

2022.

Condensed consolidated
financial statements

EIK

Index

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Endorsement and Statement by the **Board of Directors and the CEO**

Eik fasteignafélag hf. is an Icelandic limited liability company. The Group consists of the parent company, Eik fasteignafélag hf., along with two subsidiaries which are both 100% owned by the parent company. The Group's operations are ownership, rental and operations of business premises and ownership of hotel operations. The financial statements include the consolidated financial statements of Eik fasteignafélag hf. and subsidiaries

The Company's main financial risks are rental and counterparty risk, liquidity risk, inflation risk and interest risk. Note 25 contains further information on the Group's risk management and discussion on financial scope related to the main risk factors.

Operations

The Group's income amounted to ISK 10,078 million in the year 2022 compared to ISK 8,668 million in the year 2021. The Group's operating profit before changes in value and depreciation amounted to ISK 6,608 million in the year 2022 compared to ISK 5,645 million in the previous year. Changes in value of investment properties amounted to ISK 10,431 million and gain on sale of investment properties amounted to ISK 362 million. According to the Group's statement of comprehensive income total profit for the year amounted to ISK 8,001 million compared to ISK 4,933 million in the year 2021. Net cash provided by operations amounted to ISK 4,066 million according to the Group's statement of cash flow.

Financial position

Total assets of the Group amounted to ISK 128,651 million at year end 2022 according to the statement of financial position, whereof investment properties amounted to ISK 119,639 million, assets for own use ISK 4,162 million, development properties ISK 671 million and cash and cash equivalents ISK 2,986 million. The Group's equity at year end 2022 amounted to ISK 43,744 million, whereof outstanding share capital amounted to ISK 3,415 million. The Group's equity ratio was 34.0% at the end of the year. The Company has secured bank credit facilities in the amount of ISK 2,600 million which were undrawn at year end. At the same time the book value of unpledged properties amounted to ISK 10,300 million. The Company issued a new bond class during the year, EIK 25 1, for the total nominal amount of ISK 2,340 mil-

lion. The Company's weighted indexed interest rates were 3.03% at year end and weighted unindexed interest rates were 7.31%. The ratio of unindexed loans was around 22% of the Company's interest-bearing liabilities. Since year end the Company has refinanced an ISK 3,100 million bank loan with final maturity date in March 2023.

COVID-19

The effects of COVID-19 have been fast decreasing since the pandemic has been managed and assembly restrictions lifted. The Company estimates that the effects were negative by ISK 40-45 million on EBITDA for the year and that there were no effects in the second half of the year. Furthermore, all cautionary entries due to the pandemic relating to the value of investment properties have been reversed.

Share Capital

Listed share capital at year end amounted to ISK 3,424 million. The entire share capital is of the same class and all shares are entitled to the same rights. The Company holds ISK 8.8 million of own shares.

At year end the Company's share capital was divided between 546 shareholders (ID numbers), but shareholders were 510 at the beginning of the year.

The 10 largest shareholders of the Company at year end 2022 according to the Company's shareholder registry were:

1. Brimgarðar ehf.....	16,5%*
2. Arion banki hf.....	9,7%
3. Gildi - lífeyrissjóður.....	9,5%
4. Almenni lífeyrissjóðurinn.....	8,0%
5. Lífeyrissjóður verzlunarmanna.....	7,8%
6. Birta lífeyrissjóður.....	7,1%
7. Brú Lífeyrissjóður starfsmanna sveitarfélaga.....	6,4%
8. Íslandsbanki hf, safnskráning 2.....	4,5%
9. Stapi lífeyrissjóður.....	3,9%
10. Íslandsbanki hf.....	3,9%

* According to the Company's shareholder registry, Brimgarðar ehf. owned a 16.5% share in the Company at year end. On 7 May 2021 a major shareholder announcement was published on Nasdaq Iceland since Brimgarðar ehf.'s direct shareholding and direct and indirect rights accord-

ing to financial instruments exceeded 25%. It can be expected that Brimgarðar ehf.'s aggregate shareholding at year end, taking into account forward trading and exchange agreements, were between 25-30%.

The Company's Annual General Meeting on 5 April 2022 approved an ISK 1,740 million payment of dividend to shareholders for the operating year 2021.

The policy of the Board of Directors is to pay the shareholders up to 50% of net cash provided by operating activities less the amount used for repurchasing of own shares up until the call for the Annual General Meeting. The Board of Directors proposes a dividend payment of ISK 2,000 million to shareholders for the operating year 2022.

Company Portfolio

At year end 2022 the Company's investment properties less lease assets amounted to ISK 117,181 million, development properties ISK 671 million and assets for own use ISK 3,831 million. Properties owned by the Group number 109 with a total of a little less than 313,000 sqm. of rental space, over 600 rental units and 400 tenants. The Company's principal properties are Smáratorg 1 and 3 (Turninn) in Kópavogur; Suðurlandsbraut 8 and 10; Mýrar-gata 2-16; Borgartún 21, 21a and 26; Álfheimar 74 (Nýi Glæsibær); Glerártorg in Akureyri; Skútuvogur 14-16; Austurstræti 5, 6, 7 and 17 and Pósthússtræti 2. The largest share of the Company's real estate portfolio is office space, which is 42% of the portfolio's worth. Commercial premises are 25% of the portfolio, warehouses 14%, hotels and restaurants 10%, health related operations 7% and other 2%.

The Company acquired four properties and sold three properties during the year. The Company acquired Sóltún 24, part of Pósthússtræti 2, part of Skeifan 5 and part of Smiðshöfði 9. The Company sold Hjalteyrargata 4, Akureyri and Höfðasel 2 and 4, Akranes.

Social Responsibility

The Company has now for the fifth time issued its ESG report which accompanies the 2022 financial statements. The ESG Report is prepared in accordance with Nasdaq's ESG guidelines from 2019 and contains information on the status and development of criteria relating to the Group's performance with regards to the environment, social factors, and governance.

Corporate governance and non-financial information

Eik fasteignafélag's corporate governance is in accordance with the Act no. 2/1995 on limited liability companies, the Company's Articles of Association and Board's procedures. The Company emphasises maintaining good managements practices and the Company's corporate governance is based on Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, NASDAQ Iceland, and the Confederation of Icelandic Employers. Gender ratio in the Company's Board of Directors is 60% male and 40% female and thus the Company fulfils provisions in the Act on limited liability companies regarding gender ratios on boards of limited liability companies. Gender ratio in the Company's executive management is 88.9% male and 11.1% female. Ratio of the Company's employees is 62% male and 38% female. The average total number of employees within the Group converted to FTE was 47. A nomination committee receives candidacy and nominations from shareholders for candidates for the Company's Board of Directors and nominates candidates for the Board.

Further information on the Board of Directors and statement of corporate governance along with non-financial information is accessible at the Company's website, www.eik.is, and as appendices to the financial statements, "Statement on Corporate Governance", "ESG Report" and "Non-Financial Information".

Independent **Auditors' Report**

To the Board of Directors and Shareholders of Eik fasteignafélag hf.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Eik fasteignafélag hf. ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2022, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2022, 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 were first appointed as auditors by the Annual General Meeting in 2004. We have been re-appointed by resolutions passed by the annual general meeting uninterrupted since then.

Key Audit Matter

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 matter

Valuation of investment properties

Reference is made to notes 13 and 31e "Investment properties"

Book value of investment properties is ISK 119,639 million and are 93.0% of the Group's total assets at 31 December 2022.

The Group's investment properties are estimated at fair value at the reporting date by the Company's management. In valuing the properties management assesses future cash flow which the Company can expect from leases. Basis of this valuation are presumptions on estimated utilisation ratio of the properties in the future, market rent at the end of lease periods of current leases and their operating costs. Furthermore, management estimate of development of several factors in the future is taken into account, such as interest rates in capital markets.

Valuation of investment properties is a key audit matter in our audit of the Group's financial statements since investment properties are such a high percentage of its total assets and due to uncertainty regarding development of several factors on which the management valuation on cash flow due to the properties is based.

How the matter was addressed in the audit

We, as well as our valuation specialists, assessed calculation models and assumptions applied by management in determining fair value of the investment properties. Our audit work included, among other things:

- We verified functionality of the Company's calculation model by calculating fair value of a selected sample through our own valuation model.
- We inspected and assessed the reasonableness and assumptions of the calculations, such as lease payments according to contracts, market rent at the end of leases, maintenance and property taxes.
- We assessed whether presumptions applied in determining present value of future cash flow of the properties were appropriate by comparing them to information on financing terms of business premises and other market presumptions.
- We assessed the notes to the financial statements to confirm that disclosure requirements were fulfilled.

Statement by the Board of Directors and the CEO

To the best of our knowledge the Consolidated Financial Statements of the Group are prepared in accordance with International Reporting Standards as adopted by the EU. In our opinion the Financial Statements give a true and fair view of the Group's assets, liabilities, and financial position as at 31 December 2022 and the financial performance of the Group and changes of cash flows for the year 2022.

The Board of Directors and the CEO of Eik fasteignafélag hf. hereby confirm the Company's financial statements for the year 2022 by means of their signatures.

Reykjavík, 28 february 2023

Board of Directors

Bjarni Kristján Þorvarðarson
Chairman

Eyjólfur Árni Rafnsson

Guðrún Bergsteinsdóttir

Hersir Sigurgeirsson

Ragnheiður Harðar Harðardóttir

CEO

Garðar Hannes Friðjónsson

Other information in the Annual Report

The Board of Directors and CEO are responsible for the other information. The other information comprises the information included in the Annual Report of the Group, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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 Report on European single electronic format (ESEF Regulation)

As part of our audit of the consolidated financial statements of Eik fasteignafélag hf. we performed procedures to be able to issue an opinion on whether the consolidated financial statements of Eik fasteignafélag for the year 2022 with the file name [2138005WRSDC4DI3BJ43-2022-12-31-is] is prepared, in all material respects, in compliance with the Act on disclosure obligation of issuers of securities and the obligation to flag no. 20/2021 relating to requirements regarding European single electronic format Regulation EU 2019/815 which include requirements related to the

preparation of the consolidated financial statements in XHTML format and iXBRL markup.

Board of Directors and CEO are responsible for preparing the consolidated financial statements in compliance with the Act on disclosure obligation of issuers of securities and the obligation to flag no. 20/2021. This includes preparing the consolidated financial statements in an XHTML format in accordance with EU Regulation 2019/815 on the European single electronic format (ESEF Regulation).

Our responsibility is to obtain reasonable assurance, based on evidence that we have obtained, on whether the consolidated financial statements is prepared in all material respects, in compliance with the ESEF Regulation, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirement set out in the ESEF Regulation, whether due to fraud or error.

In our opinion, the consolidated financial statements of Eik fasteignafélag hf. for the year 2022 with the file name [2138005WRSDC4DI3BJ43-2022-12-31-is] is prepared, in all material respects, in compliance with the ESEF Regulation.

Report on the report of the Board of Directors and CEO

Pursuant to the legal requirement under Article 104, Paragraph 2 of the Icelandic Financial Statements 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 Hrafnhildur Helgadóttir.

Reykjavík, 28 February 2023

KPMG ehf.

Hrafnhildur Helgadóttir

Sæmundur Valdimarsson

Consolidated Statement of Comprehensive Income

for the period from 1 January to 31 December 2022

	Notes	2022	2021
Lease income	6	8.562	7.712
Other operating income	6	1.516	956
		<u>10.078</u>	<u>8.668</u>
Operating expenses	7	(3.382)	(2.915)
Impairment of receivables	17	(88)	(107)
		<u>(3.470)</u>	<u>(3.023)</u>
EBITDA		6.608	5.645
Gain on sale of investment properties		362	88
Changes in value of investment properties	13	10.431	5.215
Depreciation and impairment	15, 16	(138)	(135)
Operating profit		17.264	10.813
Financial income		50	33
Financial expenses		(7.309)	(4.678)
Net financial expenses	10	<u>(7.259)</u>	<u>(4.645)</u>
Profit before income tax		10.004	6.168
Income tax	11, 22	(2.004)	(1.234)
Total profit for the year		<u>8.001</u>	<u>4.933</u>
Earnings per share:			
Basic earnings and diluted earnings per share	19	2,34	1,44

Notes on pp. 13-41 are an integral part of the financial statements

Consolidated Statement of Financial Position as at 31 December 2022

	Notes	2022	2021
Assets			
Intangible assets	12	351	351
Investment properties	13	119.639	105.638
Assets in development	14	671	663
Assets for own use	15	4.162	4.183
Non-current receivables	17	68	88
		<u>124.891</u>	<u>110.922</u>
Trade and other receivables	17	774	708
Cash and cash equivalents		2.986	3.297
		<u>3.760</u>	<u>4.005</u>
Total assets		<u>128.651</u>	<u>114.928</u>
Equity			
Share capital		3.415	3.415
Share premium		12.648	12.648
Statutory reserve		866	866
Restricted equity		11.122	7.603
Retained earnings		15.692	12.951
		<u>43.744</u>	<u>37.483</u>
Total equity	18	<u>43.744</u>	<u>37.483</u>
Liabilities			
Interest-bearing debt	20	64.292	60.061
Lease liabilities	21	2.480	2.355
Income tax liability	22	10.683	8.680
		<u>77.455</u>	<u>71.095</u>
Interest-bearing debt	20	5.980	4.753
Trade and other payables	23	1.472	1.596
		<u>7.452</u>	<u>6.349</u>
Total liabilities		<u>84.907</u>	<u>77.444</u>
Total equity and liabilities		<u>128.651</u>	<u>114.928</u>

Notes on pp. 13-41 are an integral part of the financial statements

Consolidated Statement of Changes in Equity as at 31 December 2022

	Share capital	Share premium	Statutory reserve	Restricted equity	Retained earnings	Total equity
Year 2021						
Equity 1.1.2021	3.415	12.648	866	6.016	10.255	33.200
Total profit for the year					4.933	4.933
Dividend paid ISK 0.19 per share					(650)	(650)
Transferred to restricted equity				1.587	(1.587)	0
Equity 31.12.2021	3.415	12.648	866	7.603	12.951	37.483
Year 2022						
Equity 1.1.2022	3.415	12.648	866	7.603	12.951	37.483
Total profit for the year					8.001	8.001
Dividend paid ISK 0.51 per share					(1.740)	(1.740)
Transferred to restricted equity				3.519	(3.519)	0
Equity 31.12.2022	3.415	12.648	866	11.122	15.692	43.744

Notes on pp. 13-41 are an integral part of the financial statements

Consolidated Statement of Cash Flows

for the period from 1 January to 31 December 2022

	Notes	2022	2021
Cash flows from operating activities			
Operating Profit for the year		17.264	10.813
Operating items which do not affect cash flow:			
Gain on sale of investment properties .....	(	362)	(88)
Valuation changes of investment properties	13	(10.431)	(5.215)
Depreciation	15, 16	138	135
		6.608	5.645
Change in operating assets .....	(	66)	(264)
Change in operating liabilities .....	(	29)	382
		6.512	5.763
Interest income received	10	50	33
Interest expenses paid .....	(	2.497)	(2.304)
Net cash from operating activities		4.066	3.492
Cash flows used in investment activities			
Investment in investment properties	13	(3.936)	(2.191)
Sold investment properties		724	491
Investment in assets for own use	15	(123)	(533)
Sold assets for own use		6	3
Investment in assets under development	14	(8)	(3)
Changes in bond holdings		21	(5)
Other receivables, change		0	390
Net cash used in investing activities		(3.316)	(1.848)
Cash flows to financing activities			
Dividend paid .....	(	1.740)	(650)
New long-term debts	20	6.394	12.814
Repayments and final payments of long-term loans	20	(5.715)	(12.358)
Short-term loans, change		0	(75)
Net cash to financing activities		(1.061)	(270)
Change in cash and cash equivalents		(311)	1.375
Cash and cash equivalents at beginning of year		3.297	1.922
Cash and cash equivalents at end of year		2.986	3.297

Notes on pp. 13-41 are an integral part of the financial statements

Notes

1. General Information

Eik fasteignafélag hf., "the Company", is domiciled in Iceland. The Company's headquarters are at Sóltún 26 in Reykjavík. The consolidated financial statements of the Company for the year 2022 comprise the financial statements of the Company and its subsidiaries, together referred to as the Group. The Group's operations are ownership, rental and operations of business premises and ownership of hotel operations. The consolidated financial statements of the Company are accessible at www.eik.is.

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 and additional Icelandic disclosure requirements for consolidated financial statements of listed companies. Changes in international financial reporting standards and their interpretations for annual periods beginning after 1 January 2022 did not have significant effect on the Company's financial statements. The financial statements were approved by the Company's Board of Directors on 28 February 2023. The same accounting policies have been applied in preparing these financial statements as in the previous year.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except investment properties which are measured at fair value, and assets for own use which are measured at revalued cost. Methods in measuring fair value are discussed in notes 3, 13 and 27. Note 31 contains information on the Group's main accounting policies and changes to them during the year.

c. Presentation and functional currency

The consolidated financial statements of the Group are presented in Icelandic krona (ISK), which is the Parent's and subsidiaries' functional currency. All amounts are presented in ISK million unless otherwise stated.

d. Use of estimates and judgements

The preparation of consolidated financial statements in accordance with IFRSs 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 recognised in the periods when the changes are made and in subsequent periods if the changes also affect those periods.

Information about management estimates and judgements in applying accounting policies that have the most significant effect on the financial statements is included in note 3 on fair value and note 13 on valuation of investment properties.

3. Determination of fair value

The Company has established a process for determining fair value. This means that management is responsible for all the important decisions regarding fair value, including decisions related to assessment strategies covered in level 3 of the fair value measurement. In determining fair value the Group utilises market information as far as possible, but if such information is not available it is based on management estimates.

Management regularly reviews important assumptions in the evaluation of assets and liabilities that are based on data which cannot be obtained in the market. If information from third parties, such as prices from brokers or pricing services, are used in determining fair value, management uses the information to support the conclusion that the assessment is in accordance with International Financial Reporting Standards (IFRSs), including the level that such an evaluation would fall under.

Fair value is classified according to the standards in a hierarchy system based on the assumptions used in the measurement according to following definitions:

Level 1: quoted prices (unchanged) in active markets for identical assets and liabilities.

Level 2: other assumptions than quoted prices according to level 1 which can be identified for the asset or liability, either directly (prices) or indirectly (derived from prices).

Level 3: assumptions used in determining asset or liability are not based on available market data (unobservable data).

If the assumptions used in determining fair value of assets and liabilities are classified at different levels in the classification, the total fair value is classified at the same level as the lowest important assumptions in the measurement.

If there is a change in classification of fair value during the reporting period the transfer between stages is at the end of that period.

Further information on assumptions used in determining fair value is in the following notes: Note 12 on intangible assets, note 13 on investment properties and note 31 on significant accounting policies.

4. Effect of COVID-19 on the financial statements

There were some COVID-19 effects during the first months of the year, but they decreased rapidly in the following months. Management estimates total COVID-19 effects on EBITDA to be approx. 40-45 million ISK during the year. There are no COVID-19 effects seen in the year-end values of investment properties.

COVID effects on the balance sheet are mainly on provision on losses of trade receivables.

5. Segment reporting

Segment reporting contains information on individual parts of the Company's operations. The Company's operations are divided into two segments which sell goods and services in different markets.

Segments 2022	Investment properties	Hotel	Offset entries	Total
Lease income	8.889	0	(327)	8.562
Other operating income	721	795	0	1.516
Operating expenses	(2.940)	(769)	327	(3.382)
Impairment of receivables	(88)	(1)	0	(88)
EBITDA	6.582	25	0	6.608
Gain on sale of investment properties	362	0	0	362
Change in value of investment properties	10.431	0	0	10.431
Depreciation	(106)	(32)	0	(138)
Net finance expenses	(7.229)	(31)	0	(7.259)
Income tax	(2.011)	7	0	(2.004)
Profit (loss) for the year	8.030	(30)	0	8.001
Assets 31.12.2022	128.705	452	(506)	128.651
Liabilities 31.12.2022	84.965	448	(506)	84.907
Investments of the year	4.093	1	0	4.094
Segments 2021	Investment properties	Hotel	Offset entries	Total
Lease income	8.014	0	(303)	7.712
Other operating income	587	369	0	956
Operating expenses	(2.680)	(538)	303	(2.915)
Impairment of receivables	(107)	0	0	(107)
EBITDA	5.814	(169)	0	5.645
Gain on sale of investment properties	88	0	0	88
Change in value of investment properties	5.215	0	0	5.215
Depreciation	(105)	(30)	0	(135)
Net finance expenses	(4.623)	(22)	0	(4.645)
Income tax	(1.279)	44	0	(1.234)
Profit (loss) for the year	5.111	(177)	0	4.933
Assets 31.12.2021	114.848	364	(284)	114.928
Liabilities 31.12.2021	77.399	329	(284)	77.444
Investments of the year	2.821	58	0	2.879

6. Operating income

Operating income is specified as follows:

	2022	2021
Lease income	8.562	7.712
Operating income of common properties	646	481
Income from hotel operations	795	369
Other income	75	106
Total operating income	10.078	8.668

The Group has entered into lease agreements which are valid for a period from a few months up to almost 27 years. Almost all of the agreements are connected to price changes by connecting them to consumer price index for indexation. The group has 10 lease agreements connected to turnover either in full or partly, and the ratio of lease income from such agreements was 2% of the Company's total lease income. Income weighted average rental period is 6.7 years (2021: 6.4 years). Some of the lease agreements can be terminated before the end of the lease period. Those terms are not factored into the income weighted average rental period.

Following is an analysis of future lease income of current lease agreements without taking into account revaluation clauses regarding lease payments and termination provisions.

Lease income 2022	-	7.872
Lease income 2023	8.421	6.327
Lease income 2024	7.421	5.804
Lease income 2025	7.009	5.518
Lease income 2026	6.394	5.025
Lease income 2027	5.461	-
Lease income more than five years	28.274	25.545
Lease income total	62.980	56.090

7. Operating expenses

Operating expenses are specified as follows:	2022	2021
Property tax, water and wastewater expenses	1.369	1.301
Insurance	87	83
Maintenance of investment properties	46	41
Operating expenses of properties	671	576
Other operating expenses of investment properties	220	201
Operating expenses of hotel	442	236
Office and administrative expenses	546	476
Total operating expenses	<u>3.382</u>	<u>2.915</u>

Operating expenses are specified as follows between leased assets and assets not generating lease income in the year:

Leased assets	2.269	2.113
Assets not generating lease income in the year	124	91
	<u>2.394</u>	<u>2.203</u>

Operating expenses of hotel	442	236
Office and administrative expenses	546	476
Total operating expenses	<u>3.382</u>	<u>2.915</u>

Hótel 1919 ehf., which is operated as a part of Radisson Hotel Group, received governmental support amounting to ISK 1 million (2021: ISK 23 million), which decreases the hotel's operational costs.

8. Salaries and salary related expenses

Salaries and salary related expenses are specified as follows:	2022	2021
Salaries	590	509
Contributions to pension funds	74	65
Other salary-related expenses	49	58
Other staff related expenses	29	18
Total salaries and salary-related expenses	<u>743</u>	<u>650</u>
Man-years	47	44
Positions at the end of the year	52	46

Salaries and salary-related expenses are allocated to operating items as follows:

Operating expenses of investment properties	220	195
Operating expenses of hotel	130	122
Office and administrative expenses	393	332
Total salaries and salary-related expenses	<u>743</u>	<u>650</u>

9. Fees to auditors

Fees to auditors of the Company are specified as follows:	2022	2021
Audit of financial statements and review of interim financial statements	21	19
Other services	1	2
Total fees to auditors	<u>22</u>	<u>21</u>

10. Finance income and finance expenses

Finance income and finance expenses are specified as follows:

	2022	2021
Interest income	50	33
Interest expenses	(2.444)	(2.184)
Indexation	(4.741)	(2.317)
Prepayment charge	0	(52)
Interest expenses on lease liabilities	(105)	(97)
Other finance expenses	(19)	(28)
Total finance expenses	(7.309)	(4.678)
Net finance expenses	(7.259)	(4.645)

11. Income tax

Expensed income tax

Effective income tax is specified as follows:

	2022	2021
Profit before income tax	10.004	6.168
Income tax according to the current tax ratio	20,0% 2.001	20,0% 1.234
Provision for tax asset, change	0,3% 33	(0,1%) (6)
Other changes	(0,3%) (30)	0,1% 7
Effective income tax	20,0% 2.004	20,0% 1.234

12. Intangible assets

Intangible assets comprise of goodwill from purchases of subsidiaries. Goodwill is not amortised, but is evaluated at least annually with regards to impairment or more often if there is indication of impairment. In performing impairment test, fair value less cost to disposal was evaluated.

Key assumptions which supported the impairment test were among others the following:

- Weighted rate of return 6.4%
- Growth 0.5%
- Equity ratio 30%

The cash flow model used is comparable and with the same presumptions as were used in valuating the Company's investment properties (notes 13 and 31). The impairment test did not indicate any impairment.

The following combined changes of presumptions would have lead to impairment at year end 2022:

- Increase in WACC of 0.5%
- Decrease in interests of 0.5% down to 0.0%
- Decrease in market rent by 5%

13. Investment properties

	2022	2021
Book value at the beginning of the year	105.638	98.404
Changes in lease assets	124	68
Investment in current investment properties	2.604	1.401
Investment in new investment properties	1.204	946
Sold investment properties	(362)	(394)
Value adjustment	10.431	5.215
Book value at end of the year	119.639	105.638

Segmentation of investment properties

Real estate	116.517	102.843
Building rights and plots	664	461
Lease assets	2.457	2.333
Total investment assets	119.639	105.638

2022	Commercial buildings	Office buildings	Industrial and storage	Hotel and restaurant	Wellness and other	Total
Book value at 1.1.	25.684	47.465	14.109	10.391	5.656	103.304
Investment for the year	458	1.390	144	79	533	2.604
Investment in new assets ..	105	233	466	155	246	1.204
Sold during the year	0 (	52) (	310)	0	0 (	362)
Reclassification	758 (	3.782)	397 (	85)	2.712	0
Value adjustment	2.261	4.143	1.836	1.300	891	10.431
Book value at 31.12	29.265	49.396	16.643	11.839	10.038	117.181
Proportion	25,0%	42,2%	14,2%	10,1%	8,6%	100,0%

2021	Commercial buildings	Office buildings	Industrial and storage	Hotel and restaurant	Wellness and other	Total
Book value at 1.1.	23.862	44.784	12.741	9.559	5.192	96.138
Investment for the year	381	744	41	59	177	1.401
Investment in new assets ..	71	75	758	0	41	945
Sold during the year	0 (	161) (	73) (	160)	0 (	394)
Reclassification	531	132 (	457) (	92) (	115)	0
Value adjustment	839	1.891	1.098	1.025	361	5.215
Book value at 31.12	25.684	47.465	14.109	10.391	5.656	103.304
Proportion	24,9%	45,9%	13,7%	10,1%	5,5%	100,0%

Following is information on main presumptions and changes which have occurred.

The Group's investment properties are valued by management of the Company at fair value at the reporting date in accordance with the International Accounting Standard IAS 40.

In measuring the assets, management has estimated discounted future cash flow that the Company can expect from current lease agreements and lease agreements the Company expects to enter into at the end of lease period of current lease agreements. The measurement is in accordance with level 3 in the fair value hierarchy, see further note 3, and there were no changes in classification during the year. The measurement is based on presumptions on expected utilisation ratio of the properties in the future, market rent at the end of lease periods of current agreements and operating costs of these properties. The approach and conclusions, which are used in measuring both amounts and timing of future cash flow, are revaluated on a regular basis in order to come closer to actual fair value of the assets. Management estimates of development of several other factors in the future are also taken into account, such as changes in lease and capital markets.

Management had transactions of business premises in the 2022 looked at and the result was that evaluation of the Company's investment properties was comparable to those market transactions.

Effect of COVID-19

The effect of COVID-19 on the value of investment properties have been fully reversed at year-end 2022.

Interests

Presumptions on interests applied in calculating the Company's weighted average cost of capital have been revalued from the previous year's estimate in accordance with changes to general credit terms, but management expectations on market interest of individual assets are relied upon.

Rate of return on equity and equity ratio

Rate of return on equity is derived from the CAPM model (Capital Asset Pricing Model). Changes were made to presumptions of rate of return on equity for increase. The Company's WACC is between 5.5% - 6.8% (2021: 5.4% - 6.8%) depending on assets. Tax shield is not taken into account in calculating WACC. Equity ratio is expected to be 30%.

Utilisation of lease units

Rental value ratio of the Group was 95.7% at the end of year 2022 (2021: 94.2%). Rental value ratio is the ratio of leased properties which are in a leasable condition relative to lease payments but not relative to square metres. Presumptions on rental value ratio of individual assets are between 0% to 100% and future estimate for the asset portfolio is 95% (2021: 95%).

Market rent

In estimating future cash flow market rent needs to be evaluated at the time when current lease agreements expire. The market rent is based on management estimate of development of rental price in the future.

Estimated lease income is based on current lease agreements and management estimate of development of rental price in the future.

2022	Commercial buildings	Office buildings	Industrial and storage	Hotel and restaurant	Wellness and other	Total
Estimated lease income pr. m ² pr. month (ISK)	917-7.209	1.453-5.026	563-2.742	1.797-6.683	1.348-4.113	
Estimated weighted average rent pr. m ² pr. month (ISK) ...	2.495	2.812	2.108	4.226	2.999	2.706
WACC	6,0-6,5%	5,5-6,8%	6,0-6,8%	5,5-6,8%	6,0-6,5%	6,2%
2021	Commercial buildings	Office buildings	Industrial and storage	Hotel and restaurant	Wellness and other	Total
Estimated lease income pr. m ² pr. month (ISK)	843-6.712	1.335-4.617	502-2.312	1.651-5.961	1.238-3.669	
Estimated weighted average rent pr. m ² pr. month (ISK) ...	2.242	2.550	1.819	3.861	2.650	2.411
WACC	5,9-6,5%	5,4-6,8%	6,2-6,8%	5,4-6,8%	5,9-6,5%	6,1%

Sensitivity analysis

Effects of changes in fair value of investment properties:	2022		2021	
	Increase	Decrease	Increase	Decrease
Increase (decrease) of lease income by 1%	1.592	(1.592)	1.432	(1.432)
Increase (decrease) of rental value ratio by 1%-point	1.648	(1.648)	1.382	(1.382)
Decrease (Increase) of rate of return by 0.5%-points	10.717	(9.042)	9.319	(7.844)

Official assessment value and insurance value

Book value, official assessment value and fire insurance value of properties is as follows:

	2022	2021
Book value of properties and land	121.661	107.801
Official assessment value of properties and land	99.973	89.765
Fire insurance value of properties	108.542	94.177
Additional fire insurance value of properties	14.227	17.013

Pledges and guarantees

The Group's real estates, whether classified as investment properties, properties under construction or assets for own use, are pledged as collaterals for the Group's liabilities for the amount of ISK 70,217 million at year end (2021: ISK 64,769 million). A part of the Group's real estates carry input VAT encumbrance in the amount of ISK 4,049 million at year end (2021: ISK 3,539 million) which amortise over 20 years. The VAT encumbrance does not become payable unless prerequisites change, if relevant real estate is utilised for operations which are exempt from VAT or they are sold less the encumbrance. In addition there is an encumbrance for the amount of ISK 222 million for a building right at the Company's plot at Borgartún 21. The encumbrance will lapse at year end 2026 and will not become payable unless construction will commence on the plot.

14. Development properties

Development properties are specified as follows:	2022	2021
Book value at 1.1	663	659
Investment in current development properties	8	3
Change in lease asset	1	1
Book value at 31.12.	671	663

15. Assets for own use

Assets for own use are specified as follows:

	Real estate	Interiors and other	Total
Cost			
Balance at 1.1.2021	3.943	446	4.389
Additions 2021	436	96	533
Sold during the year	0	(3)	(3)
Balance at 31.12.2021	4.380	539	4.918
Opening balance corrections and reclassifications	(92)	(43)	(135)
Additions 2022	58	65	123
Sold during the year	0	(17)	(17)
Balance at 31.12.2020	4.346	544	4.890
Depreciation			
Depreciation at 1.1.2021	341	259	600
Depreciation	85	50	135
Total depreciation at 31.12.2021	426	310	735
Opening balance corrections and reclassifications	4	(138)	(135)
Depreciation during the year	85	52	138
Sold during the year	0	(11)	(11)
Total depreciation at 31.12.2022	515	213	727
Book value			
At 1.1.2021	3.603	186	3.789
At 31.12.2021	3.954	229	4.183
At 31.12.2022	3.831	331	4.162

Changes in opening balances 2022 were made for reclassification between asset types. The effects of the changes were decrease by ISK 95 million in real estate and increase by the same amount in other assets. Changes were made to gross amounts of cost and accumulated depreciation by lowering both amounts by ISK 135 million. The changes have no effect on net balances of assets.

16. Depreciation

Depreciation and impairment losses is specified as follows:	2022	2021
Office	3	3
Hotel	114	113
Interiors and other	20	20
Total depreciation and impairment losses	138	135

17. Trade receivables and other receivables

Trade receivables and other receivables are specified as follows:

	2022	2019
Long-term receivables	150	121
Provision for impairment losses	(83)	(33)
Long-term receivables, net balance	68	88
Trade receivables due to lease	282	289
Trade receivables due to deferred lease payments	678	678
Trade receivables due to other operations	128	107
Provision for impairment losses	(334)	(407)
Total trade receivables	754	667
Other short-term receivables	20	41
Other short-term receivables total	20	41
Total trade receivables and other short-term receivables	774	708
Provision for impairment of receivables is specified as follows at year end:	2022	2021
Provision at beginning of the year	439	421
Provision during the year	(111)	(89)
Receivables written off during the year	88	107
Provision at year end	417	439

The Company's long-term receivables are for lease payments due. Where lease payments due are changed to long-term receivables, the Company has in general received additional insurance in addition to the receivable becoming interest bearing and in an instalment process.

18. Equity

Share capital

The Company's total share capital according to its Articles of Association amount to ISK 3.423.863.435. The Company holds treasury shares in the nominal value of ISK 8.800.000 at the end of the period which is recognised as decrease in share capital. Outstanding shares at year end are 3.415.063.435 and are all paid up. One vote is attached to each ISK 1 share in the Company.

Share premium

Share premium represents excess of payments above nominal value that shareholders have paid for shares sold by the Company.

Reserves

A statutory reserve is established by the Company in accordance with Act No. 2/1995 on limited liability companies, which stipulates that at least 10% of the Company's profit, not utilised to adjust previous years' losses or for other reserves in accordance with law, shall be allocated to the statutory reserve until the reserve amounts to 10% of the Company's share capital. When that benchmark has been reached the contribution to the reserve shall be at least 5% until its value has reached 25% of the Company's share capital. The statutory reserve can be used to offset loss which cannot be offset with entries from other reserves. When the statutory reserve amounts to more than 25% of the share capital, the excess amount can be utilised to increase share capital or, or if provisions in Article 53 of the Act no. 2/1995 on limited liability companies are met, for other needs.

Restricted equity

According to the Financial Statements Act no. 3/2006 companies are required to recognise share in profit or loss of subsidiaries, which is recognised in the income statement and is in excess of dividend received or dividend which has been decided to distribute, to restricted minority interest reserve among equity.

Retained earnings

Retained earnings consist of the Group's retained profit and accumulated deficit from the establishment of the parent company, with valuation changes of investment properties taking into account income tax effects, less dividend payments and transfers to and from other equity items.

Capital management

The Company's Board of Directors has established an equity ratio of 30%. It is the Board's policy to ensure a strong equity position and support stable future operating development. The Board aims to keep balance between rate of return of equity and optimisation and security which is achieved with strong equity ratio. The Company's equity ratio was 34.0% at year end (2021: 32.6%). Return on equity was positive by 22.0% in the year 2022 (2021: 15.1%).

Dividend

The Company's Board of Directors' policy is to annually pay dividend or repurchase share for the amount corresponding up to 50% of net cash provided by operations. In accordance with the dividend policy, the Board proposes dividend of ISK 2,000 million will be paid to shareholders.

19. Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit to average number of active shares during the year and shows the earnings per each share of ISK 1. Diluted earnings per share is the same as basic earnings per share since no share options have been granted by the Company nor has it sold convertible bonds.

	2022	2021
Profit for the year.....	8.001	4.933
Weighted-average number of ordinary shares during the year.....	3.415	3.415
Earnings per share.....	2,34	1,44

20. Interest bearing liabilities

This note includes information about the contractual provisions of the Group's interest bearing liabilities. Reference is made to note 25 for information on the Group's foreign exchange and interest rate risk.

	2022	2021
Interest bearing liabilities 1 January	64.814	62.001
New borrowings	6.394	12.814
Repayments and settlements of long-term liabilities	(5.715)	(12.358)
Indexation	4.741	2.244
Capitalised borrowing cost, change	29	76
Other long-term liabilities, change	10	37
Interest bearing liabilities 31 December	70.272	64.814

Long-term liabilities

Listed bonds and bank loans	64.238	60.016
Other long-term liabilities	55	45
	64.292	60.061

Short-term liabilities

Current maturities of liabilities	5.980	4.753
	5.980	4.753

Total interest bearing liabilities	70.272	64.814
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Terms and repayment period of interest bearing liabilities

	Weighted average interest rates	Final maturity	2022	2021
Bond issue EIK 100346 in ISK, indexed	3,60%	2046	6.197	5.817
Bond issue EIK 161047 in ISK, indexed	3,50%	2047	22.483	21.053
Bond issue EIK 050749 in ISK, indexed	3,08%	2049	7.276	6.809
Bond issue EIK 050726 in ISK, indexed	2,71%	2026	6.563	6.149
Bond issue EIK 141233 in ISK, indexed	2,33%	2033	8.711	8.161
Bond issue EIK 100327 in ISK, indexed	1,45%	2027	3.279	3.080
Bond issue EIK 23 1 in ISK, non-indexed	2,90%	2023	1.199	1.198
Bond issue EIK 24 1 in ISK, non-indexed	4,34%	2024	2.996	2.994
Bond issue EIK 25 1 in ISK, non-indexed	7,67%	2025	2.335	0
Loan in ISK, non-indexed	7,31%	2023-2029	9.178	9.507
Other non-indexed long-term liabilities	1,85%	2023-2029	55	45
Total long-term liabilities, incl. current maturities			70.272	64.814
Current maturities			(5.980)	(4.753)
Total			64.292	60.061

Repayment of long-term liabilities is specified as follows over the next years:

	2022	2021
Repayments in 2022	0	4.753
Repayments in 2023	5.980	2.697
Repayments in 2024	5.100	4.975
Repayments in 2025	7.471	5.003
Repayments in 2026	7.484	6.850
Repayments in 2027	4.830	0
Subsequent repayments	39.407	40.536
Total	70.272	64.814

At the end of 2022 the Company fulfilled all covenants relating financial strength and cash flow obligations which it has undertaken in terms of loans and bonds.

During the year, the company issued one new bond class, EIK 25 1, for the amount of ISK 2,340 million.

The company has unused credit facility amounting to ISK 2,600 million at year end. (2021: 1,200 m.kr.)

21. Lease assets and lease liabilities

	2022	2021
Lease assets		
Balance at beginning of the year	2.355	2.287
Change due to revaluation	121	56
Purchased and sold assets	4	12
Balance at end of the year	<u>2.480</u>	<u>2.355</u>
Lease liabilities		
Balance at beginning of the year	2.355	2.287
Change due to revaluation	121	56
Purchased and sold assets	4	12
Balance at end of the year	<u>2.480</u>	<u>2.355</u>
Amounts in statement of comprehensive income		
Interest expenses of lease liabilities expensed to income statement	105	97
Amounts in statement of cash flow		
Interest expense of lease liabilities paid	105	97

22. Income tax liability

The Company's income tax liability is specified as follows:	2022	2021
Income tax liability at 1 January	8.680	7.445
Income tax liability in statement of comprehensive income	2.004	1.234
Income tax liability at 31 December	<u>10.683</u>	<u>8.680</u>
Real estate	11.505	9.299
Tax loss carry-forward	(778)	(545)
Provision for tax asset	39	13
Other items	(83)	(88)
Tax liability at year end	<u>10.683</u>	<u>8.680</u>

Tax loss carry-forward, which is not utilisable against profit within 10 years since it developed, will terminate. Tax loss carry-forward at year end is utilisable as follows:

Taxable loss due to 2012, utilisable until year end 2022		30
Taxable loss due to 2013, utilisable until year end 2023	179	179
Taxable loss due to 2014, utilisable until year end 2024	113	113
Taxable loss due to 2015, utilisable until year end 2025	240	240
Taxable loss due to 2016, utilisable until year end 2026	239	239
Taxable loss due to 2017, utilisable until year end 2027	179	179
Taxable loss due to 2018, utilisable until year end 2028	452	786
Taxable loss due to 2019, utilisable until year end 2029	226	525
Taxable loss due to 2020, utilisable until year end 2030	422	422
Taxable loss due to 2021, utilisable until year end 2031	9	9
Taxable loss due to 2022, utilisable until year end 2032	1.828	
	<u>3.888</u>	<u>2.723</u>

Income tax asset is recognised to the extent that it is considered likely that future profit can be utilised against the asset. Income tax asset is evaluated at each reporting date.

Income tax liability amounting to ISK 477 million from company acquisitions that were classified as asset deals have not been recognised in the balance sheet, as IFRS does not allow such recognition. The liability will not materialise unless the investment assets will be sold. The company has no plans to sell these assets.

23. Trade payables and other short-term payables

Trade payables and other short-term payables are specified as follows at year end:	2022	2021
Trade payables	242	347
Accrued interest	550	508
Short-term liabilities due to purchased investment assets	27	155
Other short-term liabilities	653	587
Total trade payables and other short-term payables	<u>1.472</u>	<u>1.596</u>

24. Investing and financing without credit

Purchase price of investment assets	(27)	(155)
Other short-term liabilities	27	155

25. Financial risk management

The Group's financial instruments are exposed to several risks and those will be described below along with methods applied by the Group in evaluating and managing the risk. The Company's Board of Directors is responsible for implementing and monitoring the Group's risk management. Risk management is meant to analyse or detect risk factors, set benchmarks relating to risks and monitor it.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and guarantees are not sufficient for the outstanding receivable. Credit risk arises principally from financial position and operations of the Group's customers. The Company analyses financial position of new customers for creditworthiness prior to entering into business, in addition to requesting 3-6 months' guarantees. If a customer does not meet contractual obligations for two months, the matter is referred to the collection committee. Follow up on collections is effective and decisions made on how to react to them.

The Group's maximum exposure to credit risk of financial assets is their book value which at year-end was as follows:

	2022	2021
Cash and cash equivalents	2.986	3.297
Trade receivables	822	755
Other short-term receivables	20	41
Total maximum exposure	3.828	4.093

The aging of trade receivables and impairment at year-end was as follows:

	2022		2021	
	Gross	Impairment	Gross	Impairment
Not past due and past due 1-30 days	296	22	179	3
Past due 31 - 60 days	18	9	29	5
Past due 61 - 90 days	28	11	20	9
Past due more than 90 days	896	375	967	423
	1.238	417	1.195	440

Overdue receivables due to entities within tourism and bars and restaurants amount to ISK 765 million but they have been depreciated by ISK 375 million. Of these receivables there are ISK 670 million due to deferred lease payments, but they have been depreciated by ISK 265 million.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group observes development of its liquidity by analysing due dates of financial assets and financial liabilities with the aim to ensure that it will always have sufficient liquidity to meet its liabilities. The Company had undrawn credit facilities of ISK 2,600 million at year end. The Company owns unpledged investment properties valued at ISK 10,300 million.

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

2022	Book value	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Interest bearing loans	70.272	93.348	8.008	7.507	24.892	52.941
Trade receivables and other short-term receivables	1.472	1.472	1.472			
	71.744	94.820	9.480	7.507	24.892	52.941

2021	Book value	Contractual cash flows	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
Interest bearing loans	64.814	86.812	6.247	4.648	21.768	54.149
Trade receivables and other short-term receivables	1.596	1.596	1.596			
	66.410	88.409	7.843	4.648	21.768	54.149

Interest rate risk

Interest rate risk is the risk of changes in fair value or cash flow from financial assets and financial liabilities due to changes in market interest rates. The Group's interest bearing financial instruments are specified as follows at year end:

	2022	2021
Financial instruments with fixed interest rates		
Interest bearing loans	(61.040)	(55.262)
Net financial instruments with fixed interest rates	(61.040)	(55.262)

Financial instruments with floating interest rates

Cash and cash equivalents	2.986	3.297
Interest bearing loans	(9.232)	(9.552)
Net financial instruments with floating interest rates	(6.246)	(6.254)

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

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) the profit before income tax by ISK 62 (62) million (2022: ISK 63 (63) million). This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for the year 2021.

Financial instruments with fixed interest rates

The Group's financial instruments with fixed interest rates are not recognised at fair value through statement of comprehensive income. If there is a change in interest rate at reporting date it has no effect on the Group's financial performance.

Inflation risk

Inflation risk is the risk of the Company's results fluctuating due to changes in consumer price index. Interest bearing liabilities in the amount of ISK 54.509 million. (2021: ISK 55.262 million) are indexed to the consumer price index. A change in inflation of one percentage point at year end 2022 would have decreased the Company's profit before income tax in the amount of ISK 545 million (2021: ISK 553 million). The analysis is based on all other variables remaining constant.

26. Operation risk

Operational risk is a risk related to other factors than those discussed above, general factors which apply to operation of real estate companies. 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 organisation, and from external factors other than the above mentioned, such as changes in laws, increased tax levy as with property taxes and general attitude towards corporate governance. Operational risks arise from all of the Group's operations.

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

27. Fair value

Comparison of fair value and book value

Fair value and book value of financial assets and financial liabilities is specified as follows:

	31 December 2022		31 December 2021	
	Book value	Fair value	Book value	Fair value
Interest bearing loans	70.272	70.972	64.814	68.727

Fair value of the Company's listed bonds is calculated in accordance with level 2, see note 3. Fair value of other financial assets and financial liabilities is the same as their book value.

28. Related parties

Definition of related parties

The Group has a related party relationship with members of the Board of Directors, management and shareholders which have significant influence, companies controlled by them, along with their spouses and financially dependent children.

Related parties with significant influence

According to the Company share registry, Brimgarðar ehf. owned 16.5% share in the Company at year end. At 7 May 2021 a major shareholder announcement was published on Nasdaq Iceland since Brimgarðar ehf.'s direct shareholding and direct and indirect rights according to financial instruments exceeded 25%. It can be expected that Brimgarðar ehf.'s aggregate shareholding at year-end, taking into account forward trading and exchange agreements, were between 25-30%.

Transactions with companies controlled by members of the Board of Directors

No transactions were with companies controlled by members of the Board of Directors.

Transactions with key management

Salaries and benefits to key management for their work for the Group and shares in the Company are specified as follows:

Year 2022	Salaries and benefits	Bonus payments	Contribution to pension funds	Nominal value of shares
Bjarni Kristján Þorvarðarson, Chairman of the Board	7,0		0,9	
Guðrún Bergsteinsdóttir, Board member	4,9		0,7	
Eyjólfur Árni Rafnsson, Board member	6,2		0,8	
Hersir Sigurgeirsson, Board member	5,9		0,8	0,5
Ragnheiður Harðar Harðardóttir, Board member	5,4		0,7	
Kristín Friðgeirsdóttir, Board member	1,2		0,8	
Garðar Hannes Friðjónsson, CEO	50,7	7,2	8,1	7,4
Directors (5)	116,7	11,8	16,8	0,4

Directors are: Eyjólfur Gunnarsson, Guðbjartur Magnússon, Jóhann Magnús Jóhannsson, Lýður Heiðar Gunnarsson og Sturla Gunnar Eðvarðsson.

	benefits	Success payments	Contribution funds	Nominal shares
Eyjólfur Árni Rafnsson, Chairman of the Board	8,6		1,2	
Guðrún Bergsteinsdóttir, Vice chairman of the Board	4,5		0,6	
Arna Harðardóttir, Board member	4,9		0,7	0,5
Bjarni Kristján Þorvarðarson, Board member	3,1		0,4	
Hersir Sigurgeirsson, Board member	3,5		0,5	
Agla Elísabet Hendriksdóttir, Board member	1,5		0,2	
Garðar Hannes Friðjónsson, CEO	1,4		0,2	
Directors (6)	38,4	3,8	5,2	7,4

Directors are: Eyjólfur Gunnarsson, Guðbjartur Magnússon, Jóhann Magnús Jóhannsson, Lýður Heiðar Gunnarsson, Árdís Ethel Hrafnadóttir og Jón Grétar Jónsson.

No irregular contracts have been entered into with board members or management.

The share of Garðar Hannes Friðjónsson is through Burðarbitar ehf. and Hersir Sigurgeirsson through Endurreisnarsjóðurinn ehf.

29. Subsidiaries

<i>Shareholding in subsidiaries</i>	Share 2022	Share 2021
Eik rekstrarfélag ehf.	100,0%	100,0%
Landfestar ehf.	100,0%	100,0%
- LF1 ehf.	100,0%	100,0%
- Hótel 1919 ehf.	100,0%	0,0%

All of the subsidiaries are domiciled in Reykjavík.

30. Events after the reporting date

The company has refinanced the bank loan in the amount of ISK 3.140 million which was due in March 2023.

The company has signed two purchase offers, if the purchases goes through, it can be expected to occur in the second quarter of the year. The total purchase price is around ISK 1.540 million.

31. Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in the Company's financial statements.

In order to increase the information value of the financial statements, the notes are published on the basis of how appropriate and significant they are for the reader. This entails that information which is considered neither significant nor appropriate for the user of the financial statements are not published in the notes.

a. Basis of consolidation

i) Merger of companies

The purchase method is applied at merger when control transfers to the Group. The transaction at merger is measured at fair value as well as the separable assets and liabilities which are taken over. Goodwill generated is tested annually for impairment. Profit from favourable purchases is recognised immediately in the statement of comprehensive income. Transaction costs are expensed as it occurs except when it is related to issue of bonds or shares.

Conditional supplementary payments are recognised at fair value at the acquisition date. If such supplementary payment is categories as equity it is not revalued and is settled within equity. In other instances changes in fair value of conditional supplementary payment is recognised in the statement of comprehensive income.

ii) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is based on whether the Group has power over the investment, bears a risk or has the rights to variable returns from its involvement in the investment and has the ability to affect its returns of the investment. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii) Loss of control

When the Group loses control of a subsidiary the assets and liabilities of the subsidiary are removed from the consolidated financial statements along with the share of other shareholders of the entity and other items in equity. All related profit or loss is recognised in the statement of comprehensive income. Remaining share is measured at fair value at the date control was lost.

iv) 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. Unrealised loss is eliminated by the same method as unrealised profit, but only to the extent that there is no indication of impairment of the asset.

b. Foreign currencies transactions

Transactions in foreign currencies are recognised in the functional currency of individual group entities at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are recognised at the exchange rate ruling at the reporting date. Other assets and liabilities recognised in foreign currencies at fair value are translated at the exchange rate ruling at the date of determination of fair value.

Exchange differences arising from transactions in foreign currencies are recognised in the statement of comprehensive income.

c. Financial instruments

i) Financial assets

Loans, receivables and cash and cash equivalent are recognised at the date they incurred. Other financial assets are initially recognised at the date the Company became party to contractual provisions of the financial instrument.

Financial assets are derecognised if contractual rights of the Company to cash flow related to the financial assets expires or if the Company delivers right to cash flow related to the financial asset to another party without retaining control or almost all of the risk and benefit which the ownership entails.

Financial assets and financial liabilities are offset and net amount recognised in statement of financial position when and only when the Company has legal right to offset and intentions are to settle with offsetting financial assets and financial instruments or redeem the asset or settle the liability at the same time.

Financial assets at amortised cost

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

Financial assets at amortised cost comprise trade receivables and other short-term receivables.

Cash and cash equivalents

Cash and cash equivalents consist of funds and on demand bank deposits and securities available within three months.

ii) Financial liabilities

Interest bearing liabilities are recognised at the date they were entered into. All other financial liabilities are initially recognised at the transaction date where the Company became party to contractual provisions of the financial instrument.

The Company deregisters financial liability if contractual obligations related to the financial liability finish, they are relinquished or expire. The Company classifies financial liabilities other than derivative agreements as other financial liabilities. Financial liabilities are initially measured at fair value plus all direct transaction costs.

The Company's financial liabilities consist of interest bearing liabilities, trade payables and other short-term liabilities.

iii) Share capital

Direct costs attributable to the issue of share capital are recognised as a deduction from equity, net of tax effects.

d. Intangible assets

i) Goodwill

Goodwill arises upon the acquisition of subsidiaries. Goodwill is the difference between the cost upon take-over and the fair value of overtaken assets, liabilities and uncertain liabilities. If negative goodwill arises it is immediately recognised in the statement of comprehensive income less accumulated impairment.

ii) Other intangible assets

Other intangible assets which are acquired or are written up at acquisition of subsidiaries and have limited useful life are capitalised at cost less accumulated depreciation and impairment as appropriate.

iii) Subsequent cost

Subsequent cost is only capitalised if it increases benefit of the asset for which the cost is related to. Other costs, including due to goodwill and trademarks created within the Group, is recognised in the statement of comprehensive income when it incurs.

iv) Depreciation of intangible assets

Depreciation of intangible assets is recognised in the statement of comprehensive income on a straight-line basis over their estimated useful lives. The estimated useful life is specified as follows:

e. Investment properties

Investment properties are real estates (land and buildings) owned by the Company to create rental income, for value increase or both. Investment properties are recognised at fair value in accordance with International Accounting Standard IAS 40, see further note 13. Measurement of investment assets relies upon fair value of comparable assets in active market in transactions between unrelated informed parties, and discounted future cash flow of individual assets. The measurement takes into account the sum of expected future rental income of the properties in addition to cost of operating and maintaining the properties. Estimated future rental income is mostly based on current lease agreements. Estimated operating costs and maintenance of properties is subtracted from rental income. Market interest rates are used in discounting. Changes of fair value of investment properties are recognised under the item changes in value of investment properties in the statement of comprehensive income. Investment properties are not amortised.

When asset for own use becomes investment property due to a change in utilisation, the difference created at transfer of book value and fair value of the property is recognised as revaluation in other profit if there is a profit. At sale of investment property this profit is recognised among retained earnings. Loss which is created at such event is recognised immediately in the statement of comprehensive income.

If investment property is used by its owner it is classified as asset for own use and its fair value at reclassification date will become its cost price in the accounts.

f. Properties under development

Property which is under development and is intended to be used as an investment property, is recognised at cost.

g. Assets for own use

i) Recording and valuation

Assets for own use are measured at cost less depreciation and impairment losses. Revalued cost is fair value of the assets at the revaluation date less accumulated depreciations. All increases due to the revaluation are recognised in revaluation reserve among equity less income tax. Depreciation of the revaluation is recognised in the statement of comprehensive income and annually an adjustment is recognised which corresponds to the amount in revaluation reserve and retained earnings. Annual revaluation is performed.

Cost consists of direct cost of the transaction. Cost of assets for own use which the Company itself builds, consist of materials and salaries, other costs incurred in making the asset operative and is considered to be part of cost of the property. Purchased software which is essential in order to use hardware is capitalised as part of that equipment.

When assets for own use are composed of units with different useful lives the units are separated and depreciated in line with the useful life.

Profit of sale of assets for own use is the difference between actual sale price and book value of the property and is recognised in the statement of comprehensive income among operating income.

Interest expenses of loans which are used to finance the cost of properties under construction are capitalised over the construction period.

ii) Subsequent costs

Cost of renewing certain parts assets for own use are capitalised if it is considered likely that benefit related to the asset will be received by the Company and the cost can reasonably be measured. All other cost is expensed in the statement of comprehensive income when it incurs.

iii) Depreciation

Depreciation measured on a straight-line basis over the estimated useful lives of assets for own use. Land is not depreciated. The estimated useful lives are specified as follows:

	Useful life
Properties for own use	50 - 100 years
Other assets for own use	5 - 10 years

Depreciation methods, estimated useful life and residual value are revalued at each accounting date.

h. Impairment

i) Financial assets

A financial asset, not recognised at fair value, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Impairment of financial assets is recognised in the statement of comprehensive income.

ii) Other assets

Book value of other assets of the Group is reviewed at each reporting date to determine whether there are indications of impairment. If there is any such indication the recoverable amount of the asset is estimated. Goodwill is tested for impairment at least once a year.

The recoverable amount of an asset or a cash generating unit is the higher of their net fair value or value in use. Value in use is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is expensed when the book value of an asset or a cash generating unit is higher than its recoverable amount. A cash generating unit is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or asset groups. Impairment losses recognised in respect of cash generating units are allocated first to reduce the book value of the goodwill and then to reduce the book value of the other assets in the cash generating unit on a pro rata basis. An impairment loss is expensed in the statement of comprehensive income.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent of prior recognition of impairment taking taxes into account.

i. Obligations

Obligations are recognised in the statement of financial position when the Group has a legal obligation or entered into obligations due to past events, it is considered probable that they will be settled and they can be reliably measured. If the effect is significant, the obligation is assessed by discounting estimated future cash flow with interest before taxes which shows current market assessment of time value of money and, if appropriate, the risk inherent with the obligation.

j. Lease agreements

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use assets and lease liabilities are only due to leases of land with third parties. There is now right-of-use asset in the Group's statement of financial position. Lease liabilities are initially measured at the present value of unpaid lease payments at the commencement date. If the interest rate implicit in the land lease can be determined it is used for determining present value of the liability. If it cannot be determined then the incremental borrowing rate shall be used, which is the method applied by the Group. Variable incremental borrowing rates are used based on location and category of real estate on each land and a comparable method is applied in determining incremental borrowing rate as is with valuation of the Company's investment properties. The interest rates used for determining present value are determined so that 70% is incremental borrowing rate and 30% is incremental borrowing rate with yield. This method is used for all of the Group's leases of land.

k. Rental income

Rental income of investment properties are recognised in the statement of comprehensive income over the rental period.

l. Operating expense of investment properties

Operating expense of investment properties is expensed when it incurs and contains among other property taxes, insurance, maintenance and impairment of trade receivables.

m. Finance income and finance expenses

Finance income comprises interest income on financial assets and foreign exchange gain on foreign currencies. Interest income is recognised in the statement of comprehensive income as it accrues based on effective interests.

Finance expenses comprise interest expense and indexation on borrowings, exchange rate loss on foreign currencies and other finance expenses. Interest expenses are recognised in the statement of comprehensive income as it accrues based on effective interests.

Foreign currency gains and losses are reported on a net basis.

n. Income tax

Income tax expense comprises current and deferred income tax. Income tax is recognised in statement of comprehensive income except to the extent that it relates to operating items recognised directly in equity, in which case the income tax is recognised in equity.

Current income tax is the expected tax payable next year on the taxable income for the current year, using tax

Deferred income tax is recognised using the balance sheet method, providing for temporary differences between the book value of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognised for temporary differences relating to investments in subsidiaries as long as it is considered that the parent company can control when they are reversed and also it is likely that they will not reverse in the foreseeable future. The amount of deferred tax is based on the expected tax rate to be in effect when the temporary difference will be reversed, as per law in effect at the reporting date.

A deferred income tax asset is only recognised to the extent that it is probable that future taxable profits will be available against the asset. Deferred income tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable it will be realised.

o. Earnings per share

The financial statements present basic and diluted earnings per share data for ordinary shares in the Company. Basic earnings per share is calculated by dividing profit by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in respect of shares which might be issued in relation to share purchase agreements and other financial instruments which are convertible to shares in the Company.

p. Segment reporting

A segment is a distinguishable component of the Group within a certain business environment.