Heimstaden ehf.

(formerly Heimavellir hf.)

Consolidated Financial Statements

2020

Heimstaden ehf.
Lágmúla 6
108 Reykjavík

reg.nr. 440315-1190

Table of Contents

	Page
Endorsment and Statement by the Board of Directors and the CEO	3
Independent Auditor's Report	5
Consolidated Statement of Profit or Loss and Comprehensive Income	8
Consolidated Statement of Financial Position	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	11
Notes to the Consolidated Financial Statements	12
Unaudited statements:	
Quarterly statement	26
Governance statement	27
Non-financial information	29

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, sell, operate, hold and to administrate real estate, invest, sell, and hold securities, loan operations, other financial operations and related operations. The name of the Company was changed on the 7th of January 2021.

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 five subsidiaries.

Operations and Financial Position

Profit for the year 2020 amounted to ISK 1,034 million (2019: ISK 1,361 million). Total equity at year end 2020 amounted to ISK 21,227 million (year end 2019: ISK 20,056 million). Equity ratio at year end was 39.5% (2019: 37.2%).

The EBIT ratio was 55.9% in the year 2020 (2019: 60.8%). Rental revenue in 2020 amounted to ISK 3,098 million which is a decrease of ISK 274 million or 8.1%, from the previous year. The re-organisation of the apartment portfolio was considerable. The Company sold 114 rental apartments during the year and took receipt of 79 new apartments in Hlíðarendi in Reykjavík in the second half of the year. The total number of rental units at year end 2020 is 1602.

Fair value adjustment in 2020 amounted to ISK 1,954 millions in comparison to ISK 1,695 million in 2019. The primary reason for this difference from year to year is that the decrease in interest rates in the valuation model led to lower equity yield compared to 2019. The consumer price index increased by 3.6% from year to year leading to a positive change in fair value of assets since all lease agreements are indexed. In contrast, an increase in Official Assessment Values of properties led to a decrease in fair value of assets from year to year, as the increase led to higher real estate taxes and fees.

Net finance expenses amounted to ISK 2,471 million in 2020 compared to ISK 2,459 million in the previous year. Thereof, the amount of the consumer price indexation charges amounted to ISK 792 million in 2020 (2019: ISK 712 million) but inflation in the year amounted to 3.6% (2019: 2.7%).

It is unclear what effects the Covid-19 pandemic will have on the Company's operations and asset portfolio for the short or long term, see further information in note nr. 33.

At the beginning of the year the Company´s shares amounted to ISK 11,251 million. On 2nd of October 2019, a share buyback program was initated, as previously approved on 30th of August 2019. The last transaction of the share buyback program was executed on 9th of March 2020, after which the Company owned own shares in the amount of ISK 135,4 million. On 6nd of April 2020, Fredensborg ICE ehf. announced a takeover bid for all the outstanding shares in the Company. The takeover bid period expired on 15th of June 2020 and Fredensborg ICE ehf. held 99.45% of all the shares in Heimavellir hf. at the end of the period. There after began a squeeze-out that ended on 14tth of September 2020 and Fredensborg ICE ehf. became the owner of 100% of Heimavellir hf. Heimavellir hf.'s shares were subsequently delisted from the NASDAQ OMX Iceland Stock Exchange and the Company renamed to Heimstaden ehf. At year end 2020, Fredensborg ICE ehf. was owner of 100% of Heimstaden ehf.'s (formerly Heimavellir hf.) share capital.

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

There is no authorization to pay dividends to shareholders in 2021 for the fiscal year 2020. Reference is made to the financial statements for further information on allocation of profit and other changes in equity.

Corporate Governance Statement

The Board of Directors of 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 2015. The Board has implemented rules of procedures detailing the scope of its authority and its responsibilities to the Chief Executive Director. The Company's shares were listed on the Nasdaq OMX Iceland stock exchange until 11th of September 2020 and it was obligated to adhere to the Icelandic Guidelines on Corporate Governance in accordance with the rules of Nasdaq OMX Iceland. The aforementioned information is put forth in an annex, Statement on Corporate Governance, to the Consolidated Financial Statements.

At year end 2020, the Board of Directors of Heimstaden ehf. comprised of three men (100%). Within the Company there are 16 employees (11 men and 5 women) thus fulfilling the provisions of the Act for Public Limited Companies regarding gender ratios in boards of directors of public limited companies.

Non-Financial Disclosure

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

Statement by the Board of Directors and the CEO

According to the best knowledge of the Board of Directors and the CEO, the Consolidated Financial Statements are in accordance with International Financial Reporting Standards as adopted by the EU and it 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 2020, its assets, liabilities and financial position as at 31st of December 2020 and its consolidated cash flows for 2020.

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 Company's Consolidated Financial Statements for the year 2020 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, 16th of February 2021.

Board of Directors:

Andreas Sötvedt Oulie

Helge Krogsböl

Sondre Hove

CEO:

Arnar Gauti Reynisson

Independent auditor's report

To the Board of Directors and Shareholders of Heimstaden ehf.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Heimstaden ehf. ("the Group"), which comprise the consolidated statement of financial position as at 31st of December 2020, 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 31st of December 2020, 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.

Our opinion is consistent with the additional report submitted to the Audit Committee and the Board of Directors.

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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of financial statements in Iceland and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We declare, to the best of our knowledge and belief, that we have not provided any prohibited non-audit services, as referred to in Article 5(1) of the Regulation (EU) 537/2014 and that we remained independent in conducting the audit.
We have been auditors since the establishment of the Company, at 24th of February 2015. We have been re-appointed by resolutions passed by the annual general meeting uninterrupted since then.

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 2020 to ISK 51,851 million. The value adjustment of investment properties amounted to ISK 1,954 million. Investment properties are disclosed at fair value at year end. The fair value assessment is based on discounted cash flows of individual assets, and is further disclosed in note no. 11. The Group's operations comprise of investments, operating, holding and administrating real estate. Investment properties are 96% of the Group's total assets. All of the Group's revenue is based on its investment properties and the fair value assessment relies on external factors and management's judgement and therefore the audit of the fair value of investment properties is a Key Audit Matter.	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 and market price for similar properties in similar locations. We assessed important factors such as market rent, estimates on future increase in rent and operating expenses. We reviewed the condition for the required rate of return which the Group´s assessments are based on and compared them with market rate and required rate of return on the market. We reviewed samples of the Group´s calculations to ensure they were correct. We reviewed the notes and disclosures in the consolidated interim financial statements to ensure that required information and disclosures by laws and accounting standards are disclosed. In our audit on the fair value determination we received assistance from KPMG´s valuation specialists.

Independent Auditor´s Report, contd.:

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

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

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

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

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

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

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

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

Independent Auditor´s Report, contd.:

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements, contd.:

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

Reykjavík, 16th of February 2021.

KPMG ehf.

Matthías Þór Óskarsson

Consolidated Statement of Comprehensive Income for the Year 2020

	Note	2020	2019
Rental revenue	5	3,097,675	3,372,239
Operating expenses of investment properties	6.7	(1,025,088)	(950,994)
Net rental income		2,072,587	2,421,245
Other income		7,251	5,290
Other operating expenses	7.8	(346,786)	(375,125)
Operating profit before fair value adjustment		1,733,052	2,051,410
Profit from sale of investment properties	11.15	74,049	412,290
Fair value adjustment of investment properties	11	1,953,963	1,695,137
Operating profit before finance income and finance expence		3,761,064	4,158,837
Finance income		41,508	44,444
Finance expenses		(2,512,936)	(2,503,037)
Net finance expenses	9	(2,471,428)	(2,458,593)
Profit before income tax		1,289,636	1,700,244
Income tax	10	(255,197)	(339,268)
Profit and comprehensive profit for the year		1,034,439	1,360,976
Profit per share			
Basic and diluted profit per share	18	0.092	0.122

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

Group reporting Heimstaden ehf year 2020 8 Amounts are in ISK thousand

Consolidated Statement of Financial Positon as on 31 December 2020

	Note	31.12.2020	31.12.2019
Assets			
Investment properties	11	51,850,837	45,299,393
Investment properties under construction	13	0	370,211
Fixed assets	14	45,920	27,541
Long-term bonds		0	42,982
Non-current assets		51,896,757	45,740,127
Trade receivables	24	20,443	15,725
Investment propterties for sale	15	0	4,613,531
Other receivables	16	664,703	1,840,653
Cash and cash equivalents		1,151,106	1,740,164
Current assets		1,836,252	8,210,073
Total assets		53,733,009	53,950,200
Equity			
Share capital		11,251,397	11,163,998
Share premium		0	584,633
Statutory reserve		6,324	6,324
Restricted equity		10,222,238	8,300,631
Retained earnings (negative)		(252,714)	0
Total equity	17	21,227,245	20,055,586
Liabilities			
Deferred income-tax liability	22	3,190,902	2,935,705
Lease liability	21	688,216	717,539
Loans and borrowings	19	27,167,905	28,607,088
Non-current liabilities		31,047,023	32,260,332
Loans and borrowings	19.20	567,499	387,590
Trade and other payables	23	891,242	1,246,692
Current liabilities		1,458,741	1,634,282
Total liabilities		32,505,764	33,894,614
Total equity and liabilities		53,733,009	53,950,200

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

Group reporting Heimstaden ehf year 2020 9 Amounts are in ISK thousand

Consolidated Statement of Changes in Equity for the Year 2020

	Share capital	Share premium	Statutory reserve	Restricted Restricted equity	Retained earnings	Total
1 January - 31 December 2019						
Equity as on 1 January 2019	11,251,398	1,155,558	6,324	6,383,004	0	18,796,284
Profit and total comprehensive income					1,360,976	1,360,976
Reserved equity				1,917,627	(1,917,627)	0
Share premium transferred		(556,651)			556,651	0
Transactions related to the shareholders of the Company						
Share buyback	(87,400)	(14,274)				(101,674)
Equity as on 31 December 2019	11,163,998	584,633	6,324	8,300,631	0	20,055,586
1 January - 31 December 2020						
Equity as on 1 January 2020	11,163,998	584,633	6,324	8,300,631	0	20,055,586
Profit and total comprehensive income					1,034,439	1,034,439
Reserved equity				1,921,607	(1,921,607)	0
Share premium transferred		(634,454)			634,454	0
Transactions related to the shareholders of the Company						
Share buyback and sale	87,399	49,821				137,220
Equity as on 31 December 2020	11,251,397	0	6,324	10,222,238	(252,714)	21,227,245

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

Group reporting Heimstaden ehf year 2020 10 Amounts are in ISK thousand

Consolidated Statement of Cash Flows for the Year 2020

	Note	2020	2019
Cash flows from operating activities			
Profit for the year		1,034,439	1,360,976
Adjusted for:			
Value adjustment of investment properties	11	(1,953,963)	(1,695,137)
Profit from sale of investment properties	11	(74,049)	(412,290)
Depreciation	14	20,985	13,803
Net finance expenses		2,471,428	2,458,593
Income tax		255,197	339,268
		1,754,037	2,065,213
Change in operating assets and liabilities:			
Current assets, (increase),decrease		(96,002)	43,359
Current liabilities, (decrease), increase		(353,090)	116,755
		(449,092)	160,114
Net cash provided by operating activities before financial income and expenses		1,304,945	2,225,327
Interest income received		41,508	44,444
Interest expenses paid		(1,560,525)	(1,659,084)
Net cash (used in)provided by operating activities		(214,072)	610,687
Cash flows from investing activities			
Investment in investment properties	11	(201,314)	(563,876)
Investment in investment properties under construction	13	(4,215,078)	(3,480,633)
Sales price of investment properties	11	6,117,919	10,687,514
Investment in fixed assets	14	(29,640)	(15,619)
Sales price of fixed assets	14	3,050	5,099
Long-term bonds, change		42,982	(22,134)
Net cash provided by investing activities		1,717,919	6,610,351
Cash flows from financing activities			
Repurchasing of own shares		137,220	(101,674)
New long-term borrowings	19	11,564,461	8,818,432
Repayments and settlements of interest bearing liabilities	19	(13,794,586)	(14,589,736)
Interest bearing short-term liabilities, change	19	0	(779,611)
Net cash used in financing activities		(2,092,905)	(6,652,589)
(Decrease) increase in cash and cash		(589,058)	568,449
Cash and cash equivalents at the beginning of the year		1,740,164	1,171,714
Cash and cash equivalents at the end of the year		1,151,106	1,740,163
Investing and financing activities not affecting cash flows			
Investment in investment properties, under construction		395,253	397,613
Unpaid sales price of investment properties,under construction	23	(395,253)	(397,613)
Sales price of investment properties	11	501,230	1,768,464
Unpaid sales price of investment properties	16	(501,230)	(1,768,464)

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

Group reporting Heimstaden ehf year 2020 11 Amounts are in ISK thousand

Notes to the Consolidated Financial Statements

1. **General information**
Heimstaden ehf. ("the Group") is an Icelandic limited liability Group. The Group's headquarters are based in Lágmúli 6, Reykjavík. The consolidated financial statements for the Year 2020 comprise of the financial statements of the Group and its subsidiaries; Heimstaden III ehf., Heimstaden VI ehf., Heimstaden XX ehf., BÞ 14-16 ehf., Heimstaden 900 ehf. and Heimstaden rekstur ehf. together referred to as "the Group" and individually as "Group entities". The name of the Company was changed at 7th of January 2021 from Heimavellir hf.

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 16th February 2021.

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 Group'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.

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 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.

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.

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 cf. 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.

c. Properties and equipment for own use

(i) Recognition and measurement

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

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

(ii) Depreciation

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

Vehicles	5 years
Other operating assets	3-5 years

d. Investment properties

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

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

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

After the purchases of investment properties have been recorded , the Group uses a value model that evaluates investment properties at fair value on the accounting dates and the changes in fair value of investment properties are recorded in the item Fair Value of 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. Financial instruments

(i) Financial assets other than derivates

Loans, claims and bank deposits are recorded on the day that they originate.

Financial assets are written off when the Groups 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 depreciated cost price.

3. Significant accounting policies, contd.:

e. Financial instruments, cond.:

Financial assets recorded at a depreciated cost price have set or decisive payments, that are nor recorded in an active market and the Group intends to retain until due date. 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 a depreciated cost price considering active interest rates, less impairment when applicable.

Financial assets recorded at a depreciated cost price 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 other than derivates

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 a depreciated cost price considering active interest rates.

Financial liabilities other than derivatives are loans, trades payable and other short term 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.

(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.

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.

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 Comprehensive Income except for the extent to which it relates to items directly recorded onto equity, in which case it is recorded in Equity.

g. 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.

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.

3. Significant accounting policies, contd.:

i. Impairment

Financial assets that are not derivatives

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.

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 Group 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 Group 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

Accounting standards that came into effect for the accounting year that began on 1. January 2020 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 1. January 2020 or later and it is allowed 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

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.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as

● 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

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. Lease contracts

The Group has entered into lease agreements in relation to tis investment properties. lease agreements have a fixed lease price indexed to the purchasing price index and are recalculated monthly. Lease period at the start of an agreement is normally between one and three years. the average lease period is 9 months (2019: 10 months). The Group is also party to indefinite lease agreements with a reciprocal six or twelve month termination notice period depending on the active period of the agreement as per leasing laws. The proportion of definite lease agreements to total lease agreements is 69% and indefinite lease agreements are 31% at year end 2020 (2019: 76% and 24%)

The lease terms on agreements are as follows:

	Number	Contractual lease income ISK m.	Proportion%
2021	1397	2,968	96.3%
2022	3	7	0.2%
2023	17	40	1.3%
2024	0	0	0.0%
Later	1	66	2.1%
	1418	3,081	100.0%

The Groups lease income is divided by areas as follows:

	2020	2019
Capital region	48.1%	44.6%
East Iceland	2.5%	2.8%
North Iceland	7.8%	7.7%
South Iceland	2.7%	4.7%
Southern Peninsula	38.3%	36.6%
West Iceland	0.6%	3.6%
	100.0%	100.0%

Estimated lease income 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 lease income losses due to vacant properties in 2020 amount to ISK 361 million (2019: 164,5 million) and the real economical letting ration was 89% (2019: 95.3%).

6. Operating expenses of investment properties

Operating expenses of investment properties are specified as follows:

	2020	2019
Property tax, water and sewage fees and rent of land	291,342	351,584
Maintenance and operating expenses of investment properties	307,673	174,213
Insurance	55,349	63,231
Salaries and related expenses	106,246	101,504
Energy and heating	113,777	123,020
Common property fees	45,640	55,906
Service rendered	83,017	72,149
Other operating expenses	22,044	9,387
	1,025,088	950,994

7. Salaries and related expenses

Salaries and related expenses are specified as follows:

Salaries	191,058	224,362
Pension contributions	24,163	31,869
Other salary-related expenses	28,662	22,728
Total salaries and related expenses	243,883	278,959

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

Operating expenses of investment properties	106,246	101,504
Other operating cost	137,637	177,455
Total salaries and related expenses	243,883	278,959
Average number of employees	16	15

Notes, contd.:

8. Other operating expenses

Other operating expenses are specified as follows:

	2020	2019
Salaries and related expenses	137,637	177,455
Depreciation	9,031	13,803
Accounts payable, losses	9,805	11,275
Other operating expenses	190,313	172,592
	346,786	375,125

9. Finance income and (expenses)

Finance income is specified as follows:

Interest income of cash and cash equivalents	38,426	40,275
Interest income of trade receivables	3,082	4,169
	41,508	44,444

Finance expenses are specified as follows:

Interest expenses	2,453,616	2,458,810
Interest expenses of lease liabilities	34,513	37,595
Other financial expenses	24,807	6,632
	2,512,936	2,503,037

10. Income tax

Income tax is specified as follows:

		2020		2019
Profit for the year		1,289,636		1,700,244
Income tax according to current tax rate	20.00%	(257,927)	20.00%	(340,049)
Other items	(0.21%)	2,730	(0.05%)	781
Effective income tax	19.79%	(255,197)	19.95%	(339,268)

11. Investment properties

Investment properties are specified as follows:

31.12.2020	Investment properties	Lease assets	Total
Investment properties at 1.1	44,579,237	720,156	45,299,393
Additions during the year	201,314		201,314
Transf. from investment properties under construction	4,582,929		4,582,929
Sold during the year	(1,394,817)		(1,394,817)
Indexation		527	527
Changes due to sale of properties		(12,230)	(12,230)
Profit from sale of investment properties	55,557		55,557
Fair value adjustment for the year	1,953,963		1,953,963
Depreciation		(11,954)	(11,954)
Transferred to investment properties for sale	1,176,155		1,176,155
Investment properties at 31.12	51,154,338	696,499	51,850,837

31.12.2019	Investment properties	Lease assets	Total
Investment properties at 1.1	53,142,221	796,191	53,938,412
Additions during the year	563,876		563,876
Transf. from investment properties under construction	4,740,976		4,740,976
Sold during the year	(7,586,794)		(7,586,794)
Indexation		2,493	2,493
Changes due to sale of properties		(66,702)	(66,702)
Profit from sale of investment properties	341,948		341,948
Fair value adjustment for the year	1,695,137		1,695,137
Depreciation		(11,826)	(11,826)
Transferred to investment properties for sale	(8,318,127)		(8,318,127)
Investment properties at 31.12	44,579,237	720,156	45,299,393

Group reporting Heimstaden ehf year 2020 17 Amounts are in ISK thousand

11. Investment properties, contd.

	31.12.2020	31.12.2019
Purchase price of investment properties	36,879,019	32,089,952
Fair value adjustments	14,275,319	12,489,285
Investment properties at 31.12	51,154,338	44,579,237

Investment properties by region are specified as follows:

Capital area	28,582,358	24,259,046
East Iceland	768,744	730,950
North Iceland	3,454,613	3,393,771
South Iceland	1,135,319	1,112,792
Southern Peninsula	16,952,854	14,826,198
West Iceland	260,450	256,480
Investment properties at 31.12	51,154,338	44,579,237

Official assessment value and assessed value for fire insurance

Official real estate value of investment properties of the Group amounted to ISK 50,812 million at the year end (2019: 46,803 million) there of is the lot evaluation ISK 4,476 million (2019: ISK 2,766 million). The insurance value of these assets amounted to ISK 52,269 million (2019: ISK 47,566 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 Group.

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 2020 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 2.75% (2019: 3.6% - 4.2%). Return on equity is estimated 9.43% - 13.43% using the real interest rate (2019: 8.7%-12.7%) and 35% equity ratio (2019: 35%). Weighted average cost of capital without tax (WACC) was 5.09%-6.49% and differs from location of assets (2019: 5.39%-7.18%). Real economical letting ratio is estimated 91.5% - 98.5% (2019: 90 - 97%) and differs from location of assets.

Key assumptions in the value model are:

	2020	2019
Projected rental income per square meter per month	1.011 - 5.124	980 - 4.914
Estimated average rental per square meter per month	2,069	1,974
Weighted average cost of capital (WACC)	5.09%-6.49%	5.39% -7.18%
Weighted average	5.3%	5.6%

Sensitivity analysis

		Effect on fair value 2020		Effect on fair value 2019	
	Change	Increase	Decrease	Increase	Decrease
Market rent	+/- 5%	4,078,431	(4,078,431)	3,421,031	(3,421,031)
WACC	-/+ 0.5%	5,812,096	(4,764,974)	4,698,014	(3,894,008)

Changes in fair values of operating assets are disclosed under value adjustments of investment properties in the consolidated statement of profit or loss. The fair value increase of operating assets was ISK 1.1,954 million for the year 2020 as compared to ISK 1,695 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.

Group reporting Heimstaden ehf year 2020 18 Amounts are in ISK thousand

12. Pledges and guarantees

At year end 2020 the Groups investment properties in the carrying amount of ISK 51,154 million, were pledged as guarantees for debt amounting to ISK 27,735 million.

13. Investment properties under construction

On 1.1.2020, there were 91 apartments in Hlíðarendi still under construction. At year end 2020 the Group had received all apartments and as such there are no investment properties under construction.

	31.12.2020	31.12.2019
Investment under construction at the beginning of the year	370,211	1,232,941
Investment during the year	4,212,718	3,878,246
Transferred to investment properties	(4,582,929)	(4,740,976)
Investment under construction at the end of the year	0	370,211

14. Properties and equipment

Properties and equipment are specified as follows:

	Vehicles	Equipment	Total
Cost			
Balance at 31.12.2018	30,039	42,888	72,927
Additions during the year	15,619	0	15,619
Sold during the year	(18,628)	0	(18,628)
Balance at 31.12.2019	27,030	42,888	69,918
Additions during the year	9,076	20,564	29,640
Sold during the year	(5,529)	0	(5,529)
Balance at 31.12.2020	30,577	63,452	94,029
Depreciation			
Total depreciation 31.12.2018	(14,254)	(25,231)	(39,485)
Depreciated during the year	(4,691)	(9,112)	(13,803)
Sold during the year	10,911	0	10,911
Total depreciation 31.12.2019	(8,034)	(34,343)	(42,377)
Depreciated during the year	(5,084)	(3,947)	(9,031)
Sold during the year	3,299		3,299
Total depreciation 31.12.2020	(9,819)	(38,290)	(48,109)
Carrying amount 31.12.2019	18,996	8,545	27,541
Carrying amount 31.12.2020	20,758	25,162	45,920
Depreciation %	20%	15-33%	

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

15. Investment properties for sale

At year-end 2020, the Group had no investment properties specified as being for sale.

	31.12.2020	31.12.2019
Investment properties for sale at the beginning of the year	4,613,531	0
Transferred to investment properties for sale	(1,176,155)	8,357,554
Sold during the year	(3,455,868)	(3,774,937)
Profit from the sale of investment properties	18,492	30,914
Investment properties for sale at year-end	0	4,613,531

Group reporting Heimstaden ehf year 2020 19 Amounts are in ISK thousand

Notes, contd.:

16. Other receivables

	31.12.2020	31.12.2019
Other receivables specified as follows:		
Unpaid selling price of investment properties	501,230	1,768,464
Short-term bonds	80,451	53,401
Prepaid expenses	81,422	15,911
Other short-term receivables	1,600	2,877
	664,703	1,840,653

17. Equity

Share capital

The Group's share capital according to its Articles of Association amounted to ISK 11,251 million at year end 2020. One vote is attached to each share of ISK 1 in the Group. 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 Group.

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 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.

Unrealized profit of subsidiary

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

Accumulated deficit or 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.

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 2019 the ratio was 54%.

The Group and it's subsidiaries are not mandated to follow external regulations of minimum equity ratio.

18. Earnings per share

	2020	2019
Earnings per share is specified as follows:		
Profit and comprehensive profit for the year	1,034,439	1,360,976
Share capital at beinning and end of year	11,207,698	11,163,998
Basic and diluted earnings per share	0.092	0.122

19. Interest-bearing liabilities

The following is information on the Groups interest-bearing liabilities:	31.12.2020	31.12.2019
Interest-bearing long-term liabilities are specified as follows during the year:		
Long-term liabilities at the beginning of the year	28,994,678	33,922,029
Long-term borrowing	11,652,172	8,916,474
Long-term borrowing expenses for the year	(87,711)	(98,042)
Indexation of the year	851,438	711,713
Payments of the year	(13,794,586)	(14,589,736)
Long-term borrowing expense-amortization	119,413	132,240
Long-term liabilities at the end of the year	27,735,404	28,994,678

Group reporting Heimstaden ehf year 2020 20 Amounts are in ISK thousand

Notes, contd.:

19. Interest-bearing liabilities, contd.:

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

	31.12.2020	31.12.2019
Short-term borrowing at the beginning of the year	0	779,611
Short-term borrowing	0	1,488,000
Payments of the year	0	(2,267,611)
Short-term liabilities at the end of the year	0	0

Long-term liabilities

	31.12.2020	31.12.2019
Bank loans in ISK, indexed int.2.65%-4.20% / 3.90%-5.10%	7,162,317	15,310,973
Listed bonds, indexed, int. 3.20% - 3.90%	12,372,654	9,952,276
Listed bonds, nonindexed int. 7.91%	0	3,000,000
Non-indexed bonds, int. 3.20%-4.80% / 7.40 - 8.40%	8,339,082	913,810
Borrowing cost	(138,649)	(182,381)
Total interest-bearing liabilities including next years payables	27,735,404	28,994,678
Current maturities	(567,499) ,	(387,590) ,
Long-term liabilities at the end of the year	27,167,905	28,607,088

Interest-bearing-short-term liabilities

	31.12.2020	31.12.2019
Next years repayments of long-term interest-bearing liabilities	567,499	387,590
Interest-bearing short-term liabilities	567,499	387,590

20. Repayments of interest-bearing long-term liabilities

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

	31.12.2020	31.12.2019
Within 12 months	567,499	387,590
From 12 - 24 months	3,407,738	3,093,221
From 24 - 36 months	5,241,708	897,302
From 36 - 48 months	449,259	3,441,148
From 48 - 60 months	799,650	811,821
From 60 - 72 months	468,733	450,203
Later	16,800,817	19,913,393
Total interest-bearing long-term liabilities, including current maturities	27,735,404	28,994,678

At year end 2020 the Group fulfils all obligations in the loan agreements.

21. Lease liability

Lease liability specifies as follows:

	31.12.2020	31.12.2019
At the beginning of the year	717,539	796,191
Indexation adjustment	527	2,493
Changes due to properties sold	(14,224)	(66,493)
Interest expenses of the year	34,513	37,595
Repayments of the year	(50,139)	(52,247)
At the end of the year	688,216	717,539
Total repayments of the year	50,139	52,247

Group reporting Heimstaden ehf year 2020 21 Amounts are in ISK thousand

22. Deferred income tax liability

Deferred income tax liability is specified as follows:	31.12.2020	31.12.2019
Deferred income tax liability at the beginning of the year	2,935,705	2,596,437
Income tax	255,197	339,268
Deferred tax liability at the end of the year	3,190,902	2,935,705

Deferred income tax liability is specified as follows;

Investment properties	3,815,506	3,406,275
Transferable tax losses	(682,202)	(543,587)
Depreciation of tax losses	56,379	75,071
Other items	1,218	(2,054)
Deferred tax liability at the end of the year	3,190,901	2,935,705

Carry forward tax losses at year-end 2020 amount to ISK 3,411 million (2019: ISK 2,718 million). Carry forward losses not used to offset taxable income within ten years expire. Carry forward tax losses can be used as follows:

Loss of the year 2009, to be used before end of 2019	0	35,485
Loss of the year 2010, to be used before end of 2020	0	41,074
Loss of the year 2011, to be used before end of 2021	52,070	52,070
Loss of the year 2012, to be used before end of 2022	53,904	53,904
Loss of the year 2013, to be used before end of 2023	57,546	216,197
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	223,224	287,084
Loss of the year 2016, to be used before end of 2026	288,596	429,599
Loss of the year 2017, to be used before end of 2027	305,231	360,090
Loss of the year 2018, to be used before end of 2028	564,835	564,835
Loss of the year 2019, to be used before end of 2029	623,527	664,501
Loss of the year 2020, to be used before end of 2030	1,242,077	0
Total carry-forward tax loss	3,411,010	2,718,151

The Group's management expects, based on business plans, refinancing and organizing of the Group, that there will be sufficient taxable profit in the future to cover the carry-forward tax losses. To be prudent a reserve of ISK 282 million has been made.

23. Trade and other payables

Trade and other payables are specified as follows:

Trade payables	94,208	81,057
Accrued interest	73,094	457,072
Guarantees and prepaid rent	279,929	310,951
Unpaid purchase price of investment properties	395,253	397,613
Other payables	48,758	0
Trade and other payables, total	891,242	1,246,693

24. Financial risk management

(i) Goal

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

(ii) Structure

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

Group reporting Heimstaden ehf year 2020 22 Amounts are in ISK thousand

25. Credit risk

(i) Definition

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

(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 1,9 million at year end 2020 (2019: 3,2 million).

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

	31.12.2020	31.12.2019
Trade receivables	20,443	15,725
Other receivables	664,703	1,840,653
Cash and cash equivalents	1,151,106	1,740,164
	1,836,252	3,596,542

Maturities of trade receivables at 31. December 2020:

	1 - 30 d.	31 - 60 d.	61 - 90 d.	Older than 91 d.	Write off	Carrying amount
Trade receivables	17,591	1,730	184	2,828	(1,890)	20,443
	17,591	1,730	184	2,828	(1,890)	20,443

Maturities of trade receivables at 31. December 2019:

	1 - 30 d.	31 - 60 d.	61 - 90 d.	Older than 91 d.	Write off	Carrying amount
Trade receivables	8,947	3,610	609	5,804	(3,245)	15,725
	8,947	3,610	609	5,804	(3,245)	15,725

Trade receivables are specified as follows:

	31.12.2020	31.12.2019
Trade receivables at the beginning of the year	3,245	2,780
Allowance for bad debt	(9,805)	(11,275)
Trade receivables write off during the period, change	8,450	11,740
Trade receivables write off at end of the year	1,890	3,245

26. *Liquidity risk*

(i) Definition

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

(ii) Risk factors and management

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

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

To 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 2020 30% (2019: 48%) of the Group's interest-bearing liabilities were loans from financial institutions and 70% bonds owned by investors (2019: 52%).

At year end 2020 none of the Group's liabilities were in arrears.

Group reporting Heimstaden ehf year 2020 23 Amounts are in ISK thousand

26. *Liquidity risk, contd.*

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

2020	Carrying amount	Contractual cash flows	Within 1 year	1 - 2 years	2 - 5 years	More than 5 years
Financial liabilities						
Interest-bearing liabilities ...	27,735,404	27,735,404	567,499	3,407,738	6,490,618	17,269,547
Lease payables	688,216	2,407,498	48,150	48,150	144,450	2,166,748
Trade payables	891,242	891,242	891,242	0	0	0
	29,314,862	31,034,144	1,506,891	3,455,888	6,635,068	19,436,295
2019						
Financial liabilities						
Interest-bearing liabilities ...	28,994,678	28,994,671	387,590	3,093,220	5,600,472	19,913,389
Lease payables	717,539	2,640,000	52,800	52,800	211,200	2,323,200
Trade payables	1,246,692	1,246,692	1,246,692	0	0	0
	30,958,909	32,881,363	1,687,082	3,146,020	5,811,672	22,236,589

27. 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. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(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 2020	2019
Financial assets with floating interest rates	1,151,106	1,740,164
Financial liabilities with floating interest rates	(8,339,082)	(913,810)
	(7,187,976)	826,354

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) the profit before income tax by ISK 71,3 million (2019: ISK 8,3 million). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for the year 2019. 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 19,535 million (2019: ISK 25,263 million) are indexed to the consumer price index. An increase (decrease) in inflation of 1% at year end 2020, and other variables unaffected, would have increased (decreased) the Group's profit before income tax in the amount of ISK 195 million (2019: ISK 253 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.

	2020 Carrying Amount	2020 Fair Value	2019 Carrying Amount	2019 Fair Value
Interest-bearing liabilities	27,735,404	30,161,850	28,994,678	29,670,197

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 2020.

Group reporting Heimstaden ehf year 2020 24 Amounts are in ISK thousand

Notes, contd.:

28. *Operational risk*

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

The Group's objective is to manage operational risk efficiently in order to avoid financial losses and to protect the Group's reputation.

To reduce operational risk, among other things, an appropriate segregation of duties has been implemented, transactions are controlled as well as compliance with laws, regular assessment of risk is performed, employees are trained, procedures are organised and documented, and insurance is purchased when applicable.

29. Related parties

Related parties are defined as those who have control of 20% or more of the Group's shares, subsidiaries, members of the Board of Directors, management and companies controlled by the Group's management and members of the Board of Directors. No trades were recorded with related parties in the year.

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

	2020		2019	
	Salaries and benefits	**Pension contribution**	**Salaries and benefits**	**Pension contribution**
Erlendur Magnússon, Chairman of the Board	2,360	319	6,120	827
Anna Þórðardóttir, board member	0	0	1,459	167
Arthur Leigh Irwing, board member	0	0	847	98
Árni Jón Pálsson, board member	1,652	222	3,437	462
Halldór Kristjánsson, board member	1,652	190	4,284	492
Hildur Árnadóttir, board member	2,246	258	5,202	598
Rannveig Eir Einarsdóttir, board member	1,652	222	3,437	462
Guðbrandur Sigurðsson, former CEO	0	0	35,602	6,157
Arnar Gauti Reynisson, CEO	30,181	4,074	25,973	4,267
	39,743	5,285	86,361	13,530

Board members at year end 2020 do not receive compensation for their work on The Board of Directors.

30. Shares in subsidiaries

The Group possesses 5 subsidiaries at year end 2020, the subsidiary Heimavellir XX ehf merged with the subsidiary Heimavellir VI ehf. at the beginning of 2020. The subsidiaries are specified as follows:

	Share 2020	**Share 2019**
Heimstaden III ehf., Reykjavík	100%	100%
Heimstaden VI ehf., Reykjavík	100%	100%
Heimstaden XX ehf., Reykjavík	-	100%
Heimstaden 900 ehf., Reykjavík	100%	100%
BÞ 14 - 16 ehf., Reykjavík	100%	100%
Heimstaden rekstur ehf., Reykjavík	100%	100%

31. Auditor's fee

The Group's Audit fee for 2020 amounted to ISK 12,8 million, VAT excl. (2019: ISK 14,4 million) thereof ISK 8,3 million (2019: ISK 9,1 million) for the financial statements audit and Auditor's review on interim financial statements.

32. Obligations

The group has committed to lease agreements for the properties Lágmúli 6, Ásbrú and Norðingabraut 4, Reykjavík. The leases are linked to the consumer price index and amount to ISK 1,0 million monthly. The total lease liability amounts to ISK 7,6 million at year end.

33. Other matters

It is unclear what impact the Covid-19 epidemic will have on the Group's operations and asset portfolio for the short or long term. The Group has a diverse asset portfolio and positive cash holdings. The main impact on the Group's operations has been an increase in the property underutilization rate. Each 1% increase in the underutilization rate impacts rental income by a decrease of ISK 31 million and negatively affects the fair value measurements of investment properties to the amount of ISK 645 million. The financial result for the year will depend on the development of the pandemic and its effects on the Icelandic and global economies.

In February 2021 the Company signed a purchase agreement to buy the private limited company Heimakynni ehf. that holds 35 rental apartments. Total book value of the investment properties at year end 2020 was ISK 1.368 million.

Group reporting Heimstaden ehf year 2020 25 Amounts are in ISK thousand

Quarterly statement - unaudited

Quarterly

The quarterly statement of the Group specifies as follows:

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Total
Rental revenue	769,145	764,517	769,571	794,442	3,097,675
Operating expenses of inv. properties	(282,437)	(274,484)	(227,962)	(240,205)	(1,025,088)
Net rental income	486,708	490,033	541,609	554,237	2,072,587
Other income	2,954	1,504	1,522	1,271	7,251
Other operating expenses	(123,401)	(65,097)	(82,358)	(75,930)	(346,786)
Operating profit before fair value adjustmer	366,261	426,440	460,773	479,578	1,733,052
Profit from sale of investment properties	(31,916)	73,126	42,561	(9,722)	74,049
Fair value adjustment of inv. properties	1,811,848	690,412	(593,233)	44,936	1,953,963
Operating profit before finance income and finance expenses....................................	2,146,193	1,189,978	(89,899)	514,792	3,761,064
Finance income	3,133	7,104	13,644	17,627	41,508
Finance expenses	(521,639)	(940,345)	(583,966)	(466,986)	(2,512,936)
Net finance expenses	(518,506)	(933,241)	(570,322)	(449,359)	(2,471,428)
Profit(loss) before income tax	1,627,687	256,737	(660,221)	65,433	1,289,636
Income tax	(322,808)	(51,347)	132,045	(13,087)	(255,197)
Profit (loss) and comprehensive profit(loss) for the year........	1,304,879	205,390	(528,176)	52,346	1,034,439

Group reporting Heimstaden ehf year 2020 26 Amounts are in ISK thousand

Governance Statement – unaudited

Heimstaden ehf.'s governance is in accordance with Act no. 138/1994 respecting Private Limited Companies and take note of The Guidelines on Corporate Governance published by the Iceland Chamber of Commerce, NASDAQ OMX Iceland hf and the Confederation of Icelandic Employers., 5th edition published in 2015. The company has bonds listed in the NASDAQ OMX Iceland exchange and should therefore follow the Guidelines on Corporate Governance in accordance with the rules of NASDAQ OMX Iceland. 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 14th of May 2020.

The Company's Board of Directors was composed of the following individuals in 2020:

- Erlendur Magnússon, Chairman of the Board (from the 1st of January to May 2020)
- Árni Jón Pálsson, Boardmember (from the 1st of January to May 2020)
- Halldór Kristjánsson, Vice-chairman (from the 1st of January to May 2020)
- Hildur Árnadóttir, Boardmember (from the 1st of January to May 2020)
- Rannveig Eir Einarsdóttir, Boardmember (from the 1st of January to May 2020)

- Andreas Sötvedt Oulie, Chairman of the Board (Board member since May 2020)

36 years old
B.Sc. in business from Norwegian School of Business
Managing Director of Investment Team at Fredensborg AS
Boardmember of Fredensborg ICE ehf., owns no shares in Heimstaden ehf., does not have any other duties for Heimstaden ehf.
Is an independent boardmember in Heimstaden ehf.

- Helge Krogsböl, Boardmember since May 2020

53 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 boardmember in Heimstaden ehf.

- Sondre Hove, Board member since May 2020

30 years old
Norwegian School of Economics, Columbia University in the City of New York
Senior Associate in Investment Team at Fredensborg AS
Owns no shares in Heimstaden ehf., does not have any other duties for Heimstaden ehf.
Is an independent boardmember 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 January 16th, 2020. 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. It decides, among other things, the remuneration policy for the CEO. The Board has appointed one sub-committee of the Board, an auditing committee which comprises members of the Board of Directors. The Board's rules and company's articles are accesible on the company's webpage: https://www.heimavellir.is/is/fyrir-fjarfesta/stjornhaettir-1

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 CEO and the General Counsel execute a risk review of the companies main risk factors annually in March.

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 2020 the Board had 11 Board Meetings. All Board Members were present at all meetings. The Board of Directors has not conducted a formal evaluation of their work in 2020 but plans to execute the evaluation in March 2021. 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 16th of January 2020. 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 16th of January 2020.

The Company has not be sentenced for violating any rules and 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 wants to be the foremost operator of residential housing in the 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 emphasizes on four main Enviromental goals:
Fossil fuel free operations
Energy & water efficency
Renewable Energy generation in all newbuilds
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 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 electric signatures for the rental contracts.
Heimstaden ehf. uses a enviromentally certified paint when repainting interior of apartments.
Heimstaden ehf. is changing old light bulbs for LED bulbs which consume far less electricity.
Hot water systems in buildings is being modified so that the water usage for each house is more efficient. Heimstaden 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 property portfolio.
More detailed ESG matters for Heimstaden hf. is accesible on the companies webpage: https://www.heimavellir.is/is/fyrir-fjarfesta/ofjarhagslegar-upplysingar

Results of the Company's policies:
The Company has been operating in accordance with the aforementioned policies in 2020. The Company has been successful in transforming the asset portfolio which has resulted in greater operating efficiency.

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 on February 7th, 2020 where the factors deemed important to ensure the safety and well-being of the Company's lessees as well as ensuring that shareholder and investor capital is allocated effectively to better the Company's operations, were reviewed. The reviews purpose is among other things, to examine whether there is reason to update the Company's rules of procedure regarding the condition of real estate properties, safety matters, fire protection, and employee matters and to examine what can be changed or done differently to promote better environmental effects from the Company's operations. 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 has few employees and it is important to maintain a friendly workplace in order to achieve Heimstaden goals.
• Not enough information sharing between employees during the day to day operations

Heimstaden 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. At around mid-year 2020, Fredensborg ICE ehf (which is owned by Heimstaden's largest shareholder, which is a leading European letting company) purchased all of the share capital of Heimstaden ehf. and in the last months, work has been undertaken to adopt Heimstadens rules of procedure and policies including EGS policies into the Company. It is Heimstaden's declared policy to work toward and promote a positive societal and social development by promoting cooperation between stakeholders in the residential housing market. As a residential letting Company, one of Heimstadens 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 Company lets apartments. Heimstaden has adopted goals based on the UN sustainable development goals and the Group is consistantly working toward achieving those goals.

Further information on Heimstadens ESG goals can be found here:
https://heimstaden.com/om-oss/socialt-ansvar/

Environmental matters:

The Company has adopted a special environmental policy where the Company's main goals in environmental matters are detailed. The policy will likely be updated in 2021 when Heimstaden ehf. has merged completely with Heimstaden:
• Purchasing of supplies for Heimstaden 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 collector.
• 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 paint the majority of their apartments with a special paint called "Heimstaden white" that is environmentally certified (Nordic Swan Ecolabel). Additionally, the Company 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 certificate is possible. The company is finalizing an eco report which will review ecological factors such as water and electricity usage and more. The first version of the report will be ready in Q1 or Q2, after which it will be easier for the Company to monitor it's main ESG factors and control them if needed.

The Company emphasizes that its properties, grounds, and surroundings are clean and kept 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 on 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 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 apartments. In the year 2020 no accidents occurred, in great part due to the good condition of Heimstaden apartments. Heimstaden maintenance employees always review Heimstaden 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 shape 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'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'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 that is presented to the Annual General Meeting each year.

The total number of employees at the end of 2020 was 16 and as distributed as follows: 8 employees work in the Company's office in Reykjavík and 8 employees work in asset management in the Company's operating regions. All employees in asset management are men whereas in the office there are four women and four men.

The main risk factor regarding Heimstaden personnel is that the workplace becomes hostile. Heimstaden hf. is a small business with 8 office employees and 8 maintanance employees therefore it is important to maintain a friendly workplace. Heimstaden 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 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 and its subsidiaries conduct business with suppliers, partners and customers with respect and integrity, cf. Heimstaden subsidiaries' ethics-policy.

Non-financial information, contd.:

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 with all its employees.
No incidents occurred during the year in relation to corruption and bribery matters.