Heimavellir hf.

Consolidated Financial Statements
2018

*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 18 subsidiaries.

Operations and Financial Position

Profit for the year 2018 amounted to ISK 48 million (2017: ISK 2,717 million). Total equity at year end 2018 amounted to ISK 18,796 million (Year end 2017: ISK 17,587 million).

Rental revenue in 2018 amounted to ISK 3,686 million wich is an increase of ISK 590 million or 19%, from the previous year. The re-organisation of the apartment portfolio was considereable. The company sold 209 under-performing rental apartments for ISK 6,167 million and bought new apartments which are giving the company a better return. The total number of apartments at the beginning of 2018 was 1,968 units and was reduced by 4% to 1,892 units at year end. The net sales profit of the asset sales amounted to ISK 496 million in 2018 or 8%.
The operations improved throughout the year. The EBIT ratio for the first half of 2018 was 57.6% compared to 64.4% for the second half. The estimate for 2019 is planning a further reduction in the number of apartments to about 1,600 units at year end. The rental revenue is expected to be ISK 3,590 million and the EBIT ratio is expected to be 63.5-64.8%.
Fair value adustment in 2018 amounted to ISK 112 millions in comparison to ISK 3,688 million in 2017. The main reason for this big change is that in 2017 the company took delivery of about 330 new apartments which had been bought at a favourable price as well as enjoying favourable rental prices. This year the fair value adjustment is affected greatly by the public appraisal or the real estate which increased dramatically in 2018. This means the company is experiencing a sudden cost ratio spike which will level out over the next two years.
Net finance expences amounted to ISK 2,797 million in 2018 compared to ISK 1,952 million in the previous year. The biggest change between years is the amount of the consumer price indexation charges which amounted to ISK 863 million in 2018 but inflation in 2018 amounted to 3.3% (2017: 1.7%). The company issued listed bonds last year in the amount of ISK 3.2 billion have an average 3.53% interest rate.

Heimavellir hf.'s shares were formally admitted to Nasdaq Iceland trading on the 24th of May, 2018. The shares of the Company at the beginning of the year amounted to ISK 10,282 million. In the year 2018 new shares were issued in the nominal amount of ISK 969 million. Shares at year end amount to ISK 11,251 million. Total number of shareholders are 584 at year end but were two at the beginning of the year. The ten major shareholders at year end owning 56.6% of the shares are:

	Share
Stálskip ehf.	8.60%
Snæból ehf.	7.50%
Gani ehf.	7.50%
Landsbankinn hf.	7.30%
Birta lífeyrissjóður	5.60%
Sjóvá - Almennar tryggingar hf.	4.80%
Vátryggingafélag Íslands hf.	3.90%
Klasi ehf.	3.90%
M75 ehf	3.80%
Kvika Banki hf.	3.70%

The board of Heimavellir has decided to refer the proposition of three shareholders concerning the removal of the Company's shares from trading on the NASDAQ Iceland stock exchange to be discussed at the annual general meeting of the Company. There has also been an indication of a voluntary bid for a total of ISK 1,953 million shares of the Company's share capital at a price of ISK 1.30 per share up to a total value of ISK 2.5 billion. This offer is made on the condition that shareheolders of the Company will vote for the delisting of the Company from the NASDAQ Iceland stock market.

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

There is no authorization to pay dividend to shareholders in 2019. Reference is made to the financial statements for further information on allocation of profit and other changes in equity.

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 in 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 2018, its assets, liabilities and financial position as at December 31st, 2018 and its consolidated cash flows for 2018.

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 2018 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 14, 2019.

Board of directors:

Erlendur Magnússon
Anna Þórðardóttir
Arthur Irving
Halldór Kristjánsson
Hildur Árnadóttir

CEO:
Guðbrandur Sigurðsson

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, 2018, 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, 2018, 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
Investment properties amounted at year end 2018 to ISK 53,142 million. The value adjusment of investment properties amounted to ISK 112 million. Investment properties are disclosed at fair value and are all classified as level 3 in the fair value hierarchy. The fair value assessment is based on discounted cash flows of individual assets, and is further disclosed in note no. 11. 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 94% 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.	Our audit included the following procedures: The audit team reviewed the methods management used in determing fair value of investment properties. 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. 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. We reviewed samples of the Company´s calculations to ensure they were correct. We reviewed the notes and disclosures in the consolidated interim financial statements to ensure that all required information and disclosures by laws are disclosed In our audit on the fair value determination we received help from KPMG´s valuation experts.

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.

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.

Reykjavík, February 14, 2019.

KPMG ehf.

Matthías Þór Óskarsson

Consolidated Statement of Comprehensive Income for the Year 2018

	Not.	2018	2017
Rental revenue	5	3,685,788	3,096,038
Operating expenses of investment properties	6	(1,015,929)	(1,000,343)
Net rental income		2,669,859	2,095,695
Other operating expenses	8	(419,992)	(473,321)
Operating profit before fair value adjustment		2,249,867	1,622,374
Profit from sale of investment properties		496,020	156,565
Fair value adjustment of investment properties	11	111,918	3,688,470
Operating profit before finance income and finance expenses		2,857,805	5,467,409
Finance income		11,169	16,992
Finance expenses		(2,809,076)	(1,958,587)
Net finance expenses	9	(2,797,907)	(1,941,595)
Profit before income tax		59,898	3,525,814
Income tax	10	(12,084)	(809,416)
Profit and comprehensive profit for the year		47,814	2,716,398
Profit per share			
Basic and diluted profit per share	17	0.004	0.279

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

Heimavellir hf. Consolidated financial statements year 2018 8 Amounts are in ISK thousand

Consolidated Statement of Financial Positon as on 31 December 2018

	Not.	31.12.2018	31.12.2017
Assets			
Investment properties	11	53,142,221	53,618,702
Investment properties under construction	13	1,232,941	1,844,470
Fixed assets	14	33,442	45,105
Long term bonds		20,848	3,970
Non-current assets		54,429,452	55,512,247
Trade receivables	23	24,007	25,986
Other receivables	15	1,201,513	296,389
Cash and cash equivalents		1,171,714	155,932
Current assets		2,397,234	478,307
Total assets		56,826,686	55,990,554
Equity			
Share capital		11,251,398	10,282,420
Share premium		1,155,558	1,470,265
Statutory reserve		6,324	6,324
Restricted share reserve		6,383,004	6,387,304
Total equity	16	18,796,284	17,587,421
Non-current liabilities			
Deferred income-tax liability	20	2,596,437	2,584,861
Loans and borrowings	18	33,431,652	32,093,051
Non-current liabilities		36,028,089	34,677,912
Current liabilities			
Loans and borrowings	18.2	1,269,989	2,844,559
Liabilities due to related parties	27	0	149,994
Trade and other payables	21	732,324	730,668
Current liabilities		2,002,313	3,725,221
Total liabilities		38,030,402	38,403,133
Total equity and liabilities		56,826,686	55,990,554

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

Heimavellir hf. Consolidated financial statements year 2018 9 Amounts are in ISK thousand

Consolidated Statement of Changes in Equity for the year 2018

	Share capital	Share premium	Statutory reserve	Restricted share reserve	Retained earnings	Total
Year 2017						
Equity as on 1. January 2017	9,341,090	0	6,324	2,446,380	(172,771)	11,621,023
Profit and total comprehensive income					2,716,398	2,716,398
Reserved equity				3,382,032	(3,382,032)	0
Share premium transfered		(838,405)			838,405	0
Transactions related to the shareholders of the Company:						
Increased capital	941,330	2,308,670				3,250,000
Equity as on 31. December 2017	10,282,420	1,470,265	6,324	5,828,412	0	17,587,421
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				554,592	(554,592)	0
Share premium transfered		(506,778)			506,778	0
Transactions related to the shareholders of the Company:						
Increased capital	968,978	192,071				1,161,049
Equity as on 31. December 2018	11,251,398	1,155,558	6,324	6,383,004	0	18,796,284

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

Heimavellir hf. Consolidated financial statements year 2018 10 All amounts are in ISK thousand

Consolidated Statement of Cash Flows for the Year 2018

	Not.	2018	2017
Cash flows from operating activities			
Profit for the year		47,814	2,716,398
Adjusted for:			
Value adjustment of investment properties	11	(111,918)	(3,688,470)
Profit from sale of investment properties	11	(496,020)	(156,565)
Depreciation	14	18,865	15,953
Net finance expenses		2,797,907	1,941,595
Income tax		12,084	809,416
		2,268,732	1,638,327
Change in operating assets and liabilities:			
Current assets, decrease (increase)		62,804	65,534
Current liabilities, (decrease)		1,148	(25,149)
		63,952	40,385
Net cash provided by operating activities before financial income and expenses		2,332,684	1,678,712
Interest income received		11,169	16,992
Interest expenses paid		(1,946,169)	(1,514,672)
Net cash provided by (used in) operating activities		397,684	181,032
Cash flows from investing activities			
Investment in investment properties	11	(758,281)	(8,054,686)
Investment in investment properties under construction	13	(3,633,991)	(313,328)
Sales price of investment properties	11	5,122,271	1,743,572
Investment in fixed assets	14	(7,802)	(27,973)
Sales price of fixed assets	14	600	2,409
Investment in subsidiaries		0	(238,593)
Long term bonds, change		(16,878)	672
Net cash used in investing activities		705,919	(6,887,927)
Cash flows from financing activities			
Increased capital	16	1,161,049	0
New long-term borrowings	18	11,689,075	9,470,521
Repayments and settlements of interest bearing liabilities	18	(11,180,228)	(3,444,828)
Interest bearing short-term liabilities, change	18	(1,607,723)	356,608
Related companies, change	27	(149,994)	275,047
Net cash provided by financing activities		(87,821)	6,657,348
Change in cash and cash equivalents		1,015,782	(49,547)
Cash and cash equivalents at the beginning of the year		155,932	201,907
Consolidated assets overtaken		0	3,572
Cash and cash equivalents at the end of the year		1,171,714	155,932
Investing and financing activities not affecting cash flows			
Investment in investment properties, under construction		0	(1,218,002)
Investment in investment properties		0	(43,128)
Unpaid purchase price of investment properties		0	43,128
Sales price of investment properties	11	965,949	212,606
Unpaid sales price of investment properties	15	(965,949)	(212,606)
Share capital increase		0	3,250,000
Related party liabilities		0	(1,728,564)
Subsidiary investment		0	(303,434)
		0	0

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

All amounts are in ISK thousand

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 2018 comprise of the financial statements of the Company and it's subsidiaries; Heimavellir I ehf., Heimavellir III ehf., Heimavellir VI ehf., Heimavellir VII ehf., Heimavellir VIII ehf., Heimavellir IX ehf., Heimavellir X ehf.,Heimavellir XI ehf., Heimavellir XIII ehf., Heimavellir XIV ehf., Heimavellir XV ehf., Heimavellir XVI ehf., Heimavellir XVII ehf., Heimavellir XVIII ehf., Heimavellir XIX ehf. Heimavellir XX 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 14 February 2019.

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 15 and 9, 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.

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) Depreciaton

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 amortised 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.

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.

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 initially applied IFRS 15, effective from 1 January 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has initially applied IFRS 9 effective from 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The

new impairment model applies to financial assets measured at amortised cost, contract assets and

debt investments at FVOCI, but not to investments in equity instruments. IFRS 9 did not have a significant impact on the Group.

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change.

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.

(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 is estimated to amount ISK 778 million on 1 January 2019 and the right of use asset the same amount. The adoption of IFRS 16 will not have impact on bookvalue of equity and is not considered to have impact on loan terms. The adoption is not considered to affect the financial covenants of loan agreements.

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.

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 catagorized 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 with lessees have an average lease term between 1 and 3 years as well as some lease contracts that are indefinite with a 6 month term of notice. The contracts are linked to the consumer price index and indexed monthly. The average lease period of temporary lease contracts is 15 months (2017: 10 months). Temporary leases comprise 78% of all lease contracts and 22% are indefinate at year end 2018 (2017: 78% and 22%).

5. **Lease contracts cont.**

The Groups rental income specifies as follows:

	2018	2017
Capital area	42.60%	30.80%
East Iceland	2.80%	4.15%
North Iceland	8.20%	10.80%
South Iceland	5.00%	6.40%
Southern Peninsula	36.10%	41.10%
West Iceland	5.30%	6.75%
	100.0%	100.0%

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 2018 amounted to 151 million kr. (2017: 135 million kr.) Properties usage% amounts to 96.1% (2017: 95.8%)

6. **Operating expenses of investment properties**

Operating expenses of investment properties are specified as follows:

	2018	2017
Property tax,water and sewage fees and rent of land	377,178	295,192
Maintenance and operating expenses of investment properties	176,464	202,794
Insurance	61,343	47,039
Salaries and related expenses	81,388	79,945
Energy and heating	136,829	140,501
Common property fees	68,787	71,756
Service rendered	86,936	110,204
Other operating expenses	27,004	52,912
	1,015,929	1,000,343

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

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7. Salaries and related expenses

Salaries and related expenses are specified as follows:

Salaries	224,048	199,080
Pension contributions	31,858	23,569
Other salary-related expenses	44,998	38,615
Total salaries and related expenses	300,904	261,264

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

Operating expenses of investment properties	81,388	79,945
Other operating cost	219,516	181,319
Total salaries and related expenses	300,904	261,264
Average number of employees	17	19

8. Other operating expenses

Other operating expenses are specified as follows:

Salaries and related expenses	219,516	181,319
Depreciation	18,865	15,953
Accounts payable, losses	8,131	52,785
Other operating expenses	173,480	223,264
	419,992	473,321

9. Finance income and (expenses)

Finance income and expenses are specified as follows:

Interest income of cash and cash equivalents	6,489	12,193
Interest income of trade receivables	4,680	4,799
	11,169	16,992
Interest expenses	2,791,618	1,872,265
Other financial expenses	17,458	86,322
	2,809,076	1,958,587

10. Income tax

Income tax is specified as follows:

		2018		2017
Profit for the year		59,898		3,525,814
Income tax according to current tax rate	20.0%	(11,980)	20.0%	(705,163)
Deferred tax asset, change	0.0%	0	(3.6%)	(127,054)
Other factors	0.2%	(104)	(0.6%)	22,801
Effective income tax	20.2%	(12,084)	15.7%	(809,416)

11. Investment properties

Investment properties are specified as follows:

	31.12.2018	31.12.2017
Investment properties at 1.1	53,618,702	40,704,471
Transferred to the Group	0	1,014,860
Additions during the year	758,281	8,097,814
Transferred from investment properties under construction	4,245,520	1,912,700
Sold during the year	(6,088,220)	(1,956,178)
Profit from sale of investment properties	496,020	156,565
Fair value adjustment for the year	111,918	3,688,470
Investment properties at 31.12	53,142,221	53,618,702
Purchase price of investment properties	45,571,498	46,411,971
Fair value adjustments	7,570,723	7,206,731
Investment properties at 31.12	53,142,221	53,618,702

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11. Investment properties, contd.:

Investment properties are specified as follows:

Capital area	25,833,522	22,514,911
East Iceland	1,078,696	1,767,264
North Iceland	4,429,015	4,963,454
South Iceland	2,282,757	2,493,071
Southern Peninsula	17,158,146	19,138,599
Westfjords	124,812	166,149
West Iceland	2,235,273	2,575,254
Investment properties at 31.12	53,142,221	53,618,702

Official assessment value and assessed value for fire insurance

Official real estate value of investment properties of the Group amounted to ISK 55,015 million at the year end (2017: 48,653 million) there of is the premise ISK4,996 million (2017: ISK 3,943 million). The insurance value of these assets amounted to ISK 56,826 million (2017: ISK 55,451 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 2018 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% (2017: 4.15% - 4.2%). Return on equity is estimated 9.17% - 13.17% using the real interest rate 9.17% - 13.17% (2017: 10-14%) and 35% equity ratio (2017: 25%). Weighted average cost of capital without tax (WACC) was 5.55%-7.34% and differs from location of assets (2017: 5.61-6.65%). Utilization rate is estimated 90 - 97% and differs from location of assets.

Key assumptions in the value model are:

	2018	2017
Projected rental income per square meter per month	980 - 5,000	1,008 - 5,625
Estimated average rental per square meter per month	2,102	2,058
Weighted average cost of capital (WACC)	5.55%-7.34%	5.61%-6.65%
Weighted average	5.8%	6.0%

Sensitivity analysis

		Effect on fair value 2018		**Effect on fair value 2017**	
	Change	Increase	Decrease	Increase	Decrease
Market rent	+/- 5%	3,999,677	(3,999,677)	3,889,783	(3,886,271)
WACC	-/+ ½%	5,254,062	(4,382,358)	5,210,033	(4,369,218)

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 112 million for the year 2018 as compared to ISK 3,688 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.

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12. Pledges and guarantees

At year end 2018 the Groups investment properties in the carrying amount of ISK 53,142 million, were pledged as guarantees for debt amounting to ISK 34,702 million.

13. Invesmtent properties under construction

The Group has entered into contracts to buy 200 apartments that are under construction at year end 2018.The total purchase price amounts to ISK 8,752 million and will be financed with sale of assets and new long-term debt. According to the Group's plans the construction will be completed in the year 2019. At year end 2018 the Group has paid ISK 1,233 million into the contracts that are disclosed as investment properties under construction among non-current assets.

	31.12.2018	31.12.2017
Investment under construction at the beginning of the year	1,844,470	2,225,839
Investment during the year	3,633,991	1,531,331
Transferred to investment properties	(4,245,520)	(1,912,700)
Investment under construction at the end of the year	1,232,941	1,844,470

14. Properties and equipment

Properties and equipment are specified as follows:

	Vehicles	Equipment	Total
Cost			
Balance at 31.12.2016	35,278	19,394	54,672
Transfered to the Group	12,280	15,693	27,973
Additions during the year	(3,500)	0	(3,500)
Balance at 31.12.2017	44,058	35,087	79,145
Additions during the year	0	7,801	7,801
Sold during the year	(1,054)	0	(1,054)
Balance at 31.12.2018	43,004	42,888	85,892

	Vehicles	Equipment	Total
Depreciation			
Total depriciation 31.12.2016	(14,197)	(4,981)	(19,178)
Transfered to the Group	1,091	0	1,091
Depreciated during the year	(7,419)	(8,534)	(15,953)
Total depriciation 31.12.2017	(20,525)	(13,515)	(34,040)
Depreciated during the year	(6,920)	(11,716)	(18,636)
Sold during the year	226	0	226
Total depriciation 31.12.2018	(27,219)	(25,231)	(52,450)
Carrying amount at 31.12.2017	23,533	21,572	45,105
Carrying amount at 31.12.2018	15,785	17,657	33,442
Depreciation %	20%	15-33%	

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

15. Other receivables

Other receivables specified as follows:

	31.12.2018	31.12.2017
Unpaid selling price of investment properties	1,094,247	128,298
Short-term bonds	42,135	85,579
Prepaid expenses	58,358	75,879
Other short term receivables	6,773	2,664
	1,201,513	292,420

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16. Equity

Share capital

The Company's share capital according to its Articles of Association amounted to ISK 11,251 million at year end 2018. 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 it's subsidiaries are not mandated to follow external regulations of minimum equity ratio.

17. Earnings per share

Earnings per share is specified as follows:

	2018	2017
Profit and comprehensive profit for the year	47,814	2,716,398
Share capital at the beginning of the year	10,282,420	9,341,090
Effect of paid-in share capital	645,985	394,737
Weighted average number of shares during the year	10,928,405	9,735,827
Basic and diluted earnings per share	0.004	0.279

18. Interest bearing liabilities

Interest bearing long term liabilities are specified as follows during the year:

	31.12.2018	31.12.2017
Long term liabilities at the beginning of the year	32,550,277	25,519,752
Long term borrowing	11,689,075	9,470,521
Long term borrowing without cash effects, including transfers to the Group	0	560,917
Indexation of the year	862,905	443,915
Payments of the year	(11,180,228)	(3,444,828)
Long term liabilities at the end of the year	33,922,029	32,550,277

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18. Interest bearing liabilities, contd.:

	31.12.2018	31.12.2017
Interest bearing short term liabilities are specified as follows during the year:		
Short term borrowing at the beginning of the year	2,387,334	1,963,054
Short term borrowing	1,215,419	2,165,092
Payments of the year	(2,823,142)	(1,740,812)
Short term liabilityes at the end of the year	779,611	2,387,334
Long term liabilities		
Bank loans in ISK, indexed int. 3,90% - 4,95% / 3,90% - 5,10%	25,919,502	29,881,236
Listed bonds, indexed int. 3,90% / 3,90%	4,482,982	1,284,380
Listed bonds, nonindexed int. 7,96%	3,000,000	0
Non indexed bonds, int. 6,40% - 6,90% / 7,40 - 8,40%	717,000	1,525,731
Borrowing cost	(197,454)	(141,070)
Total interest bearing liabilities	33,922,030	32,550,277
Current maturities	(490,378) ,	(457,225)
Long term liabilities at the end of the year	33,431,652	32,093,051
Interest bearing short-term liabilities		
Non indexed bank loans, int. 6,70% - 8,35%	779,611	2,387,334
Current maturities of interest bearing long-term liabilities	490,378	457,225
Total interest bearing short-term liabilities	1,269,989	2,844,559

19. 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	490,378	457,225
From 12 - 24 months	504,385	514,217
From 24 - 36 months	519,010	456,998
From 36 - 48 months	533,744	456,998
From 48 - 60 months	3,548,391	1,366,164
From 60 - 72 months	1,441,175	432,390
Later	26,884,947	28,866,285
Total interest bearing long-term liabilities, including current maturities	33,922,030	32,550,277

At year end 2018 the Group fulfills all obligations in the loan agreements.

20. Deferred income tax liability

Deferred income tax liability is specified as follows:

	31.12.2018	31.12.2017
Deferred income tax liability at the beginning of the year	2,584,861	1,655,469
Transferred to the Group	0	119,976
Income tax	12,084	809,416
Income tax of the year	(508)	0
Deferred tax liability at the end of the year	2,596,437	2,584,861
Deferred income tax liability is specified as follows;		
Investment properties	3,213,401	3,715,300
Transferable tax losses	(616,433)	(1,134,668)
Other items	(531)	4,229
Deferred tax liability at the end of the year	2,596,437	2,584,861

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20. Deferred income tax liability, contd.:

Carry forward tax losses at year-end 2018 amount to ISK 3.522 million (2017: ISK 6.124 million). Carry forward losses not used to offset taxable income within ten years expire. Carry forward tax losses can be used as follows:

	31.12.2018	31.12.2017
Loss of the year 2008, to be used before end of 2018	0	207,270
Loss of the year 2009, to be used before end of 2019	35,485	72,540
Loss of the year 2010, to be used before end of 2020	137,036	170,604
Loss of the year 2011, to be used before end of 2021	285,343	279,558
Loss of the year 2012, to be used before end of 2022	631,981	1,325,795
Loss of the year 2013, to be used before end of 2023	472,692	1,788,953
Loss of the year 2014, to be used before end of 2024	13,443	330,425
Loss of the year 2015, to be used before end of 2025	349,422	545,669
Loss of the year 2016, to be used before end of 2026	571,662	785,030
Loss of the year 2017, to be used before end of 2027	394,002	617,911
Loss of the year 2018, to be used before end of 2028	630,820	0
Total carry-forward tax loss	3,521,886	6,123,755

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 440 million has been made.

21. Trade and other payables

Trade and other payables are specified as follows:

	31.12.2018	31.12.2017
Trade payables	78,885	179,372
Accrued interest	265,175	203,107
Guarantee and prepaid rent	367,483	309,346
Income tax of the year	508	0
Other payables	20,273	38,543
Trade and other payables, total	732,324	730,368

22. Financial risk management

(i) Goal

The objective of risk management is to identify and analyse risks, to set risk limits and to control them. With training of personnel and work procedures the Group aims at maintaining disciplined control where all employees are aware of their roles and responsibilities.

(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

23. 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.

(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 million at year end 2018 (2017: 14 million).

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23. Credit risk, contd.:

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

	31.12.2018	31.12.2017
Trade receivables	24,007	25,986
Other receivables	1,201,513	296,389
Cash and cash equivalents	1,171,714	155,932
	2,397,234	478,307

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
	15,691	2,938	2,858	5,493	(2,780)	24,007

Maturities of trade receivables at 31. December 2017:

	1 - 30 d.	31 - 60 d.	61 - 90 d.	Older than 91 d.	Write off	Carrying amount
Trade receivables	10,231	3,598	1,641	24,879	(14,363)	25,986
	10,231	3,598	1,641	24,879	(14,363)	25,986

Trade receivables are specified as follows:

	31.12.2018	31.12.2017
Trade receivables at the beginning of the year	14,363	48,477
Allowance for bad debt	(8,131)	(52,785)
Trade receivables write off during the period, increase	(3,452)	18,671
Trade receivables write off at end of the year	2,780	14,363

24. *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 it's financial liabilities. The Group issued bonds which are listed in the NASDAQ Iceland stock exchange. At year end 78% (2017: 84,5%) of the Group's interest bearing liabilities were loans from financial institutions and 22% bonds owned by investors (2017: 15,5 %).

At year end 2018 all of the Group's liabilities were paid up to date.

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

31.12.2018	Carrying amount	Contractual cash flows	Within 1 year	1 - 2 years	2 - 5 years	More than 5 years
Financial liabilities						
Interest bearing liabilities	34,701,610	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
	35,433,934	66,737,645	3,252,451	2,071,324	9,932,458	51,481,410
31.12.2017						
Financial liabilities						
Interest bearing liabilities	34,937,610	68,212,585	4,237,080	2,028,147	8,806,273	52,937,978
Related parties	149,994	149,994	149,994	0	0	0
Trade payables	730,668	730,668	730,668	0	0	0
	35,818,272	69,093,247	5,117,742	2,028,147	8,806,273	52,937,978

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25. 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 31.12.2018	Carrying amount 31.12.2017
Financial assets with floating interest rates	1,171,714	155,932
Financial liabilities with floating interest rates	(1,496,611)	(3,913,065)
	(324,897)	(3,757,133)

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 3 million ISK (2017: ISK 38 million). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for the year 2017. 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 30.402 million (2017: ISK 29.881 million) are indexed to the consumer price index. An increase (decrease) in inflation of 1% at year end 2018, and other variables unaffected. would have increased (decreased) the Company's profit before income tax in the amount of ISK 304 million (2017: ISK 298 million). The analysis is based upon that other factors 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:

	31.12.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Interest bearing liabilities	34,701,610	34,955,630	34,937,610	36,764,847

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 2018.

26. *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.

27. 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.

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27. Related parties, contd.:

Interest bearing liabilities to related parties	31.12.2018	31.12.2017
Related parties liabilities		
XX1 slhf.	0	149,994

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

	2018		2017	
	Salaries and benefits	Pension contribution	Salaries and benefits	Pension contribution
Erlendur Magnússon, Chairman of the Board	3,367	449	0	0
Magnús Magnússon, former Chairman of the Board	2,633	263	1,500	120
Anna Þórðardóttir, board member	4,812	523	1,325	106
Arthur Leigh Irwing, board member	2,357	267	0	0
Ari Edwald, former board member	1,843	184	1,050	84
Halldór Kristjánsson, board member	4,210	458	1,050	84
Hildur Árnadóttir, board member	5,113	556	1,425	114
Guðbrandur Sigurðsson, CEO	35,049	5,722	31,686	1,226
	59,384	8,422	38,036	1,734

The Group's Board of Directors salaries are calculated from the 1st of October 2017.

28. Shares in subsidiaries

The subsidiaries are 18 at year end 2018. The subsidiary Heimavellir XII ehf. was intergrated with its parent company during the year. The subsidiaries specify as follows:

	Share 2018	Share 2017
Heimavellir I ehf., Reykjavík	100%	100%
Heimavellir III ehf., Reykjavík	100%	100%
Heimavellir VI ehf., Reykjavík	100%	100%
Heimavellir VII ehf., Reykjavík	100%	100%
Heimavellir VIII ehf., Reykjav.	100%	100%
Heimavellir IX ehf., Reykjavík	100%	100%
Heimavellir X ehf., Reykjavík	100%	100%
Heimavellir XI ehf., Reykjavík	100%	100%
Heimavellir XII ehf., Reykjavík	-	100%
Heimavellir XIII ehf., Reykjavík	100%	-
Heimavellir XIV ehf., Reykjavík	100%	-
Heimavellir XV ehf., Reykjavík	100%	-
Heimavellir XVI ehf., Reykjavík	100%	100%
Heimavellir XVII ehf., Reykjavík	100%	100%
Heimavellir XVIII ehf., Reykjavík	100%	100%
Heimavellir XIX ehf., Reykjavík	100%	100%
Heimavellir XX ehf., Reykjavík	100%	-
HV 900 ehf., Reykjavík	100%	-
Heimavellir rekstur ehf., Reykjavík	100%	100%

29. Auditor's fee

The Group's Audit fee for 2018 amounted to ISK 20 million, VAT excl. (2017: ISK 40 million) thereof ISK 10 million (2017: ISK 12 million) for the financial statements audit and Auditor's review on interim financial statements.

30. Obligations

The group has commited to purchase agreements for 200 apartments that are under construction. The total purchase price is ISK 8,752 million of which ISK 1,233 million have been paid.

The group has commited to lease agreements for a car and the properties Lágmúli 6, Ásbrú and Norðingabraut 4, Reykjavík. The lease is linked to the consumer price index and amounts to ISK 1.2 million monthly. The total lease liability amounts to ISK 37 million at year end.

31. Events after the end of the financial year

At a Board meeting in January 2019 the Board made agreements with Corporate finance of Landsbankinn to handle the selling of the subsidiary HV 900 ehf. The subsidiary owns and rents 154 apartments in Ásbrú. Expected rental income in the year 2019 amounts to ISK 272 million.

In January 2019 the company issued two bonds in HEIMA 071225 and HEIMA 071248 series for a nominal value of 2,220 million.

Quarterly, unaudited

Quarterly

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

	4Q 2018	3Q 2018	2Q 2018	1Q 2018	Total
Rental revenue	924,674	928,221	926,615	906,278	3,685,788
Operating expenses of investment properties	(232,230)	(223,632)	(284,362)	(275,705)	(1,015,929)
Net rental income	692,444	704,589	642,253	630,573	2,669,859
Other operating expenses	(96,717)	(106,368)	(119,709)	(97,198)	(419,992)
Operating profit before fair value adjustment	595,727	598,221	522,544	533,375	2,249,867
Profit from sale of investment properties	273,903	111,594	62,073	48,450	496,020
Fair value adjustment of investment properties	(29,668)	138,331	(194,313)	197,568	111,918
Operating profit before finance income and finai	839,962	848,146	390,304	779,393	2,857,805
Finance income	4,279	1,013	3,683	2,194	11,169
Finance expenses	(739,112)	(724,041)	(688,021)	(657,902)	(2,809,076)
Net finance expenses	(734,833)	(723,028)	(684,338)	(655,708)	(2,797,907)
Profit(loss) before income tax	105,129	125,118	(294,034)	123,685	59,898
Income tax	(21,130)	(25,024)	58,825	(24,755)	(12,084)
Profit(loss) and comprehensive profit(loss) for the year	83,999	100,094	(235,209)	98,930	47,814

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