Heimstaden ehf.

Consolidated Financial Statements

2022

Heimstaden ehf.
Hlíðarsmára 15
201 Kópavogur

reg.nr. 440315-1190

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201 Kópavogur

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Endorsement and Statement by the Board of Directors and the CEO

Heimstaden ehf. is a private limited liability Company (hereafter also referred to as "the Company"). The purpose of the Company is to invest, operate, hold, sell and to administrate real estate, invest, sell, and hold securities, loan operations, other financial operations and related operations.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements in accordance with the Icelandic Financial Statement Act No. 3/2006. The Consolidated Financial Statements are comprised of financial statements for the Company and its four subsidiaries together called the Group.

Operations and Financial Position

Profit for the year 2022 amounted to ISK 8,260 million (2021: ISK 7,115 million). Total equity at year-end 2022 amounted to ISK 34,202 million (year-end 2021: ISK 28,342 million). Equity ratio at year-end was 43.7% (2021: 43.0%).

The EBIT ratio was 65.1% in the year 2022 (2021: 58.1%). Rental revenue in 2022 amounted to ISK 3,984 million which is an increase of ISK 568 million or 16.6%, from the previous year.The total number of rental units at the beginning of the year were 1653 and at the year-end 2022 the number of rental units is 1677.

Fair value adjustment in 2022 amounted to ISK 11,134 million in comparison to ISK 8,994 million in 2021. The Group uses market approach to estimate the fair value of the investment properties.

Net finance expenses amounted to ISK 3,453 million in 2022 compared to ISK 2,018 million in the previous year. Thereof, the amount of the consumer price indexation changes amounted to ISK 1,660 million in 2022 (2021: ISK 753 million) but inflation in the year amounted to 9.6% (2021: 5.1%).

The main risk and uncertainty that the Group faces in the coming months is the effect of higher inflation and interest rates that can effect vacancy, operational costs and finance expenses.

Heimstaden AB possesses all shares in the Company at the beginning and end of year 2022 in the amount of ISK 11,251 million.

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

The board proposes not to pay dividends to shareholders in 2023 related to the fiscal year 2022. 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 Heimstaden ehf. 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 2021. The Board has implemented rules of procedures detailing the scope of its authority and its responsibilities to the Chief Executive Officer. The aforementioned information is put forth in an annex, Statement on Corporate Governance, to the Consolidated Financial Statements.

At year-end 2022, the Board of Directors of Heimstaden ehf. comprised of three persons there of one woman (33%). Within the Group there are at year-end 18 employees (13 men and 5 women).

Non-Financial Disclosure

The Group publishes information necessary to evaluate the development, scope, status and impact of the Group on environmental, social and human resource matters, in accordance with the Icelandic Financial Statement Act No. 3/2006. The Group'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 additional requirements in accordance with the Icelandic Financial Statement Act No. 3/2006. 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 2022, its assets, liabilities and financial position as at 31st of December 2022 and its consolidated cash flows for 2022.

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 Heimstaden ehf. have today discussed the Group's Consolidated Financial Statements for the year 2022 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, 28. February 2023.

Board of Directors: Helge Krogsbøl

Helge Krogsböl Gauti Reynisson
Arnar Gauti Reynisson
Margrét Guðjónsdóttir

Margrét Guðjónsdóttir

CEO:

Gauti Reynisson
Arnar Gauti Reynisson

Independent Auditor's Report

To the Board of Directors and Shareholders of Heimstaden ehf.

Opinion

We have audited the consolidated financial statements of Heimstaden ehf. (the Group), which comprise the statement of consolidated financial position as at 31 December 2022, the consolidated income statement and comprehensive income, and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2022, and its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards, as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 the consolidated financial statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Other information

This document also contains other information than the consolidated financial statements and our auditor´s report thereon. The other information is: the Endorsement and Statement by the Board of Directors and the CEO, Quarterly statement - unaudited, Governance Statement - unaudited and Non-financial Information - unaudited. The Board of Directors and management are responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except for confirmation regarding the Board of Directors Report as stated below.

In connection with our audit of the consolidated financial statements, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the consolidated financial statements. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated. If we, based on the work performed concerning this other information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The Board of Directors and the Chief Executive Officer (CEO) are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union and additional requirements in the Icelandic Financial Statements Act and for such internal control as they determine is necessary to enable the preparation of 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 the 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors 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 the International Standards on Auditing (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 the International Standards on Auditing (ISAs), we exercise professional judgement 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

We communicate with those charged with governance 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.

Report on the Board of Directors report

Pursuant to the legal requirements of 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 accompanying the consolidated financial statements includes the information required by the Icelandic Financial Statement Act if not disclosed elsewhere in the financial statements.

Reykjavík, 28. February 2023.

Ingunn H. Hauksd.

Ingunn H. Hauksdóttir
State Authorised Public Accountant

Ernst & Young ehf.
Borgartúni 30
105 Reykjavík

Consolidated Statement of Profit or Loss and Comprehensive Income for the Year 2022

	Note	2022	2021
Rental revenue	5	3,983,838	3,415,887
Operating expenses of investment properties	6	(1,019,592)	(994,806)
Net rental revenue		2,964,246	2,421,081
Other income		7,399	6,261
Other operating expenses	7.8	(377,275)	(438,058)
Operating profit before fair value adjustment		2,594,370	1,989,284
Fair value adjustment of investment properties	11	11,134,389	8,993,981
Operating profit		13,728,759	10,983,265
Financial income		66,246	10,989
Financial expenses		(3,519,377)	(2,029,132)
Net financial expense	9	(3,453,131)	(2,018,143)
Profit before income tax		10,275,628	8,965,122
Income tax	10	(2,015,712)	(1,850,044)
Total profit and other comprehensive profit for the year		8,259,916	7,115,078
Earnings per share			
Basic and diluted earnings per share	17	0.734	0.632

Notes on pages 12 - 26 are an integral part of these Consolidated Financial Statements

Heimstaden ehf. Consolidated Financial Statements 2022 8 Amounts are in ISK thousand

Consolidated Statement of Financial Position as on 31 December 2022

	Note	31.12.2022	31.12.2021
Assets			
Investment properties	11	75,756,330	63,994,796
Investment properties under construction	13	1,534,393	668,299
Property and equipment	14	43,759	50,730
Non-current assets		77,334,482	64,713,825
Trade receivables	24	25,298	41,455
Other receivables	15	88,478	174,093
Cash and cash equivalents		727,544	945,490
Current assets		841,320	1,161,038
Total assets		78,175,802	65,874,863
Equity			
Share capital		11,251,397	11,251,397
Statutory reserve		1,543,824	717,832
Restricted share reserve		568,187	241,657
Retained earnings		20,838,831	16,131,437
Total equity	16	34,202,239	28,342,323
Non-current liabilities			
Deferred income-tax liability	21	7,272,476	5,244,994
Lease liability	20	643,315	646,942
Loans and borrowings	18	34,990,140	26,072,412
Non-current liabilities		42,905,931	31,964,348
Current liabilities			
Loans and borrowings	18.19	403,907	4,980,754
Trade and other payables	22	663,725	587,438
Current liabilities		1,067,632	5,568,192
Total liabilities		43,973,563	37,532,540
Total equity and liabilities		78,175,802	65,874,863

Notes on pages 12 - 26 are an integral part of these Consolidated Financial Statements

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Consolidated Statement of Changes in Equity for the Year 2022

	Share capital	Statutory reserve	Restricted share reserve	Retained earnings	Total
1 January - 31 December 2021					
Equity as on 1 January 2021	11,251,397	6,324	10,222,238	(252,714)	21,227,245
Transferred to retained earnings			(10,061,808)	10,061,808	
Total profit and comprehensive income				7,115,078	7,115,078
Reserved equity			81,227	(81,227)	0
Transferred to statutory reserve		711,508		(711,508)	
Equity as on 31 December 2021	11,251,397	717,832	241,657	16,131,437	28,342,323
1 January - 31 December 2022					
Equity as on 1 January 2022	11,251,397	717,832	241,657	16,131,437	28,342,323
Total profit and comprehensive income				8,259,916	8,259,916
Reserved equity			326,530	(326,530)	0
Transferred to statutory reserve		825,992		(825,992)	0
Transactions related to the shareholders of the Company					
Paid dividend 0,20 ISK per share				(2,400,000)	(2,400,000)
Equity as on 31 December 2022	11,251,397	1,543,824	568,187	20,838,831	34,202,239

Notes on pages 12 - 26 are an integral part of these Consolidated Financial Statements

Heimstaden ehf. Consolidated Financial Statements 2022 10 Amounts are in ISK thousand

Consolidated Statement of Cash Flows for the Year 2022

	Note	2022	2021
Cash flows from operating activities			
Profit and comprehensive profit for the year		8,259,916	7,115,078
Adjusted for:			
Fair value adjustment of investment properties	11	(11,134,389)	(8,993,981)
Depreciation	14	11,323	17,175
Net financial expenses	9	3,453,131	2,018,143
Income tax	10	2,015,712	1,850,044
		2,605,693	2,006,459
Change in operating assets and liabilities:			
Current assets, decrease, (increase)		51,401	34,362
Current liabilities, increase, (decrease),		88,058	91,449
		139,459	125,811
Net cash provided by operating activities before financial income and expenses		2,745,152	2,132,270
Interest income received		66,246	10,989
Interest expense paid		(1,831,496)	(1,211,828)
Net cash provided by operating activities		979,902	931,431
Cash flows from investing activities			
Investment in investment properties	11	(657,736)	(1,175,100)
Investment in investment properties under construction	13	(866,094)	(668,299)
Sales of investment properties	11	80,962	681,505
Purchase of equipment	14	(8,152)	(18,917)
Selling of equipment	14	7,253	2,933
Investment in subsidiaries		0	(1,078,715)
Net cash provided by investing activities		(1,443,767)	(2,256,593)
Cash flows from financing activities			
Paid dividend		(2,400,000)	0
New long-term borrowings	18	17,010,759	2,441,586
Repayments and settlements of interest bearing liabilities	18	(14,364,840)	(1,349,819)
Net cash used in financing activities		245,919	1,091,767
Decrease in cash and cash equivalents		(217,946)	(233,395)
Cash and cash equivalents at the beginning of the year		945,490	1,151,106
Cash and cash equivalents transfered into the Group		0	27,779
Cash and cash equivalents at the end of the year		727,544	945,490
Investing and financing activities not affecting cash flows			
Sales of investment properties	15	15,623	65,994
Unpaid sales price of investment properties		(15,623)	(65,994)

Notes on pages 12 - 26 are an integral part of these Consolidated Financial Statements

Amounts are in ISK thousand

Notes to the Consolidated Financial Statements

1. General information

Heimstaden ehf. ("the Group") is an Icelandic private limited Company. The Group's headquarters are based in Hlíðarsmári 15, Kópavogur. The consolidated financial statements for the year 2022 comprise of the financial statements of the Group and its subsidiaries; Heimkynni ehf., Heimstaden miðbær ehf., Heimstaden Akureyri ehf. and Heimstaden rekstur ehf. together referred to as "the Group" and individually as "Group entities". Heimstaden ehf. is a part of the Group of Heimstaden AB, Sweden. The consolidated financial statements of Heimastaden AB can be found at https://corporate.heimstaden.com/investors/investors.

2. Basis of preparation

a. Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements 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 28th of February 2023.

b. Going concern

The Company's management have assessed its ability to continue as a going concern and feel that the Company has the basis to do so.

c. 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 3d and 11.

d. Presentation and functional currency

These Consolidated Financial Statements are presented in Icelandic krona (ISK), which is the Group's functional currency. All amounts are presented in thousand of ISK unless otherwise stated. At the end of the year the exchange rate of the ISK against EUR is 152.4 (31.12.2021 EUR 147.6).

e. 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.

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.

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.

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.

a. Basis of consolidation

(i) Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 preparation of the Consolidated Financial Statements.

3. Significant accounting policies, contd.:

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.

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.

Property	30 years
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.

Changes in the fair value of investment properties are recognized in consolidated statement of comprehensive income 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.

After the purchases of investment properties have been recorded, the Group uses a value model that evaluates investment properties at expected market price on the accounting dates. The changes in fair value of investment properties are recorded in the item Fair Value Adjustment of Investment Properties. Information on methods and important premises that the Group uses to decide fair value of investment properties can be found in note 11.

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. Lease assets and lease liabilities

Lease assets and lease liabilities are due to lease agreements that the Group leases from a third party, i.e. plots for buildings owned by the Group. Lease assets that the Group records due to these agreements are recorded as investment assets in note 11 and are evaluated at fair value at each accounting date. Lease liabilities are assessed in the beginning as the present value of unpaid lease liability payments on the starting day. Lease payments are calculated to present value using intrinsic interest rates if it is possible to decide on those rates easily. If it is not, then the present value of lease liabilities is calculated using the interest rate available to the Group on new loans and borrowings. After settlement dates, the lease liabilities are assessed at a depreciated cost by using effective interest rates, where the lease payments are divided into depreciation and interest expenses, which are recorded in the Consolidated Statement of Comprehensive Income.

3. Significant accounting policies, contd.:

f. Financial instruments

(i) Financial assets other than derivates

Trade receivables, other receivables and bank deposits are recorded on the day that they originate.
Financial assets are written off when the Group's contractual rights to the cash flow of the assets expire or if the Group sells the rights to another party without withholding control or if the risk and gain that stem from the asset is next to none. Portions of financial assets created or retained by the Group are recorded are special assets or liabilities.
Financial assets and financial liabilities are equalized and a net amount recorded in the Consolidated Statement of Financial Position when and only when the Groups legal right to do so is present and the Group is intent on equalizing the financial assets and liabilities or redeem the asset and settle the liability at the same time.

All of the Groups financial assets are considered financial assets recorded at a amortized cost.
Financial assets recorded at amortized cost have set or decisive payments, that are nor recorded in an active market and the Group intends to hold to maturity. Such assets are initially recorded at fair value in addition to all related transactional expenses. After the initial recording, loans and claims are assessed at amortized cost considering effective interest rates, less impairment when applicable.

Financial assets recorded at amortized cost are comprised of cash, trade receivables, bond holdings and other short term liabilities.
Cash is considered as funds and unrestricted deposits available for disposal within three months time.

(ii) Financial liabilities

Bonds are initially recorded on the day that they are created. All other financial liabilities are initially recorded on the business day when the Group becomes party to the contractual obligations of the financial instrument.

The Group writes off financial liabilities when the contractual obligations of a financial instrument have expired, are struck down or have been completed.

The Group groups financial liabilities other that derivative contracts as other financial liabilities. Such liabilities are initially recorded are fair value in addition to related transactional expenses. After the initial recording, these financial liabilities are evaluated at amortized cost considering effective interest rates.

Financial liabilities are loans, trades payable and other short term liabilities.
Financial assets and financial liabilities are offset and a net amount recorded in the Consolidated Statement of Financial Position when and only when the Groups legal right to do so is present and the Group is intent on offsetting the financial assets and liabilities or redeem the asset and settle the liability at the same time.

(iii) Equity

Share capital

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

g. 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.

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.

Income tax on profit or loss for the year includes both income tax payable and deferred income tax. Income tax is recorded in the Consolidated Statement of Profit or Loss and Comprehensive Income except for the extent to which it relates to items directly recorded onto equity, in which case it is recorded in Equity.

3. Significant accounting policies, contd.:

h. Employee benefits

Defined contribution plans

The Group pays its employees' contributions to their independent pension funds. The Group bears no responsibilities for the obligations of the pension funds. Obligations for contributions to defined contribution plans are expensed as the related service is provided.

i. Financial income and financial expenses

Financial 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.

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

j. 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.

In assessing impairment of individual groups of assets, the Group uses a basis of credit risk characteristics, timing of receivables and losses, as well as regard to executives' assessments of whether the current economical and credit related circumstances will lead to a higher or lower loss than prior history dictates.

k. Segment reporting

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

l. New standards and interpretations

Accounting standards that came into effect for the accounting year that began on 1 January 2022 did not have significant impacts on the Consolidated Financial Statement.

New standards and interpretations that have not come into effect

A few new accounting standards apply to the fiscal year starting after 1 January 2023 and it is permitted to apply before their effect. The Group has not implemented new or changed accounting standards for the period in this Consolidated Financial Statement and they are not considered to have a significant effect on the Groups Consolidated Financial Statement.

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 2 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.

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.

Notes, contd.:

5. Rental Revenues

The Group has entered into lease agreements in relation to it´s investment properties. Lease agreements have a fixed lease price indexed to the purchasing price index and are recalculated monthly. The Group's lease agreements are mainly indefinite with a reciprocal three or twelve month termination notice period depending on the active period of the agreement as per leasing laws. Definite lease agreements are normally no longer than one year. The average lease period is 10 months (2021: 6 months). The proportion of definite lease agreements to total lease agreements is 12% and indefinite lease agreements are 88% at year end 2022 (2021: 33% and 67%)

The lease terms on agreements are as follows:

	2022			2021		
	Number	Contractual lease income ISK m.	Proportion%	Number	Contractual lease income ISK m.	Proportion%
2022	0	0	0.0%	1240	3,372	95.4%
2023	1552	3,984	100.0%	211	36	4.6%
2024	0	0	0.0%	16	3	0.0%
2025	0	0	0.0%	0	0	0.0%
Later	0	0	0.0%	78	5	0.0%
	1552	3,984	100.0%	1545	3,416	100.0%

The Groups rental revenue is divided by areas as follows:

	2022	2021
Capital region	52.0%	52.2%
East Iceland	2.1%	2.5%
North Iceland	6.4%	6.9%
South Iceland	2.4%	2.6%
Reykjanes Peninsula	36.6%	35.3%
West Iceland	0.5%	0.6%
	100.0%	100.0%

Estimated rental revenue losses due to vacant properties are calculated at the price that the Group expects they would be able to lease them for to a third party at the time in consideration.

Estimated rental revenue losses due to vacant properties in 2022 amount to ISK 97,6 million (2021: 335 million) and the real economical letting ration was 97.5% (2021: 90%).

6. Operating expenses of investment properties

Operating expenses of investment properties are specified as follows:

	2022	2021
Property tax, water and sewage fees	330,441	311,185
Maintenance and operating expenses of investment properties	206,805	267,595
Insurance	57,132	51,077
Salaries and related expenses	130,906	109,738
Energy and heating	112,480	109,815
Common property fees	55,029	44,027
Service rendered	97,631	78,762
Other operating expenses	29,168	22,607
	1,019,592	994,806

Operating expenses of investment properties that are vacant are immaterial.

7. Salaries and related expenses

Salaries and related expenses are specified as follows:

Salaries	236,482	225,664
Pension contributions	32,270	33,403
Other salary-related expenses	23,707	25,610
	292,459	284,677

Notes, contd.:

7. Salaries and related expenses contd.:

	2022	2021
Salaries and related expenses are specified as follows on operating items:		
Operating expenses of investment properties	130,906	109,738
Other operating cost	161,553	174,939
	292,459	284,677
Average number of employees	19	20

Salaries, benefits and pension contributions paid to CEO of the Company in the year 2022 amounts to ISK 32,4 million (2021: 46,4 million).

8. Other operating expenses

Other operating expenses are specified as follows:

Salaries and related expenses	161,951	174,939
Depreciation	11,323	11,174
Accounts payable, losses	1,636	17,896
Other operating expenses	202,365	234,049
	377,275	438,058

9. Financial income and (expenses)

Financial income is specified as follows:

Interest income of cash and cash equivalents	62,967	7,889
Interest income of trade receivables	3,279	3,100
	66,246	10,989

Financial expenses are specified as follows:

Interest expenses	(3,481,905)	(1,992,130)
Interest expenses of lease liabilities	(23,651)	(32,083)
Other financial expenses	(13,821)	(4,919)
	(3,519,377)	(2,029,132)
Net financial expenses	(3,453,131)	(2,018,143)

10. Income tax

Income tax is specified as follows:

		2022		2021
Profit for the year		10,275,628		8,965,122
Income tax according to current tax rate	20.00%	(2,055,126)	20.00%	(1,793,024)
Other items	(0.38%)	39,414	0.64%	(57,020)
Effective income tax	19.62%	(2,015,712)	20.64%	(1,850,044)

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11. Investment properties

Investment properties are specified as follows:

Year 2022:

	Investment properties	Lease assets	Total
Investment properties at 1.1	63,338,417	656,379	63,994,796
Additions during the year	657,736	0	657,736
Sold during the year	(30,591)	0	(30,591)
Loss from sale of investment properties	(3,192)	0	(3,192)
Fair value adjustment for the year	11,137,581	0	11,137,581
Investment properties at 31.12	75,099,951	656,379	75,756,330

Year 2021:

	Investment properties	Lease assets	Total
Investment properties at 1.1	51,154,338	696,499	51,850,837
Transferred into the Group	2,656,520	0	2,656,520
Additions during the year	779,847	0	779,847
Sold during the year	(246,269)	0	(246,269)
Indexation	0	70	70
Changes due to sale of properties	0	(34,189)	(34,189)
Loss from sale of investment properties	(7,460)	0	(7,460)
Fair value adjustment for the year	9,001,441	0	9,001,441
Depreciation	0	(6,001)	(6,001)
Investment properties at 31.12	63,338,417	656,379	63,994,796

	31.12.2022	31.12.2021
Purchase price of investment properties	45,741,993	40,327,988
Fair value adjustments	29,357,958	23,010,429
Investment properties at 31.12	75,099,951	63,338,417

Investment properties by region are specified as follows:

	31.12.2022	31.12.2021
Capital area	40,383,625	34,817,788
East Iceland	1,400,884	1,501,708
North Iceland	5,509,087	4,335,532
South Iceland	2,022,058	1,791,669
Reykjanes Peninsula	25,373,951	20,533,278
West Iceland	410,346	358,443
Investment properties at 31.12	75,099,951	63,338,417

Official assessment value and assessed value for fire insurance

Official real estate value of investment properties of the Group amounted to ISK 68,674 million at the year end (2021: 57,111 million) there of is the lot evaluation ISK 6,216 million (2021: ISK 5,118 million). The insurance value of these assets amounted to ISK 69,141 million (2021: ISK 60,286 million).

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Notes, contd.:

11. Investment properties contd.:

Determination of fair value

Investment properties are recognised at fair value in accordance with IAS 40 - Investment Property and IFRS 13 - Fair Value Measurement. The investment properties are all categorized as level 2 investments, in the fair value hierarchy.

The fair value measurement is performed by outside specialist consultation and is based on market approach. The fair value is based on fair value of similar assets (sales comparison approach) which is based on independent expert estimate. Valuation from another independent expert and official valuation of the Registers Iceland were also obtained to support the valuation.

The valuation method is based on a relative valuation. Two components are needed in relative valuation, a standardised price and identical assets. Registers Iceland, the state registry for real estate, provided information on the sales price per sqm in the neighbourhood of each apartment in the Group's portfolio for the period 2017-2022 taking into account the size and number of rooms. Based on this data an average price per sqm was calculated based on size, number of rooms and year of construction. An average of official sale prices from the current period, or if not available the most recent from earlier periods, was allocated to each apartment based on the criteria explained to assess the value.

Sensitivity analysis

		Effect on fair value 2022		Effect on fair value 2021	
	Change	Increase	Decrease	Increase	Decrease
Average market price	+/- 5%	3,754,998	(3,754,998)	3,166,921	(3,166,921)

Changes in fair value of investment properties are disclosed under fair value adjustments of investment properties in the consolidated statement of profit or loss and comprehensive income. The fair value increase of investment properties was ISK 11,134 million for the year 2022 (2021: ISK 8,994 million).

12. Pledges and guarantees

At year end 2022 the Groups investment properties in the carrying amount of ISK 75,099 million (2021: ISK 63,338 million), were pledged as guarantees for debt amounting to ISK 35,394 million(2021:ISK 31,053 million).

13. Investment properties under construction

In October 2021 the Group signed a purchase agreement for two buildings in Eskiás 2 & 4, in total 84 apartments that will be delivered in the year 2023. The purchase agreement is in the amount of ISK 4.455 million.

	2022	2021
Investment under construction at the beginning of the year	668,299	0
Investment during the year	866,094	668,299
Investment under construction at the end of the year	1,534,393	668,299

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Notes, contd.:

14. Property and equipment

Property and equipment are specified as follows:

	Property	Vehicles	Equipment	Total
Cost				
Balance at 31.12.2020	20,564	30,577	42,888	94,029
Additions during the year	0	18,917	0	18,917
Sold during the year	0	(6,127)	(39,558)	(45,685)
Balance at 31.12.2021	20,564	43,367	3,330	67,261
Additions during the year	637	7,515	0	8,152
Sold during the year	0	(9,452)	0	(9,452)
Balance at 31.12.2022	21,201	41,430	3,330	65,961
Depreciation				
Total depreciation 31.12.2020	0	(9,819)	(38,290)	(48,109)
Depreciated during the year	(617)	(7,291)	(3,266)	(11,174)
Sold during the year	0	3,194	39,558	42,752
Total depreciation 31.12.2021	(617)	(13,916)	(1,998)	(16,531)
Depreciated during the year	(617)	(9,374)	(1,332)	(11,323)
Sold during the year	0	5,652	0	5,652
Total depreciation 31.12.2022	(1,234)	(17,638)	(3,330)	(22,202)
Carrying amount 31.12.2021	19,947	29,451	1,332	50,730
Carrying amount 31.12.2022	19,967	23,792	0	43,759
Depreciation %	3%	20%	15-33%	

Insurance value of vehicles and equipment is equal to the cost value. The official real estate value of the property amounted to ISK 16,1 million at year end and the insurance value amounted to ISK 43,3 million.

15. Other receivables

Other receivables specified as follows:

	31.12.2022	31.12.2021
Unpaid selling price of investment properties	15,623	65,994
Short-term bonds	17,676	50,924
Prepaid expenses	52,479	54,475
Other short-term receivables	2,700	2,700
	88,478	174,093

16. Equity

Share capital

The Group's share capital according to its Articles of Association amounted to ISK 11,251 million at year end 2022. One vote is attached to each share of ISK 1 in the Group. The share capital is paid in full.

Statutory reserve

A statutory reserve is established in accordance with Act No. 138/1994 on private limited companies, which stipulates that at least 10% of the Group'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 Group'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 Group's share capital.

Restricted share reserve

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

Retained earnings

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

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Notes, contd.:

16. Equity contd.:

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%, at year end 2022 the ratio was 47% (2021: 49,0%).

The Group 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:	**2022**	**2021**
Profit and comprehensive profit for the year	8,259,916	7,115,078
Share capital at beinning and end of year	11,251,397	11,251,397
Basic and diluted earnings per share	0.734	0.632

18. Interest-bearing liabilities

The following is information on the Groups interest-bearing liabilities:	**31.12.2022**	**31.12.2021**
Interest-bearing long-term liabilities are specified as follows during the year:		
Long-term liabilities at the beginning of the year	31,053,166	27,735,404
Transfered into the Group	0	1,377,023
Long-term borrowing	17,088,305	2,630,467
Capitalized borrowing cost of the year	(77,546)	(188,881)
Indexation of the year	1,659,910	753,080
Payments of the year	(14,395,364)	(1,308,381)
Capitalized borrowing cost-amortization	65,576	54,454
Long-term liabilities at the end of the year	35,394,047	31,053,166
Interest-bearing liabilities are specified as follows at year end:		
Long-term liabilities		
Bank loans in ISK, indexed int.3.90%-4.20% / 2.65%-4.20%	5,198,754	7,363,053
Bonds, indexed, int. 3.20% - 3.90%	13,392,034	12,533,723
Non-indexed bonds, int. 8.20% / 3.20%-4.80%	17,088,305	11,429,467
Capitalized borrowing cost	(285,046)	(273,077)
Total interest-bearing liabilities including next years payables	35,394,047	31,053,166
Current maturities	(403,907)	(4,980,754)
Long-term liabilities at the end of the year	34,990,140	26,072,412
Interest-bearing-short-term liabilities		
Next years repayments of long-term interest-bearing liabilities	403,907	4,980,754
Interest-bearing short-term liabilities	403,907	4,980,754

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	403,907	4,980,754
From 12 - 24 months	418,734	1,164,673
From 24 - 36 months	8,979,109	936,429
From 36 - 48 months	450,054	591,926
From 48 - 60 months	9,009,894	608,370
From 60 - 72 months	483,736	1,400,945
Later	15,648,613	21,370,069
Total interest-bearing long-term liabilities, including current maturities	35,394,047	31,053,166

At year end 2022 the Group fulfils all obligations in the loan agreements.

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Notes, contd.:

20. Lease liabilities

Lease liabilities specifies as follows:

	31.12.2022	31.12.2021
At the beginning of the year	646,942	688,216
Indexation adjustment	0	69
Changes due to properties sold	0	(31,571)
Interest expenses of the year	31,425	31,666
Repayments of the year	(35,052)	(41,438)
At the end of the year	643,315	646,942
Total repayments of the year	35,052	41,438

21. Deferred income tax liability

Deferred income tax liability is specified as follows:

	31.12.2022	31.12.2021
Deferred income tax liability at the beginning of the year	5,244,994	3,190,902
Transfered into the Group	0	215,819
Income tax	2,015,712	1,850,044
Used in joint taxation	26,854	0
Income tax to be paid	(15,084)	(11,771)
Deferred tax liability at the end of the year	7,272,476	5,244,994

Deferred income tax liability is specified as follows;

	31.12.2022	31.12.2021
Investment properties	7,405,610	5,909,787
Carry forward tax losses	(132,434)	(728,294)
Depreciation of tax losses	0	64,992
Other items	(700)	(1,491)
Deferred tax liability at the end of the year	7,272,476	5,244,994

Carry forward tax losses at year-end 2022 amount to ISK 132 million (2021: ISK 3,641 million). Carry forward losses not used to offset taxable income within ten years expire. Carry forward tax losses can be used as follows:

	31.12.2022	31.12.2021
Loss of the year 2011, to be used before end of 2021	0	52,070
Loss of the year 2012, to be used before end of 2022	0	53,904
Loss of the year 2013, to be used before end of 2023	0	102,174
Loss of the year 2014, to be used before end of 2024	0	13,312
Loss of the year 2015, to be used before end of 2025	0	287,084
Loss of the year 2016, to be used before end of 2026	0	429,600
Loss of the year 2017, to be used before end of 2027	0	360,090
Loss of the year 2018, to be used before end of 2028	0	564,836
Loss of the year 2019, to be used before end of 2029	0	623,527
Loss of the year 2020, to be used before end of 2030	0	754,981
Loss of the year 2021, to be used before end of 2031	321,130	399,891
Loss of the year 2022, to be used before end of 2032	341,036	0
Total carry-forward tax loss	662,166	3,641,469

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.

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Notes, contd.:

22. Trade and other payables

Trade and other payables are specified as follows:

	31.12.2022	31.12.2021
Trade payables	99,578	98,288
Accrued interest	151,327	92,257
Guarantees and prepaid rent	354,132	347,666
Other payables,(including income tax payable)	58,688	49,227
Trade and other payables, total	663,725	587,438

23. 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 Group.

(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

24. 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 expected credit loss for similar financial assets. The write off amounted to ISK 3,5 million at year end 2022 (2021: 16,9 million).

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

	31.12.2022	31.12.2021
Trade receivables	25,298	41,455
Other receivables	88,478	174,093
Cash and cash equivalents	727,544	945,490
	841,320	1,161,038

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Notes, contd.:

24. Credit risk contd.:

Maturities of trade receivables at 31. December 2022:

	1 - 30 d.	31 - 60 d.	61 - 90 d.	Older than 91 d.	Write off	Carrying amount
Trade receivables ...	19,003	6,558	211	3,026	(3,500)	25,298
	19,003	6,558	211	3,026	(3,500)	25,298

Maturities of trade receivables at 31. December 2021:

	1 - 30 d.	31 - 60 d.	61 - 90 d.	Older than 91 d.	Write off	Carrying amount
Trade receivables ...	24,016	3,055	6,165	25,113	(16,894)	41,455
	24,016	3,055	6,165	25,113	(16,894)	41,455

Write off of trade receivables is specified as follows:

	31.12.2022	31.12.2021
Trade receivables write off at the beginning of the year	16,894	1,890
Allowance for bad debt	1,636	(17,896)
Trade receivables write off during the period, change	(15,030)	32,900
Trade receivables write off at end of the year	3,500	16,894

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

To reduce refinancing risk the Group's policy is to diversify it's financial liabilities. At year end 2022 51% (2021: 35%) of the Group's interest-bearing liabilities were loans from financial institutions and 49% bonds owned by investors (2021: 65%).

At year end 2022 none of the Group's liabilities were in arrears. The group does not have an open credit line but has good relationship with all financial institutions and can provide access to credit within short notice.

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Notes, contd.:

25. Liquidity risk, contd.

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

2022	Carrying amount	Contractual cash flows	Within 1 year	1 - 2 years	2 - 5 years	More than 5 years
Financial liabilities						
Interest bearing liab.	35,394,047	35,679,093	403,907	418,733	18,439,056	16,417,397
Lease payables	643,315	2,250,427	38,558	38,558	115,674	2,057,637
Trade payables	663,725	663,725	663,725	0	0	0
	36,701,087	38,593,245	1,106,190	457,291	18,554,730	18,475,034
2021						
Financial liabilities						
Interest-bearing liab.	31,053,166	31,053,166	7,860,098	2,997,317	3,342,581	16,853,170
Lease payables	646,942	2,263,115	45,262	45,262	135,786	2,036,790
Trade payables	587,438	587,438	587,438	0	0	0
	32,287,546	33,903,719	8,492,798	3,042,579	3,478,367	18,889,960

26. Market risk

(i) 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.

(ii) Risk factors and management

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group has no exchange rate risk since properties, liabilities and agreements are not in foreign currency. Loans are in ISK and in most part with fixed-rate interest. Interest rate risk is monitored in regards to effects of changes in interest rate on operations and loan obligations.

Interest rate risk

The Group has both fixed and floating Interest-bearing liabilities. Interest-bearing financial instruments with floating rates are specified as follows:

	Carrying amount 2022	2021
Financial assets with floating interest rates	727,544	945,490
Financial liabilities with floating interest rates	(17,088,305)	(11,429,467)
	(16,360,761)	(10,483,977)

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) the profit before income tax by ISK 163,6 million (2021: ISK 104 million). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for the year 2021. The Group's financial liabilities are otherwise indexed with fixed interest rates and are not presented at fair value through profit or loss.

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Notes, contd.:

26. Market risk contd.:

Inflation risk

Interest-bearing liabilities in the amount of ISK 18,591 million (2021: ISK 19,896 million) are linked to the consumer price index. An increase (decrease) in inflation of 1% at year end 2022, and other variables unaffected, would have increased (decreased) the Group's profit before income tax in the amount of ISK 185 million (2021: ISK 198 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. Information on fair value is not shown if it is equal to the carrying amount.

	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Interest-bearing liabilities	35,394,047	36,797,470	31,053,166	33,769,868

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 2022.

27. 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.

28. Related parties

Related parties are defined as those who have significant influence 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. No transactions were recorded with related parties in the year.

29. Shares in subsidiaries

The subsidiaries are four at the end of 2022 as at the end of 2021 and are specified as follows:

	Share **2022**	Share **2021**
Heimkynni ehf., Reykjavík	100%	100%
Heimstaden Akureyri ehf., Reykjavík (before BÞ14-16 ehf.)	100%	100%
Heimstaden Miðbær ehf., Reykjavík	100%	100%
Heimstaden rekstur ehf., Reykjavík	100%	100%

30. Auditor's fee

The Group's Audit fee for 2022 amounted to ISK 12,7 million, VAT excl. (2021: ISK 11,5 million) thereof ISK 12,0 million (2021: ISK 9,3 million) for the financial statements audit and Auditor's review on interim financial statements.

31. Obligations

The group has committed to lease agreements for the properties Hlíðarsmári 15 and Norðingabraut 4, Reykjavík. The leases are linked to the consumer price index and amount to ISK 0,7 million monthly. The total lease liability amounts to ISK 15,2 million at year end.

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Quarterly statement - unaudited

The quarterly statement of the Group specifies as follows:

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Total
Rental revenue	1,041,449	1,020,649	986,097	935,643	3,983,838
Operating expenses of inv. properties	(272,154)	(235,473)	(241,332)	(270,633)	(1,019,592)
Net rental revenue	769,295	785,176	744,765	665,010	2,964,246
	1,043,361	1,022,488	987,945	937,443	
Other income	1,912	1,839	1,848	1,800	7,399
Other operating expenses	(100,681)	(86,071)	(97,295)	(93,228)	(377,275)
Operating profit before fair value adjustment	670,526	700,944	649,318	573,582	2,594,370
Fair value adjustment of inv. properties	3,469,756	175,301	5,929,187	1,560,145	11,134,389
Operating profit before finance income and finance expenses	4,140,282	876,245	6,578,505	2,133,727	13,728,759
Finance income	20,527	18,199	24,536	2,984	66,246
Finance expenses	(684,561)	(1,020,198)	(1,046,611)	(768,007)	(3,519,377)
Net finance expense	(664,034)	(1,001,999)	(1,022,075)	(765,023)	(3,453,131)
Profit (loss) before income tax	3,476,248	(125,754)	5,556,430	1,368,704	10,275,628
Income tax	(655,835)	25,130	(1,111,267)	(273,740)	(2,015,712)
Total profit(loss) and other comprehensive profit(loss) for the year	2,820,413	(100,624)	4,445,163	1,094,964	8,259,916

Net rental income to Rental revenue	73.9%	76.9%	75.5%	71.1%	74.4%
Operating profit before fail value adjustment to Rental revenue	64.4%	68.7%	65.8%	61.3%	65.1%

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Governance Statement – unaudited

Heimstaden ehf.'s governance is in accordance with Act no. 138/1994 respecting Private Limited Companies and takes note of The Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf and the Confederation of Icelandic Employers, 6th edition published in 2021. The guidelines are available on the website www.leidbeiningar.is.

Heimstaden Board of Directors

The Board of Directors of Heimstaden ehf. is made up of three directors, elected annually at the Company's Annual General Meeting. Communications from the Board of Directors to shareholders shall be concise and The Board shall take care to ensure consistency in its disclosures to the Company's shareholders. If shareholders direct inquiries to the Board, the Board shall be made aware of them and have supervision of the Company's response to those questions. The Company's current Articles of Association were approved on 1st. of February 2021.

The Company's Board of Directors was composed of the following individuals in 2022:

- Helge Krogsböl, Chairman of the Board (from the 13th of January 2021)
- Arnar Gauti Reynisson, Board member (from the 13th of January 2021)
- Margrét Guðjónsdóttir, Board member (from the 13th of Januray 2021)
- Eduard Geradus Antonius Rats, reserve board member (from the 13th of January 2021)

- Helge Krogsböl, Board member since May 2020, chairman since January 2021
55 years old
Chief Operating Officer for Heimstaden AB
Owns no shares in Heimstaden ehf., does not have any other duties for Heimstaden ehf.
Is an independent Board member in Heimstaden ehf.

- Arnar Gauti Reynisson, Board member since January 2021
42 years old
CEO for Heimstaden ehf.
M.Sc. in Industrial Engineering from the University of Minnesota, B.Sc. in Mechanical Engineering from the University of Iceland and is a licensed stock broker.
Owns no shares in Heimstaden ehf., does not have any other duties for Heimstaden ehf.
Is an independent Board member in Heimstaden ehf.

- Margrét Guðjónsdóttir, board member since January 2021
64 years old
CFO for Heimstaden ehf.
Cand Oecon - Certified accountant
Fromer partner at KPMG
Owns no shares in Heimstaden ehf., does not have any other duties for Heimstaden ehf.
Is an independent Board member in Heimstaden ehf.

- Eduard Gerardus Antonius Rats, board member since January 2021
50 years old
Bha, Hospitality Administrtion/management; MRE, Real Estate; ASM Straetegic Management
Country Manager / CEO Heimstaden Nederland
Owns no shares in Heimstaden ehf., does not have any other duties for Heimstaden ehf.
Is an independent Board member in Heimstaden ehf.

Governance

The Board has established detailed rules of procedure where its authority and scope are defined. These rules of procedure contain, among other things, articles regarding the segregation of duties within the Board, the scope and purview of the Board, the Chairman and the CEO, rules of procedure regarding meetings, disclosures, and other matters. The current rules of procedure for the Board of Directors were approved on July 14th, 2022. In accordance with laws and the Company's Articles of Association, the Board of Directors has the highest authority in The Company's operations between shareholder meetings.

Governance statement – unaudited, contd.:

The CEO is appointed by the Board and is responsible for the day-to-day operations of the Company in accordance with the policies and instructions of the Board, laws, the Company's Articles of Association, and the Board's Rules of Procedure. The CEO implements the Company's policies that have been formulated by the Board and sets goals for the Company's operations.

Arnar Gauti Reynisson has been the Company's CEO since 1st of April, 2019. The CEO's job description is outlined in his employment contract.
Arnar Gauti has an M.Sc. in Industrial Engineering from the University of Minnesota, B.Sc. in Mechanical Engineering from the University of Iceland and is a licensed stock broker. He owns no shares in Heimstaden ehf. and is independent of the Company's major customers, competitors and major shareholders.
Employment contracts for other employees are traditional employment contracts with traditional notice periods.
The Company's Board and CEO have implemented internal controls and risk management for the Company's operations to prevent and analyze possible mistakes and fraud by employees and clients.
The Company is obliged to have its financial statements for 1st of January to 30th of June reviewed and the full year audited by its auditors. The General Counsel executes a risk review of the companies main risk factors every quarter.
The Company has established rules of procedure and rules for the division of jobs. Accounting statements are prepared and provided to the Board. Rules of procedure have been set in place to ensure monitoring of income and expense accounting among other items that affect the Company's operations. Risk management is reviewed regularly with consideration to changes in the Company's main risk factors in its operations.
The company does not employee an internal auditor.
Auditors are appointed for one-year terms at the Company's Annual General Meeting.

Neither the Company's auditors nor any parties related to them may own shares or equity in the Company. The Company's Consolidated Financial Statements are audited in accordance with international accounting standards. Auditors have unhindered access to the Company's books and accounting and all of its documents. The Board receives a special auditing report from the Company's auditor yearly with key information. The Compliance Officer, appointed by the Board, supervises that rules regarding insider information and insider trading are followed.

In 2022 the Board had 4 Board Meetings. All Board Members were present at the meetings. The Board of Directors has conducted a formal evaluation of their work in 2022. The Company is committed to the welfare of Icelandic society and wants to ensure that benefits of its operations are realized both for the society and its shareholders. The Company does this by building solid infrastructure and effective teamwork and by being a trusted partner and an attractive investment option that returns acceptable profits to its shareholders and benefits to society. There are currently in place rules of procedure and ethics protocols for Heimstaden ehf. and its subsidiaries that were approved by the Board on 24 October 2022. In it, the Company's main emphases regarding human rights, equality, ethics, employment matters and social responsibility are outlined. The Company's policy of social responsibility was approved by the Board on 13th december 2022.

The Company has not been sentenced for violating any rules and/or regulations by appropiate arbiters or supervisory bodies.

Non-financial Information - unaudited

The Company's Business Model:
To own, operate and let residential housing in the general market in Iceland, with emphasis on affordable letting prices.

Main Policies:
Heimstaden ehf. wants to be the foremost operator of residential housing in the Icelandic leasing market.
The Company's main policies are:
- To own all, or at least the majority of apartments in apartment buildings.
- Geographical focus:
  - o Capital Region 60%
  - o Southern Peninsula 30%
  - o Other regions 10%
- Types and sizes of apartments:
  - o Studio: 35-42 m2 15-25%
  - o 1-bedroom: 50-70m2 15-25%
  - o 2-bedroom: 65-90m2 30-40%
  - o 3-bedroom: 85-110m2 15-20%
- Properties that are operationally cost-effective
- Company financing:
  - o Equity 35%
  - o Long-term loans and/or bonds.

Heimstaden ehf. emphasizes on four main enviromental goals:
Fossil fuel free operations.
Energy & water efficiency.
Renewable energy generation in all new builds.
Ecosystem services in projects.

Heimstaden ehf. has two main goals when it comes to governance & reporting target areas which is that employees sign a code of conduct and that all business partners also sign a code of conduct.

Heimstaden ehf. is working on lowering the paper usage in its day to day business and has started using electronic signatures for lease agreements and other documents when possible.

Heimstaden ehf. uses enviromentally certified paint when repainting interiors of apartments and enviromentally certified flooring materials.

Heimstaden ehf. is changing old light bulbs and lighting fixtures for LED bulbs and fixtures which consume far less electricity.

Hot water systems in buildings are being modified so that water usage in buildings is more efficient. Heimstaden ehf. ehf. has started monitoring the electrical and water usage for each house and is creating a Green Report which contains information on water usage and electrical usage for the Heimstaden ehf. property portfolio.

Results of the Company's policies:
The Company has been operating in accordance with the aforementioned policies in 2022. The Company has been successful in transforming the asset portfolio which has resulted in greater operating efficiency. This work will continue through out this year and further.

Main Risk Factors in the Company's Operations:
The Company regularly assesses the main risk factors in its operations. The last risk assessment was made in December 2022, where the factors deemed important to ensure the safety of personal data that belongs to the Company's lessees and staff, were reviewed. The reviews purpose is, among other things, to examine whether there is reason to update the Company's IT security protocols or protection system. In addition, possible rising vacancy levels due to increasing Inflation were identified as a key risk and in response it is deemed important to maintain quality properties at good prices. It is important that the Company's real estate properties are in good condition so that air quality, energy consumption, lighting and other factors effectively promote the well-being and safety of the Company's lessees.

Non-financial information, contd.:

According to the last review, there are three factors that the Company defines as main risk factors in its operations. They are as follows:
• Usage of materials in new buildings and renovations that are not environmentally certified.
• Negative work environment, Heimstaden ehf. in Iceland has few employees and it is important to maintain a friendly workplace in order to achieve Heimstaden ehf.'s goals.
• Not enough information sharing between employees during the day-to-day operations

Heimstaden ehf. has adopted a policy of sustainability, environmental preservation and more, in keeping with the UN sustainable development goals, the Paris Agreement and other ESG policies. It is Heimstaden ehf.'s declared policy to work toward and promote a positive societal atmosphere and social development by promoting cooperation between stakeholders in the residential housing market. As a residential letting Company, one of Heimstaden ehf. goals is to promote the well-being of society as well as work toward a safe environment for the Company's employees, customers, and other partners. Emphasis is placed on improving the environment in the areas where the Company lets apartments. Heimstaden ehf. has adopted goals based on the UN sustainable development goals and the Group is consistantly working towards achieving those goals.

Further information on Heimstaden ehf. ESG goals can be found here:
https://Heimstaden ehf..com/is/um-okkur/

Environmental matters:

The Company has adopted a special environmental policy where the Company's main goals in environmental matters are detailed:
• Purchasing of supplies for Heimstaden ehf. will be mostly ecological. Eco-labeled products and services will be chosen above others.
• Special emphasis is placed on effective use of resources, minimization of waste, increased recycling, ways to decrease greenhouse gas emissions and ecological purchasing.
• Negative environmental impacts from the use of transportation modes will be minimized. The same goes for the use of materials, energy, and water.
• Recyclable waste will be sorted and recycled.
• Hazardous waste will be disposed of to certified waste collectors.
• Informing and educating employees about environmental matters and increasing inner environmental operations as well as encourage employees to adopt an eco-friendly lifestyle.
• Electronic solutions are to be used when possible to reduce the Company's ecological footprint. Heimstaden ehf. paint the majority of their apartments with a special paint called "Heimstaden ehf. white" that is environmentally certified (Nordic Swan Ecolabel). Additionally, the Company's operational handbook contains many items regarding sustainability and environmental protection. The Company's operations in environmental matters is constantly evolving and it is expected that disclosure on environmental factors will be increased in the coming months.
• The Company also tries to use ecological or environmentally conscious materials in its asset management and maintenance work. The Company is looking into getting BREEAM certifications or Nordic Swan Ecolabel certifications for those buildings that the Company owns where such a certification is possible.

The Company emphasizes that its properties, grounds, and surroundings are kept clean and tidy. The Company has renewed electric plugs with motion sensors that save electricity in common areas in its buildings. Emphasis is also placed on the efficient use of hot water that is used in properties owned by the Company and in the use and operations of efficient service vehicles.

When keys to properties are handed over to new lessees, fire safety and equipment is specifically pointed out to them. All lease properties are handed over accompanied by a fire extinguisher, installed and working smoke detectors and a fire blanket. This is done to reduce the risk of injury to people and property in case of a fire.

The Company considers the largest environmental risks to be earthquakes and gale winds.

Non-financial information, contd.:

Social matters:

The Company has adopted a social policy. The Company bases the social policy on these main factors:

• Lessee/tenant safety - The main risk is that lessees get injured in Heimstaden ehf. apartments. In the year 2022 no accidents occurred, in great part due to the good condition of Heimstaden ehf. apartments. Heimstaden ehf. maintenance employees always review Heimstaden ehf. apartments when they are handed to the lessees, including doing a safety review.

• Condition and environment of properties - The main risk factor regarding the environment is that the buildings are not in an acceptable condition and therefore lessees could injure themselves. Maintenance employees make sure to check the status of our houses during their day-to-day operations to make sure that everything is up to code and meets Heimstaden ehf.'s quality and safety standards.

• Operations related to asset management.

In the social policy, emphasis is placed on the safety of tenants/lessees being ensured as much as possible. All apartments have received an inspection as a completed property in accordance with ÍST standard 51:2001 as well as having passed a safety inspection from the relevant construction authority representative.

The Company has adopted rules regarding purchasing in its operational handbook that dictate that failures in heating, electricity, and energy systems in apartments be fixed or worked on by certified contractors and that all maintenance and improvements must fulfill the Company's conditions on quality and safety as is further detailed in the operational handbook.

Personnel matters:

The Company has adopted a personnel policy. Its purpose is to ensure that the Company employs competent, engaged and solution-orientated personnel with a desire to provide excellent customer service. The Company's employees are encouraged to take responsibility and take an active role in the development of the Company. Emphasis is placed on the matter that each and every employee is able to enjoy their work and progress and grow in their employment with the Company.

The Company has also employed an equality policy wherein Heimstaden ehf.'s goal is to maximize its personnel by ensuring equal opportunities and remunerations for employees of both genders and to be a desirable workplace for both men and women. Discrimination of any kind on the basis of gender or sexuality is in opposition to the equality policy and equality laws. One part of the Company's equality-policy is a defined action plan for bullying and gender-based discrimination.

The company has also adopted a remuneration policy which is updated as needed.

The total number of employees at the end of 2022 was 18 and the distribution of employees is as follows: 9 employees work in the Company's office in Reykjavík, 1 in the office in Ásbrú and and 8 employees work in property management in the Company's operating regions. In property management there are are men whereas in the office there are four women and four men.

The main risk factor regarding Heimstaden ehf. personnel is that the workplace becomes hostile. Heimstaden ehf. ehf. is a small business with 10 office employees and 8 maintanance employees therefore it is important to maintain a friendly workplace. Heimstaden ehf. ehf. plans on maintaining a friendly workplace by using satisfaction surveys and maintaining an open dialog with all employees by executing performance reviews.

Human-rights matters:

The Company has adopted a human-rights policy which has the main goal of ensuring the human-rights of its employees and customers. Heimstaden ehf. commits itself to abide by all current laws and regulations respecting human rights, including those regarding the freedom of association, forced labor, slave labor, child labor and inequality in the workplace.

The Company has set rules for itself on a chain of responsibility where a demand is made that all contractors that work for the Company make a commitment to take care of the safety of their employees, have employment contracts in place in line with collective remuneration agreements and follow local legislation and regulations in their operations.

No incidents occurred during the year in relation to the chain of responsibility or human-rights matters.

Corruption and bribery matters:

The Company has adopted a policy against corruption and bribery wherein it is stated, among other things, that Heimstaden ehf. and its subsidiaries conduct business with suppliers, partners and customers with respect and integrity, cf. Heimstaden ehf. subsidiaries' ethics-policy.

The Company has adopted an ethics policy that applies to all operations, employees, and executives. The goal is to guide employees in the execution of their daily work with the interest of the Company and its customers at the forefront. In our daily work, we emphasize the following values: Respect, integrity, and cooperation.

The Company regularly reviews the ethics-policy and other items that are put forth in the Company's operational handbook

No incidents occurred during the year in relation to corruption and bribery matters.