end 2019 (2018: 2,8 million).

The maximum exposure to credit risk for trade and other receivables by type of counterparty is as follows:

	31.12.2019	31.12.2018
Trade receivables	15.725	24.007
Other receivables	1.840.653	1.201.513
Cash and cash equivalents	1.740.164	1.171.714
	<u>3.596.542</u>	<u>2.397.234</u>

Maturities of trade receivables at 31. December 2019:

	1 - 30 d.	31 - 60 d.	61 - 90 d.	Older than 91 d.	Write off	Carrying amount
Trade receivables	8.947	3.610	609	5.804	(3.245)	15.725
	<u>8.947</u>	<u>3.610</u>	<u>609</u>	<u>5.804</u>	<u>(3.245)</u>	<u>15.725</u>

Maturities of trade receivables at 31. December 2018:

	1 - 30 d.	31 - 60 d.	61 - 90 d.	Older than 91 d.	Write off	Carrying amount
Trade receivables	15.691	2.938	2.858	5.493	(2.780)	24.007
	<u>15.691</u>	<u>2.938</u>	<u>2.858</u>	<u>5.493</u>	<u>(2.780)</u>	<u>24.007</u>

Trade receivables are specified as follows:

	31.12.2019	31.12.2018
Trade receivables at the beginning of the year	2.780	14.363
Allowance for bad debt	(11.275)	(8.131)
Trade receivables write off during the period, increase	11.740	(3.452)
Trade receivables write off at end of the year	<u>3.245</u>	<u>2.780</u>

26. Liquidity risk

(i) Definition

Liquidity risk is the risk that the Group will not be able to meet its financial obligations, which will be settled in cash or other assets, as they accrue.

(ii) Risk factors and management

The Group monitors its liquidity by analysing the maturity of financial assets and financial liabilities in order to be able to repay all debt at maturity and employs working methods which ensure that there is sufficient liquidity to meet foreseeable and unforeseen payment obligations.

The Group's liquidity risk is in refinancing. The Group's policy is to have a stable repayment period and stable cash flow and minimize liquidity risk.

The Group monitors its liquidity by analysing the maturity of financial assets and financial liabilities in order to be able to repay all debt at maturity and employs working methods which ensure that there is sufficient liquidity to meet foreseeable and unforeseen payment obligations. To further reduce refinancing risk the Group's policy is to diversify its financial liabilities. The Group issued bonds which are listed in the NASDAQ Iceland stock exchange. At year end 48% (2018: 78%) of the Group's interest-bearing liabilities were loans from financial institutions and 52% bonds owned by investors (2018: 22 %).

At year end 2019 all of the Group's liabilities were paid up to date.

Contractual maturities of financial liabilities, including expected interest payments, are specified as follows:

2019	Carrying amount	Contractual cash flows	Within 1 year	1 - 2 years	2 - 5 years	More than 5 years
Financial liabilities						
Interest-bearing liabilities	28.994.678	28.994.671	387.590	3.093.220	5.600.472	19.913.389
Lease payables	717.539	2.640.000	52.800	52.800	211.200	2.323.200
Trade payables	1.251.693	1.251.693	1.251.693	0	0	0
	<u>30.963.910</u>	<u>32.886.364</u>	<u>1.692.083</u>	<u>3.146.020</u>	<u>5.811.672</u>	<u>22.236.589</u>
2018						
Financial liabilities						
Interest-bearing liabilities	34.701.641	66.005.321	2.520.127	2.071.324	9.932.458	51.481.410
Trade payables	732.324	732.324	732.324	0	0	0
	<u>35.433.965</u>	<u>66.737.645</u>	<u>3.252.451</u>	<u>2.071.324</u>	<u>9.932.458</u>	<u>51.481.410</u>

Notes, contd.:

27. Market risk

Definition

Market risk emerges from changes in market prices, such as foreign exchange rates and interest rates, as those changes will affect the Group's cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group's borrowings are in Icelandic krona and mainly with fixed interest rates. The Group's interest rate risk is monitored taking into account the effect of interest rate changes on the Group's operations. Interest rate risks are specified as follows:

	Carrying amount	
	2019	2018
Financial assets with floating interest rates	1.740.164	1.171.714
Financial liabilities with floating interest rates	(913.810)	(1.496.611)
	<u>826.354</u>	<u>(324.897)</u>

Sensitivity analysis of the cash flow of financial instruments with floating interest rates

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) the profit before income tax by ISK 8,3 million (2018: ISK 3,3 million). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for the year 2018. The Group's financial liabilities are otherwise indexed with fixed interest rates and are not presented at fair value through profit or loss.

Inflation risk

Interest-bearing liabilities in the amount of ISK 22.701 million (2018: ISK 30.402 million) are indexed to the consumer price index. An increase (decrease) in inflation of 1% at year end 2019, and other variables unaffected, would have increased (decreased) the Company's profit before income tax in the amount of ISK 227 million (2018: ISK 304 million). This analysis assumes that all other variables remain constant.

Fair value

Comparison of fair value and carrying amounts

The fair value and carrying amounts of financial assets and liabilities are specified as follows:

	11.7.1905		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest-bearing liabilities	<u>28.994.678</u>	<u>29.670.197</u>	<u>34.701.641</u>	<u>34.955.661</u>

The fair value of the Group's interest-bearing liabilities is based on discounted cash flow and the Group's interest rate at year end 2019.

28. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of factors in the Group's operations, the work of the Group's personnel, technology and organization, and from external factors other than credit, market and liquidity risks, such as changes in laws and general attitude towards corporate governance. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk efficiently in order to avoid financial losses and to protect the Group's reputation. To reduce operational risk, among other things, an appropriate segregation of duties has been implemented, transactions are controlled as well as compliance with laws, regular assessment of risk is performed, employees are trained, procedures are organised and documented, and insurance is purchased when applicable.

29. Related parties

Related parties are defined as those who have control of 20% or more of the Group's shares, subsidiaries, members of the Board of Directors, management and companies controlled by the Group's management and members of the Board of Directors.

Notes, contd.:

29. Related parties, contd.:

Salaries, benefits and pension contributions paid to the board and management of the Company in the year specify as follows:

	2019		2018	
	Salaries and benefits	Pension contribution	Salaries and benefits	Pension contribution
Erlendur Magnússon, Chairman of the Board	6.120	827	3.367	449
Magnús Magnússon, former Chairman of the Board	0	0	2.633	263
Anna Þórðardóttir, board member	1.459	167	4.812	523
Arthur Leigh Irwing, board member	847	98	2.357	267
Ari Edwald, former board member	0	0	1.843	184
Árni Jón Pálsson, board member	3.437	462	0	0
Halldór Kristjánsson, board member	4.284	492	4.210	458
Hildur Árnadóttir, board member	5.202	598	5.113	556
Rannveig Eir Einarsdóttir, board member	3.437	462	0	0
Guðbrandur Sigurðsson, former CEO	35.602	6.157	35.049	5.722
Arnar Gauti Reynisson, CEO	25.973	4.267	0	0
	86.361	13.530	59.384	8.422

30. Shares in subsidiaries

The Group possesses six subsidiaries at year-end 2019, Heimavellir VIII ehf. and Heimavellir XIII ehf. merged with the subsidiary Heimavellir III at the beginning of 2019 and the subsidiary Heimavellir I ehf., Heimavellir VII ehf., Heimavellir IX ehf., Heimavellir X ehf., Heimavellir XI ehf., Heimavellir XIV ehf., Heimavellir XVI ehf., Heimavellir XVII ehf., Heimavellir XVIII ehf. and Heimavellir XIX ehf. merged with the subsidiary Heimavellir VI ehf. at the same time. The subsidiaries are specified as follows:

	Share 2019	Share 2018
Heimavellir I ehf., Reykjavík	-	100%
Heimavellir III ehf., Reykjavík	100%	100%
Heimavellir VI ehf., Reykjavík	100%	100%
Heimavellir VII ehf., Reykjavík	-	100%
Heimavellir VIII ehf., Reykjav.	-	100%
Heimavellir IX ehf., Reykjavík	-	100%
Heimavellir X ehf., Reykjavík	-	100%
Heimavellir XI ehf., Reykjavík	-	100%
Heimavellir XIII ehf., Reykjavík	-	100%
Heimavellir XIV ehf., Reykjavík	-	100%
Heimavellir XV ehf., Reykjavík	-	100%
Heimavellir XVI ehf., Reykjavík	-	100%
Heimavellir XVII ehf., Reykjavík	-	100%
Heimavellir XVIII ehf., Reykjavík	-	100%
Heimavellir XIX ehf., Reykjavík	-	100%
Heimavellir XX ehf., Reykjavík	100%	100%
HV 900 ehf., Reykjavík	100%	100%
BP 14 - 16 ehf., Reykjavík	100%	-
Heimavellir rekstur ehf., Reykjavík	100%	100%

31. Auditor's fee

The Group's Audit fee for 2019 amounted to ISK 14,4 million, VAT excl. (2018: ISK20.1 million) thereof ISK 9,1 million (2018: ISK 10 million) for the financial statements audit and Auditor's review on interim financial statements.

32. Obligations

The group has committed to purchase agreements for 91 apartments that are under construction. The total purchase price is ISK 4.234 million of which ISK 370 million have been paid.

The group has committed to lease agreements for the properties Lágmúli 6, Ásbrú and Norðingabraut 4, Reykjavík. The leases are linked to the consumer price index and amount to ISK 1,1 million monthly. The total lease liability amounts to ISK 22,9 million at year end.

Quarterly, unaudited

Quarterly

The quarterly statement of the Group is unaudited and specifies as follows:

	4Q 2019	3Q 2019	2Q 2019	1Q 2019	Total
Rental revenue	804.708	818.821	851.003	897.707	3.372.239
Operating expenses of investment properties	(217.492)	(224.651)	(274.182)	(234.669)	(950.994)
Net rental income	<u>587.216</u>	<u>594.170</u>	<u>576.821</u>	<u>663.038</u>	<u>2.421.245</u>
Other income	2.358	2.932	0	0	5.290
Other operating expenses	(82.199)	(83.491)	(85.409)	(124.026)	(375.125)
Operating profit before fair value adjustment.....	507.375	513.611	491.412	539.012	2.051.410
Profit from sale of investment properties	136.873	84.862	57.968	132.587	412.290
Fair value adjustment of investment properties	<u>948.990</u>	<u>671.072</u>	<u>41.286</u>	<u>33.789</u>	<u>1.695.137</u>
Operating profit before finance income and finance expenses.....	1.593.237	1.269.545	590.666	705.388	4.158.837
Finance income	11.525	8.015	10.439	14.465	44.444
Finance expenses	(612.272)	(573.374)	(714.063)	(603.328)	(2.503.037)
Net finance expenses	<u>(600.747)</u>	<u>(565.359)</u>	<u>(703.624)</u>	<u>(588.863)</u>	<u>(2.458.593)</u>
Profit(loss) before income tax	992.490	704.186	(112.958)	116.525	1.700.244
Income tax	(197.635)	(140.919)	22.592	(23.305)	(339.268)
Profit(loss) and comprehensive profit(loss) for the year.....	<u>794.855</u>	<u>563.267</u>	<u>(90.366)</u>	<u>93.220</u>	<u>1.360.976</u>