Bulgarian Real Estate Fund ADSIC

ANNUAL FINANCIAL STATEMENTS
31 December 2016

BULGARIAN REAL ESTATE FUND ADSIC

Contents

General Information

Board of Directors
Todor Breshkov, Chairman of the Board of Directors
Chavdar Donkov, Member of the Board of Directors
Nikolay Skarlatov, Executive Director

Audit Committee
Nikolay Sergeevich Dragomiretski
Irena Yordanova Daskalova
Atanas Kirilov Traychev

Registered office
3A Nikolay Haytov Str., fl. 1
1113 Sofia
Bulgaria

Depository bank
DSK Bank AD

Brokers
Settle Real Estate OOD

Management Company
Real Estate Management (MNI) OOD

Auditor
Ernst & Young Audit OOD
Polygraphia Office Center
47A, Tsarigradsko Shose Blvd., fl.4
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Independent auditor's report

To the shareholders of

Bulgarian Real Estate Fund ADSIC

Opinion

We have audited the accompanying financial statements of Bulgarian Real Estate Fund ADSIC (the Company, the Fund), which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

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 International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties The Fund's disclosures about the valuation of investment properties are presented in Note 3, Note 6.1 and Note 6.2 to the financial statements.	
The Fund's investment property portfolio (including properties held for sale) comprises agricultural and non-agricultural lands, commercial, office and vacation properties aggregating EUR 39,389 thousand as at 31 December 2016. This carrying value is determined based on an estimation of the fair value of individual properties from the portfolio at the reporting date. The Fund's policy is to engage an external valuation appraiser for this purpose. The fair valuation of properties is performed using valuation techniques utilizing a combination of observable and unobservable inputs, information for which is disclosed in Note 6.1 and Note 6.2 to the financial statements. The fair valuation is inherently uncertain, involving various assumptions and forecasts. Due to the significance of the investment properties (representing 91% of the Fund's total assets) and the related estimation uncertainty, this is considered a key audit matter.	In this area, our audit procedures included, among others: • Evaluation of the objectivity, independence and expertise of the external appraiser. • Involvement of our internal valuation experts to assist us in assessing the valuation techniques applied and the inputs and assumptions used (such as rental rates, vacancy rates, discount rates, sale and offer prices and relevant adjustments for specific characteristics of Fund's properties) by reviewing the available market data and relevance analysis. • Comparison of the key input data used by the external appraiser to historical transactions such as the terms of sales of properties and lease contracts concluded by the Fund during the year. • Evaluation of the adequacy of the investment property valuation disclosures.

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<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2"> Provision for dividends due The Fund's disclosures about the provision for dividends due are presented in Note 3 and Note 13 to the financial statements. </td></tr>
<tr><td> The Fund's provision for dividends due reflects its legal obligation to distribute minimum level of dividends at the reporting date (2016: provision of EUR 760 thousand, dividend per share of EUR 0.038). To determine the amount of the provision the Fund estimates the distributable result for the year by reference to the reported financial result adjusted for the effects of specific accounting transactions (such as investment property valuations and disposals). This process is complex, as it requires the Fund's management to make specific legal considerations (such as the requirements of the Act on Special Investment Purpose Companies and the Commerce Act) as well as estimations of the financial result adjustments to arrive at the distributable result. Note 13 to the financial statements presents more information in this respect. Due to the dividend per share being a key financial indicator for the Fund and the specific estimations involved in calculating the provision for dividends due, this is considered a key audit matter. </td><td> In this area, our audit procedures included, among others: Testing the mathematical accuracy of the calculation of the provision for minimum dividends due.
Evaluation of the estimations of the financial result adjustments (such as fair value gains and losses recognized in the current year profit and prior years fair value adjustments related to disposed in the current year properties) to arrive at the distributable result by comparing to the accounting records for the current and prior period and where necessary, to the relevant supporting documents and calculations.
Assessment of the nature of the financial result adjustments made to arrive at the distributable result by analysing the specific legal requirements (such as the requirements of the Act on Special Investment Purpose Companies and the Commerce Act) and where necessary, involving our internal legal experts.
Evaluation of the adequacy of the disclosures for the provision for dividends due.</td></tr>
</table>

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Other matter

We have audited the statutory financial statements of the Company for the year ended 31 December 2016, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and presented in BGN and have expressed an unmodified opinion on those financial statements on 30 March 2017.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the management report, including the corporate governance statement prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our auditor's report thereon. The Company's management report, including the corporate governance statement accompanies the statutory financial statements of the Company for the year ended 31 December 2016.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and presentation of the financial statements that give a true and fair view in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.

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

We also provide those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the 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.

Audit Firm Ernst & Young Audit OOD:

Daniela Petkova, CPA

Legal Representative

Sofia, Bulgaria

30 March 2017

BULGARIAN REAL ESTATE FUND ADSIC
INCOME STATEMENT
For the year ended 31 December 2016

	Notes	2016	2015
		EUR thousand	*EUR thousand*
Income			
Rental and service charge income	5.1	2,141	2,037
Net gains from fair value adjustments to investment properties	6.1, 6.2	1,259	249
Income from sale of investment property		1,061	132
Gain on derivative financial instrument	12	23	58
Interest income		4	6
Other income	5.3	89	11
Total income		**4,577**	**2,493**
Expenses			
Carrying amount of sold property	6.1, 6.2	(1,159)	(167)
Management fees	15.1	(523)	(519)
Direct operating expenses arising from properties	5.4	(494)	(488)
Interest expenses		(104)	(103)
Directors' remunerations and Board expenses	15.2	(56)	(58)
Employee benefit costs		(29)	(28)
Other expenses	5.5	(65)	(103)
Total expenses		**(2,430)**	**(1,466)**
Profit for the year		**2,147**	**1,027**
Earnings per share – basic and diluted	16	**0.107**	**0.051**
Dividend per share, gross	13	**0.038**	**0.041**

ФОНД ЗА НЕДВИЖИМИ ИМОТИ БЪЛГАРИЯ
СОФИЯ
* АДСИЦ *

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 12 to 49 form an integral part of these financial statements.

Financial statements
on which our auditors' report was
issued dated:
EY 30-03-2017
Ernst & Young Audit OOD
EY Representative and Registered Auditor:..................

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	2016	2015
	EUR thousand	*EUR thousand*
Profit for the year	**2,147**	**1,027**
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**2,147**	**1,027**

Financial statements
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EY Representative and Registered Auditor:

ФОНД ЗА НЕДВИЖИМИ ИМОТИ БЪЛГАРИЯ * АДСИЦ * СОФИЯ

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

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BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	2016 *EUR thousand*	2015 *EUR thousand*
ASSETS			
Non-current assets			
Investment property	6.1	35,261	34,070
Other financial asset	9	-	360
Intangible assets		-	1
Equipment		2	-
		35,263	**34,431**
Current assets			
Trade and other receivables	8	72	110
Deferred expenses	7	11	10
Cash and cash equivalents	9	3,903	1,795
		3,986	**1,915**
Investment property held for sale	6.2	4,128	778
TOTAL ASSETS		**43,377**	**37,124**
Equity			
Share capital	10.1	30,907	30,907
Share premium	10.2	3,245	3,245
Retained earnings		1,592	205
Total equity		**35,744**	**34,357**
Non-current liabilities			
Long-term interest bearing loans	11	4,559	-
Other long-term liability	14	79	-
		4,638	-
Current liabilities			
Current portion of long-term interest bearing loans	11	540	964
Derivative financial liability	12	-	23
Provision for dividends due	13	760	822
Trade and other payables	14	1,695	958
		2,995	**2,767**
Total liabilities		**7,633**	**2,767**
TOTAL EQUITY AND LIABILITIES		**43,377**	**37,124**

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BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Share capital (Note 10.1)	Share premium (Note 10.2)	Retained Earnings/ (Accumulated Losses)	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*
At 1 January 2015	**30,907**	**5,016**	**(1,771)**	**34,152**
Profit for the year	-	-	1,027	1,027
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	1,027	1,027
Transfer from share premium	-	(1,771)	1,771	-
Equity dividends (Note 13)	-	-	(822)	(822)
At 31 December 2015	**30,907**	**3,245**	**205**	**34,357**
At 1 January 2016	**30,907**	**3,245**	**205**	**34,357**
Profit for the year	-	-	2,147	2,147
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	2,147	2,147
Equity dividends (Note 13)	-	-	(760)	(760)
At 31 December 2016	**30,907**	**3,245**	**1,592**	**35,744**

Financial statements on which our auditors' report was issued dated:
EY 30-03-2017
Ernst & Young Audit OOD
EY Representative and Registered Auditor:..................

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

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BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Notes	2016	2015
		EUR thousand	*EUR thousand*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**2,147**	**1,027**
Adjustments to reconcile profit for the year to net cash flows			
Non-cash:			
Net gains from fair value adjustments to properties	6.1, 6.2	(1,259)	(249)
Interest income		(4)	(6)
Interest expense		104	103
Gain on derivative financial instrument	12	(23)	(58)
Loss from sale of investment property		98	35
Write off of properties	5.5	-	29
Depreciation expense	5.5	1	2
Payables written off	5.3	(1)	-
Write off of receivables	5.5	3	2
Recognition of property written off in prior periods	5.3	(51)	-
Accrual for legal obligations	5.3	(19)	-
Working capital adjustments:			-
Decrease/ (Increase) in trade and other receivables		39	(61)
Increase in trade and other payables		144	695
Net cash flows from operating activities		**1,179**	**1,519**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of properties		(4,399)	(3,091)
Purchase of equipment		(2)	-
Proceeds from sale of investment property		1,061	132
Advances received on preliminary sale agreement		700	-
Interest received		1	3
Net cash flows used in investing activities		**(2,639)**	**(2,956)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(962)	(910)
Loans received		5,113	-
Interest paid		(121)	(86)
Equity dividends paid		(822)	(1)
Net cash flows from/ (used in) financing activities		**3,208**	**(997)**
Net increase/ decrease in cash and cash equivalents		1,748	(2,434)
Cash and cash equivalents at 1 January		1,795	4,229
Cash and cash equivalents at 31 December	9	**3,543**	**1,795**

ФОНД ЗА НЕДВИЖИМИ ИМОТИ БЪЛГАРИЯ * АДСИЦ * СОФИЯ

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 12 to 49 from an integral part of these financial statements.

Financial statemants
on which our auditors' report was
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EY 30-03-2017
Ernst & Young Audit OOD
EY Representative and Registered Auditor:

1. Corporate Information

Bulgarian Real Estate Fund (BREF or the Fund) was incorporated on 11 December 2004 under the Act on Special Investment Purpose Companies (ASIPC). The duration of the Fund expires in 2029. This term can be extended by shareholders' decision.

BREF is a Real Estate Investment Trust (REIT) investing in diversified portfolio of office, retail, industrial, residential and agricultural real estate on the territory of Bulgaria. The Fund is registered under Unified Identification Code 131350366 with registered office at 3A Nikolay Haytov Str., fl 1, Sofia and its financial year ends being 31 December.

The authorized capital of the Fund is comprised of ordinary shares. The shares are listed on the Bulgarian Stock Exchange – Sofia (BSE).

The investment objective of BREF is to achieve capital appreciation by investing in high-quality retail, office, industrial and multi-family residential properties, as well as agricultural lands, at all stages of development.

The Fund has two employees - one individual who deals with investors' relations and an office administrator. The Fund's Board consists of three directors. The Fund's operations are managed by a management company, a related party, in accordance with the requirements of ASIPC and management agreement as disclosed in Note 15 below.

The Management of the Fund is represented by its Board of Directors. Those charged with governance are represented by Audit Committee.

These financial statements for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Board of Directors on 30 March 2017.

2.1. Basis of preparation

The financial statements have been prepared on a historical cost basis, except for investment properties (including investment properties held for sale) and derivative financial instruments that have been measured at fair value.

Based on an assessment of the Fund's ability to continue as a going concern, the management have not identified any indications, facts, circumstances which make the going concern assumption not appropriate or give rise to any material going concern uncertainties to be disclosed in these financial statements. As such the financial statements have been prepared on a going concern basis.

The financial statements are presented in Euro (EUR or €) and all values are rounded to the nearest thousand (EUR thousand) except when otherwise indicated.

Statement of compliance

The financial statements of Bulgarian Real Estate Fund have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted for use in the European Union (EU).

These financial statements have been prepared for the use of shareholders and foreign investors.

BREF has presented a separate set of statutory financial statements in Bulgarian, expressed in Bulgarian leva, in accordance with IFRS, as adopted for use in the EU. Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions. The statutory financial statements were authorized for issue by the Board of Directors on 30 March 2017.

2.2. Summary of the significant accounting policies

a) Foreign currency translation

The financial statements are presented in Euros while the functional currency of the Fund is Bulgarian Lev (BGN). The Fund uses the Euro as a presentation currency due to the wide range of users of the financial statements.

As at the reporting date, the assets, liabilities, equity, revenue and expenses of the Fund are translated into the presentation currency at the fixed rate of BGN/EUR of 1.95583 or EUR/BGN of 0.51129 quoted by the Bulgarian National Bank. BGN is pegged to the EUR at the exchange rate of 1.95583 as from 1 January 2002 and therefore no translation difference arises.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated on a monthly basis by applying the exchange rate published by the Bulgarian National Bank for the last working day of the respective month. All differences are taken to the income statement. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions.

b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and other sales taxes or duty. The Fund assesses its revenue arrangements against specific criteria in order to determine whether it is acting as a principal or agent. The Fund concluded that it is acting as a principal in all of its revenue arrangements expect for those related to provision of electricity, water and heating to its tenants, as well as these related to reinvoicing of improvements of leased areas, at the expense of the tenants. It is not within the business strategy of the Fund to provide such type of services and thus, the substance of those arrangements is that the Fund acts as an agent of the ultimate provider of the service vis-à-vis its tenants. Thus, the Fund presents the expenses related to provision of electricity, water and heating, as well as these related to improvements of leased areas, at the expense of the tenants net of the re-invoiced amounts received from tenants. The following specific recognition criteria must also be met before revenue is recognised:

Sale of properties
Income from sale of properties is recognized when control and significant risks and rewards of ownership are transferred to the buyer, usually at completion of property developed for sale (trading properties) or upon transfer of legal title of investment property, including investment property held for sale (i.e. not subject to development prior to sale).

Interest income
Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Rental income
Rental income arising from operating leases on properties is accounted for on a straight line basis over the lease terms. Lease incentives provided for the agreement of a new or renewed operating lease are presented as deferred expenses in the statement of financial position and recognised in profit or loss as a reduction of rental income over the lease term, on a straight line basis.

Revenue from service charge
Revenue from service charge payable by the tenants is recognized in the period in which the consideration becomes due, based on the stage of completion at the reporting date. Revenue from service charge is presented gross of expenses related to the provision of the services, as the Fund has concluded that it is acting as a principal in these arrangements.

2.2. Summary of the significant accounting policies (continued)

c) Expenses

Expenses are accounted for on an accrual basis. Expenses are charged to the income statement except for expenses incurred on the acquisition of an investment and other properties that are included in the cost of that property and transaction costs for share capital increase which are deducted directly from equity.

d) Taxes

Income tax
The Fund being a Real Estate Investment Trust is not subject to corporate income tax in accordance with the Bulgarian Corporate Income Tax Act.

Value Added Tax
Revenues, expenses and assets are recognized net of the amount of Value Added Tax (VAT) except:
- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or other operating expense; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and is not measured at fair value are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Fund incurs in connection with the borrowing of funds.

f) Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to the shareholders by the weighted average number of shares outstanding during the year.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period. In a capitalization or bonus issue or a share split, ordinary shares are issued to existing shareholders for no additional consideration. Therefore, the number of ordinary shares outstanding is increased without an increase in the resources of the Fund. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

g) Financial instruments – recognition and measurement

- **Financial assets**

Initial recognition

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial assets (continued)**

Initial recognition (continued)

All financial assets are recognised initially at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Fund commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Fund's financial assets include cash, long-term financial assets and short-terms deposits and trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Fund has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Fund has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Fund's continuing involvement is the amount of the transferred asset that the Fund may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Fund's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial assets (continued)**

Impairment of financial assets

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the income statement.

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

- **Financial liabilities**

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Fund determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Fund's financial liabilities include trade payables, interest bearing loans and derivative financial instruments.

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial liabilities (continued)**

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:
Loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest expenses in the income statement.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) or the liabilities are part of a Fund of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; (iii) or the financial liability contains an embedded derivative that would need to be separately recorded. As at 31 December 2016, no financial liabilities have been designated as at fair value through profit and loss (2015: Nil).

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

h) Derivative financial instruments

The Fund uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the income statement.

Details on the fair value estimate of interest rate swap contracts are provided in Note 19.

2.2. Summary of the significant accounting policies (continued)

i) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

j) Fair value measurement

The Fund measures its financial instruments, such as, derivatives, as well as investment properties and investment properties held for sale at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 19.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Fund's management determines the policies and procedures for recurring fair value measurement, such as investment properties, investment properties held for sale and derivatives.

External valuers are involved for valuation of significant assets, such as investment properties and investment properties held for sale, and derivative financial liabilities. Involvement of valuation experts is decided upon annually by the management. Selection criteria for external valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

2.2. Summary of the significant accounting policies (continued)

j) Fair value measurement (continued)

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in conjunction with the valuation experts, also compares each of the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

k) Share capital

Share capital represents the par value of shares issued and paid by the shareholders. Any proceeds in excess of par value are recorded in share premium.
The Fund recognises a liability to make cash distributions to shareholders when the distribution is authorised or is required by law and the distribution is no longer at the discretion of the Fund. A corresponding amount is recognised directly in equity.

l) Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Subsequent to initial recognition, investment properties, including investment properties under construction are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

The Fund transfers a property from investment property to inventories (trading properties) when, and only when, there is a change in use, evidenced by commencement of development with a view of sale. For a transfer from investment property to inventories (trading properties), the deemed cost of property for subsequent accounting is its fair value at the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement. If the Fund begins to redevelop an existing investment property for continued use as investment property, the property remains an investment property during the redevelopment. When the Fund decides to dispose of an investment property without development and the condition for classification as held for sale is met, the property is classified as held for sale and measured at fair value.

2.2. Summary of the significant accounting policies (continued)

m) Investment properties held for sale

Investment properties classified as held for sale are measured at fair value (IFRS 5 Non-current assets held for sale and discontinued operations, paragraph 5d). They are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use as an investment property. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset.

n) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Fund as a lessor
Leases where the Fund does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

o) Equipment

Equipment is stated at cost, less accumulated depreciation and accumulated impairment in value, if any. Initial acquisition cost includes costs of replacing part of the equipment when that cost is incurred, if the recognition criteria are met. All repair and maintenance costs are recognized in the profit or loss for the period as incurred.

Depreciation is calculated on a straight line basis over the useful life of the asset as follows:

	2016	2015
Furniture and fixtures	5 years	5 years
Computers	2 years	2 years
Other assets	6-7 years	6-7 years

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Equipment representing integral part of investment property, i.e. necessary for the exploitation of the property as per management's intentions, is reported as part of the investment property.

For 2016 and 2015 the Fund did not report any significant items of equipment.

2.2. Summary of the significant accounting policies (continued)

p) Operating segments

An operating segment is a component of the Fund:

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Fund),

(b) whose operating results are regularly reviewed by the entity's management to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

Two or more operating segments are aggregated into a single operating segment if the segments have similar economic characteristics, and the segments are similar in each of the following respects:

(a) the nature of the services;

(b) the type or class of customer for their services;

(c) the methods used to provide their services; and

(d) the nature of the regulatory environment regarding the public utilities.

The Fund designates a single external customer as a major customer if it generates 10% or more of its revenue.

As of 31 December 2016 and 2015 the Fund does not report discrete operating segments. Further information for revenue from external customers is provided in Note 5.2.

q) Cash and cash equivalents

Cash and short term deposits in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

r) Provisions

General
Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Fund expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision for dividends due
According to the Act on Special Investment Purpose Companies, the Fund is obliged to distribute at least 90% of its annual net profits as adjusted by the effects of all transactions with investment properties carried out throughout the year. Such effects include fair value adjustments for investment properties.

The management has analysed the obligation for dividend distribution from economical and legal perspective. As a result, the Fund recognised provision for dividends due for its present legal obligation to distribute dividends at the reporting date.

2.3 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year. The following amendments to standards have been adopted by the Fund as of 1 January 2016:

IAS 16 ***Property, Plant and Equipment and*** **IAS** ***38 Intangible assets (Amendments): Clarification of Acceptable Methods of Depreciation and Amortization***
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment or amortise intangible assets. The amendments have no effect on the financial position or performance of the Fund.

IAS 16 ***Property, Plant and Equipment and*** **IAS 41** ***Agriculture (Amendments): Bearer Plants***
According to the amendments bearer plants are within the scope of IAS 16 and are subject to all of the requirements therein. This includes the ability to choose between the cost model and revaluation model for subsequent measurement. Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) remains within the scope of IAS 41. Government grants relating to bearer plants are accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, instead of in accordance with IAS 41. The amendments have no effect on the financial position or performance of the Fund.

IAS 19 ***Employee benefits (Amended): Employee Contributions***
The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment has no effect on the financial position or performance of the Fund.

IFRS 11 ***Joint Arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations***
The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS. The Fund had no transactions in scope of this amendment.

IFRS 10, IFRS 12 ***and*** **IAS 28:** ***Investment Entities: Applying the Consolidation Exception (Amendments)***
The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments have no effect on the financial position or performance of the Fund.

IAS 1 ***Presentation of Financial Statements: Disclosure Initiative (Amendment)***
The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. They clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. The amendments affect presentation only and have no impact on the Fund's financial position or performance.

IAS 27 ***Separate Financial Statements (Amended)***
The amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. As the Fund does not have any investments in subsidiaries, joint ventures and associates, the amendment has no effect on the financial position or performance of the Fund.

2.3 Changes in accounting policy and disclosures (continued)

Annual improvements to IFRSs 2010-2012 Cycle
Summary of amendments and related standards are provided below:

- IFRS 2 Share-based Payments – amended definitions of 'vesting condiitons' and 'market condition' and adding the definitions of 'performance condition' and 'service condition';
- IFRS 3 Business Combinations – clarification on the accounting for contingent consideration arising from business combination;
- IFRS 8 Operating Segments – additional disclosures of management judgement on aggregating operating segments and clarification on reconciliation of total segments' assets to the entity's assets;
- IFRS 13 Fair Value Measurement – clarification on interaction with IFRS 9 as regards short-term receivables and payables;
- IAS 16 Property, Plant and Equipment – amended to state that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount while the accumulated depreciation is calculated as a difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses;
- IAS 24 Related Party Disclosures – clarified that a management entity that provides key management services to a reporting entity is deemed to be a related party; disclosure of the service fee paid or payable is required;
- IAS 38 Intangible Assets – same amendment as IAS 16 above.

The adoption of the above amendments to standards has no effect on these financial statements.

Annual improvements to IFRSs 2012-2014 Cycle
Summary of amendments and related standards are provided below:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarification that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan;
- IFRS 7 Financial Instruments: Disclosures – provides examples of continuing involvement in a financial asset and clarifies required disclosures in the condensed interim financial report;
- IAS 19 Employee Benefits – clarification on long-term liability discount rate determination;
- IAS 34 Interim Financial Reporting – clarification on required interim disclosures: they must either be in the interim financial statements or incorporated by cross-reference to other interim financial information (e.g., in the management report) that is available to users on the same terms as the interim financial statements and at the same time.

The adoption of the above amendments to standards has no effect on these financial statements.

3. Significant accounting judgments, estimates and assumptions

Judgments

In the process of applying the Fund's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Operating Lease Commitments–Fund as a Lessor
The Fund has entered into leases on its commercial and office properties. The Fund has determined that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases. Details are provided in Note 17.

Transfers from investment properties
Following its investment objectives (as disclosed in Note 1) the Fund classifies properties as investment properties at recognition. Subsequently, the management applies judgement as to transfers from investment properties depending on its intentions for the future use/realization of the property and its condition (in the process of development or available for immediate sale). Significant accounting policies for transfers to/from investment properties are presented in Note 2.2, l) above.

Purchases of investment properties
As part of its activities, the Fund acquires investment properties. At the time of each acquisition, the Fund assesses whether it is an acquisition of a business within the scope of IFRS 3 Business combinations or acquisition of an asset within the scope of IAS 40 Investment Property. The Fund reports acquisition of an investment property as a business combination, when apart from the asset it also acquires integrated package of significant activities / processes. When the Fund determines that the acquired activities / processes are not significant, the acquisition is accounted for as an asset acquisition. This assessment depends on the specific conditions and characteristics of each transaction.

Revenue recognition on sales of investment properties with advance payments received
Revenue from sale of property is recognized in the income statement when the significant risks and rewards of the ownership over the assets are transferred to the buyer, which usually takes place with the transfer of the legal title to the buyer. For sales agreements, which contain irrecoverable advance payments by the client, the Fund analyses whether the significant risks and rewards of the ownership over the assets are transferred to the buyer at the moment when the contract is concluded. The analysis takes into account the amount of payment received against the total payment due, as well as the existence of uncertainty regarding the completion of the sale. This judgment depends on the specific conditions and characteristics of each transaction.

Calculation of provision for dividends due
According to the Act on Special Investment Purpose Companies, the Fund is obliged to distribute at least 90% of its annual net profits as adjusted by the effects of all transactions with investment properties carried out throughout the year. Such effects include fair value adjustments for investment properties. This effect includes the net profit/loss from the subsequent measurement of investment properties. Additional information on the judgments made by the Fund and the recognized provision for dividends due as of 31 December 2016 is presented in Note 13.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets within the next financial year are discussed below.

Fair Value of Investment Properties
The investment properties and properties held for sale have been fair valued by an accredited external valuer based on income or market approach. Considering the real estate market stagnation, the estimated properties' fair values were not always supported by comparable market data. Additional disclosures are provided in Note 6.

4. Standards issued but not yet effective and not early adopted

Standards issued but not yet effective and not early adopted up to the date of issuance of the Fund's financial statements are listed below. This listing is of standards and interpretations issued, which the Fund reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Fund intends to adopt those standards when they become effective.

IFRS 9 ***Financial Instruments*****:** ***Classification and Measurement***
The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final version of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Fund will analyze and assess the impact of the new standard on its future financial position or performance.

IFRS 15 ***Revenue from Contracts with Customers***
The standard is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Fund will analyze and assess the impact of the new standard on its financial position or performance.

IFRS 15 ***Revenue from Contracts with Customers (Clarifications)***
The clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. These clarifications have not yet been endorsed by the EU. The Fund will analyze and assess the impact of these clarifications on its financial position or performance.

IFRS 16 ***Leases***
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their balance sheet and to have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. The Fund will analyze and assess the impact of the new standard on its financial position or performance.

Amendments in **IFRS 10** ***Consolidated Financial Statements*** **and IAS 28** ***Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business or a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Fund.

4. Standards issued but not yet effective and not early adopted (continued)

IAS 12 ***Income taxes (Amendments): Recognition of Deferred Tax Assets for Unrealised Losses***
The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The objective of these amendments is to clarify the accounting for deferred tax assets for unrealised losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would be relevant to the Fund.

IAS 7 ***Statement of Cash Flows (Amendments): Disclosure Initiative***
The amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The objective of these amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would be relevant to the Fund.

IFRS 2 ***Share-based Payment (Amendments): Classification and Measurement of Share based Payment Transactions***
The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Fund.

IFRS 4 ***Insurance Contracts (Amendments): Applying* IFRS 9 *Financial Instruments with* IFRS 4 *Insurance Contracts***
The amendments are effective for annual periods beginning on or after 1 January 2018. The objective of these amendments is to address issues arising from the different effective dates of IFRS 9 Financial Instruments and the upcoming new insurance contracts standard IFRS 17 Insurance Contract. Entities issuing insurance contracts will still be able to adopt IFRS 9 on 1 January 2018. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9. The overlay approach allows an entity applying IFRS 9 from 2018 onwards to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Fund.

IFRIC 22 ***Foreign Currency Transactions and Advance Consideration***
The interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. This interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The interpretation has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of the new interpretation on its financial position or performance.

4. Standards issued but not yet effective and not early adopted (continued)

IAS 40 *Investment Property (Amendments): Transfers of Investment Property*
The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments clarify transfers of property to, or from, investment property when there is a change in the use of such property which is supported by evidence. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Fund.

Annual Improvements to IFRSs 2014-2016 Cycle
In the 2014-2016 annual improvements cycle, the IASB issued amendments to three standards which are effective for annual periods beginning on or after 1 January 2017 / 1 January 2018. Summary of amendments and related standards are provided below:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - deletion of short-term exemptions for first-time adopters (effective for annual periods beginning on or after 1 January 2018);
- IFRS 12 Disclosure of Interests in Other Entities - clarification of the scope of the Standard (effective for annual periods beginning on or after 1 January 2017), and
- IAS 28 Investments in Associates and Joint Ventures - measuring an associate or joint venture at fair value (effective for annual periods beginning on or after 1 January 2018).

The improvements to IFRSs 2014 – 2016 Cycle have not yet been endorsed by EU. The Fund is in the process of assessing the impact of the amendments on its financial statements.

5. Income and expenses

5.1. Rental income and service charge income

	2016	2015
	EUR thousand	*EUR thousand*
Rental income from investment properties	1,986	1,894
Service charge income	155	143
	2,141	**2,037**

5.2. Income from external customers

a) Geographical information

The Fund's rental income is generated from external customers located in Bulgaria.

b) Information for major customers

	Type of income	2016	2015
		EUR thousand	*EUR thousand*
Customer 1	Rent	1,169	1,142
Customer 2	Rent	262	320
Customer 2	Service charge	45	55
Customer 3	Rent	196	117
Customer 3	Service charge	31	18
Customer 4	Rent	183	186
Customer 4	Service charge	45	46

According to IFRS 8 "Operating Segments" BREF designates a single external customer as a major customer if it generates ten percent or more of its revenue.

5.3. Other income

	2016	2015
	EUR thousand	*EUR thousand*
Recognition of property written off in prior periods (Note 6.1)	51	-
Change in accrual for legal obligations	19	-
Payables written off	1	-
Insurance benefits	-	6
Other	18	5
	89	**11**

5. Income and expenses (continued)

5.4. Direct operating expenses arising from properties

	2016	2015
Direct operating expenses arising from properties that generated rental income	*EUR thousand*	*EUR thousand*
Investment properties	(412)	(374)
	(412)	**(374)**
Direct operating expenses arising from properties that did not generate rental income		
Investment properties	(62)	(94)
Investment property held for sale	(20)	(20)
	(82)	**(114)**
Total direct operating expenses arising from properties	**(494)**	**(488)**

A break-down of direct operating expenses related to properties is provided below:

	2016	2015
	EUR thousand	*EUR thousand*
Repair and maintenance	(141)	(147)
Local taxes and fees	(154)	(157)
Service charge expenses	(153)	(147)
Fees for sundry services	(43)	(29)
Other	(3)	(8)
	(494)	**(488)**

5.5. Other expenses

	2016	2015
	EUR thousand	*EUR thousand*
Audit fee	(18)	(18)
Fees for sundry services	(33)	(24)
Write off of receivables (Note 8)	(3)	(2)
Bank charges	(2)	(2)
Depreciation	(1)	(2)
Properties written off, net of recognised in prior periods provision (Note 6.1)	-	(29)
Change in accrual for legal obligations	-	(19)
Other	(8)	(7)
	(65)	**(103)**

6. Properties

6.1. Investment property

	Agricultural land	Non-agricultural land	Commercial and office properties	Properties under construction	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
At 1 January 2015	152	12,595	18,384	71	31,202
Additions	-	-	59	2,733	2,792
Transfers to properties under construction	-	(1,627)	-	1,627	-
Net gains/(losses) from fair value adjustments	11	138	127	1	277
Written off	(55)	-	-	-	(55)
Sale of property	-	(146)	-	-	(146)
At 31 December 2015	**108**	**10,960**	**18,570**	**4,432**	**34,070**
At 1 January 2016	108	10,960	18,570	4,432	34,070
Additions	-	-	269	4,007	4,276
Recognition of property, written off in previous periods (Note 5.3)	51	-	-	-	51
Transfers from properties under construction	-	-	8,439	(8,439)	-
Transfer to investment property held for sale (Note 6.2)	-	(3,368)	-	-	(3,368)
Net gains/(losses) from fair value adjustments	14	(465)	1,700	-	1,249
Initial direct costs under operating leases	-	-	114	-	114
Sale of property	-	(1,131)	-	-	(1,131)
At 31 December 2016	**173**	**5,996**	**29,092**	**-**	**35,261**

Recognition of properties written off in previous periods

In 2015 as a result of a court decision and legal analysis performed, the Fund has written-off agricultural land with carrying amount of EUR 55 thousand. As of 31 December 2014 the Find recognised accrual for legal obligation for the amount of EUR 26 thousand in regards to the expected outcome form the court case. In 2016, as a result of the resumption of some of these law cases and due to a positive court decision which is not subject to appeal, the Fund recognized part of the properties written off in prior periods.

Transfer to investment property held for sale

As disclosed in Note 14, as at 31 December 2016, the Fund has signed preliminary agreements for sale of two investment properties, part of the non-agricultural land in Mladost 4 district, Sofia. These properties are presented as investment property held for sale as at 31 December 2016.

6. Properties (continued)

6.1. Investment property (continued)

Fair value measurement

The Fund engaged an accredited external appraiser to fair value its investment properties, including non-agricultural land held for sale. The effective date of the valuations was 31 December 2016. Fair values were estimated by applying the following valuation methods:

- Capitalization of income method was used to value rental generating commercial properties and office buildings that have or will have long-term lease arrangements in place.
Under this method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership of the asset over a known period. This method involves the projection of a series of cash flows deriving from the investment property. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rental arrangement, lease renewal and renegotiation of rent levels; expected terms for redevelopment or refurbishment.

The appropriate duration is typically driven by market behaviour that is a characteristic of the class of investment property. Net cash flows are typically estimated as gross rental income less projected vacancy, non-recoverable expenses, maintenance costs, agent and commission costs and other operating and management expenses. The net operating income is then discounted after correction with the part of rental income related to the adjacent land. For this purpose a rate of return of 5.5% is applied to the land, which fair value is measured using the market comparables method.

- Market comparables method was used to value all other investment properties (including land adjacent to commercial properties and office properties), including non-agricultural land held for sale. As they comprise land plots with uncertain future development, this approach was considered the most appropriate. Due to the real estate market illiquidity, the input data for the valuation was based on offer prices for comparable land plots adjusted for specific characteristics of Fund's properties such as location, size, accessibility, and infrastructure.

A break-down of the estimated fair values by valuation method is presented below:

	2016	2015
	EUR thousand	*EUR thousand*
Investment properties valued under capitalization of income method	29,092	23,002
Including fair value of adjacent land valued under market comparables method	*8,802*	*8,590*
Investments properties valued under market comparative method	6,169	11,068
Total investment properties at fair value	**35,261**	**34,070**

6. Properties (continued)

6.1. Investment property (continued)

Significant assumptions used in fair value measurement of investment properties

The significant assumptions used in the valuations of investment properties, including non-agricultural land held for sale are set out below:

	Valuation technique	Significant unobservable inputs	2016	2015
Commercial and office properties	Capitalization of income method/ Market comparables method	Gross rental income – EUR per month – commercial property 1	64,950	63,595
		Gross rental income – EUR per month – commercial property 2	44,855	44,340
		Gross rental income – EUR per month – office property 1	78,990	77,200
		Gross rental income – EUR per month – office property 2	110,025	113,260
		Vacancy risk - % of gross rent income	10-17%	10-15%
		Capitalization rate (discount rate)	10%	9.5-11%
		Adjustment for illiquidity of the land	-15%	-15%
		Adjustments for specific input parameters of the land	*	*
Agricultural lands	Market comparables method	Adjustments for specific input parameters	*	*
Non-agricultural lands, including non-agricultural land held for sale	Market comparables method	Adjustment for illiquidity	-15%	-15%
		Adjustments for specific input parameters	*	*

*- The adjustments for specific input parameters are related to location, size, accessibility, infrastructure, potential of development of the zone and other and range according to the comparable property.

Sensitivity Analysis

Significant increases/ (decreases) in rental income as an isolated parameter would result in a significantly higher/ (lower) fair value of the investment properties. Significant increases/ (decreases) in vacancy risk and in discount rate as isolated parameters would result in a significantly lower/ (higher) fair value of the investment properties.

Significant increases/ (decreases) in the additional discount from the used offered prices due to illiquid market – adjustment for illiquidity as an isolated parameter would result in a significantly lower/ (higher) fair value of the investment properties.

Other disclosures

Investment properties with fair value of EUR 21,200 thousand (2015: EUR 10,966 thousand) are subject to first rank mortgage to secure the Fund's interest bearing bank loans (Note 11).

6.2. Investment property held for sale

	Non-agricultural land	Vacation property	Total
	EUR thousand	*EUR thousand*	*EUR thousand*
At 1 January 2015	-	827	827
Losses from fair value adjustments	-	(28)	(28)
Sale of property	-	(21)	(21)
At 31 December 2015	**-**	**778**	**778**
At 1 January 2016	-	778	778
Gains from fair value adjustments	-	10	10
Sale of property	-	(28)	(28)
Transfer from Investment property (Note 6.1)	3,368	-	3,368
At 31 December 2016	**3,368**	**760**	**4,128**

Investment properties held for sale (not subject to development prior to sale) are carried at fair value estimated by an accredited external appraiser, by using market comparables method. The effective date of the valuation is 31 December 2016. Any fair value adjustments were included in the income statement. Significant assumptions used in fair value measurement of investment properties held for sale are presented below:

	Valuation technique	**Significant unobservable inputs**	**2016**	**2015**
Vacation property	Market comparables method	Adjustment for illiquidity (apartments and garage spaces)	-37%	From -15% to -37%
		Adjustment for illiquidity (land)	-15%	-15%
		Adjustments for specific input parameters	*	*

*- The adjustments for specific input parameters are related to location, size, accessibility, infrastructure, potential of development of the zone and other and range according to the comparable property.

The assumptions used in the fair value measurement of investment properties transferred to investment properties held for sale in the current period, are disclosed in Note 6.1.

Sensitivity Analysis

Significant increases/ (decreases) in the additional discount from the used offered prices due to illiquid market – adjustment for illiquidity as an isolated parameter would result in a significantly lower/ (higher) fair value of the investment properties.

Other disclosures – Vacation property held for sale

Investment properties held for sale as of 31 December 2016 and 31 December 2015 consist of vacation property and land related to it. The property was bought in 2007, but due to lower interest from potential buyers due to the financial crisis and its impact on the market for vacation properties, the Fund failed to realize the property despite its active marketing campaign. The Fund intends to continue working actively towards the sale of the property in the next year.

For 2016 and 2015, due to the real estate market illiquidity and the lack of parameters of specific deals (excluding the sale of one-bedroom apartment from the same property in June 2016 and January 2015), the input data for the valuation was based on offer prices for comparable properties adjusted for specific characteristics of Fund's properties held for sale.

The fair value hierarchy of the Fund's investment properties and investment properties held for sale are disclosed in Note 19.

7. Deferred expenses

	2016	2015
	EUR thousand	*EUR thousand*
Prepaid fees	2	5
Insurance	9	5
	11	**10**

8. Trade and other receivables

	2016	2015
	EUR thousand	*EUR thousand*
Rental income receivable	27	22
Prepayments to suppliers	12	11
Prepayments to the Management company	11	-
Deposits granted	11	12
Interest receivable	8	5
VAT recoverable	-	49
Other receivables	3	11
	72	**110**

Trade receivables are non-interest bearing with the following payment terms:

- Rental receivables from lease of commercial/office premises – 14 day terms;
- Rental receivables from lease of agricultural land - within the agricultural year ending 30 September.

Rental income receivables are pledged as collateral for the Fund's long-term bank loans (Note 11).

In 2016 receivables in the amount of EUR 3 thousand are written off due to expired statute of limitations (more than five years have passed since the receivables became due).

In 2015, rental income receivables with nominal value of 39 EUR thousand, from which EUR 37 thousand fully impaired in prior years have been written off against the allowance for impairment due to expired statute of limitations.

Movements in the impairment of receivables were as follows:

	2016	2015
	EUR thousand	*EUR thousand*
At 1 January	-	(37)
Utilised	-	37
At 31 December	-	-

As at 31 December 2016 and 2015, the ageing analysis of trade and other receivables is as follows:

			Past due but not impaired				
	Total	Neither past due nor impaired	< 30 days	30-60 days	60-90 days	90-120 days	>120 days
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
2016	38	29	-	8	-	-	1
2015	38	25	12	-	-	-	1

9. Cash, cash equivalents and restricted cash

Cash

	2016	2015
	EUR thousand	*EUR thousand*
Short-term deposits	1,847	13
Cash at bank and in hand	1,696	1,782
Cash as per Statement of cash flow	**3,543**	**1,795**
Deposits with original maturity over 3 months	360	-
Total cash and cash equivalents	**3,903**	**1,795**

Cash at banks earns interest at floating rates based on daily bank deposit rates. The short-term deposits as of 31 December 2016 are one-month deposits made in Bulgarian Leva (2015: two years open/on-demand deposits). They bear interest on agreed fixed interest rates. The short-term deposits can be withdrawn at the option of the Fund at any time.

Deposits with original maturitiy over 3 months
As of 31 December 2015, cash representing a guarantee deposit, serving as collateral for a bank guarantee issued, is transformed to deposit with interest of 1% per annum and maturity date 11 January 2017. The deposit is presented as a long-term financial asset as of 31 December 2015.

10. Share capital, share premium and reserves

10.1. Share capital

Authorized and fully paid

	2016	2015
	EUR thousand	*EUR thousand*
Ordinary shares of EUR 0.511 each (BGN 1 each)	30,907	30,907
	30,907	**30,907**

Ordinary shares	Number of shares	Amount
	Thousand	*EUR thousand*
Authorized, issued and fully paid		
At 1 January 2015	60,450	30,907
At 31 December 2015	60,450	30,907
At 31 December 2016	**20,150**	**30,907**

During 2016 and 2015 the Fund did not increase its capital by means of a public offering on the Bulgarian Stock Exchange.

On 22 February 2016 the General Meeting of Shareholders of the Fund adopted a decision to increase the nominal value of the issued shares of the Fund from EUR 0.511 (BGN 1) to EUR 1.534 (BGN 3) with a corresponding reduction of the number of shares from 60,450 thousand to 20,150 thousand while preserving the share capital amount of EUR 30,907 thousand.
With a decision dated 13 October 2016, the Financial Supervision Commission refused to approve the voted at the General Meeting of the Shareholders of the Fund (hold on August 11, 2016) change in the Statute related to the reduction of the capital of the Fund from EUR 30,907 thousand to EUR 10,303 thousand. The voted by the General meeting of Shareholders of the Fund decision for decrease in the share capital is note executed and the decrease is not registered in the Commercial register.

10. Share capital, share premium and reserves (continued)

10.1. Share capital (continued)

The ownership structure of the authorized share capital of the Fund as at 31 December 2016 is as follows:

	Number of shares (thousand)	Shareholding percentage
NN Universal Pension Fund	1,362	6.76%
UPF DKS Rodina	1,281	6.36%
ZYPF Alianz Bulgaria	992	4.93%
Universal Pension Fund Doverie AD	786	3.90%
Unicredit Bank Austria	564	2.80%
DF UBB premium shares	558	2.77%
Mibo Consult EOOD	556	2.76%
NN Voluntary Pension Fund	551	2.74%
MNI OOD	534	2.65%
DPF Alianz Bulgaria	499	2.48%
UPF Pension Insurance Institute	482	2.39%
Nikolay Sergeevic Dragomiretski	438	2.17%
Swedbank AS Clients	436	2.16%
Chavdar Ivanov Donkov	385	1.91%
NN Professional Pension Fund	312	1.55%
Ivelin Vankov Ivanov	299	1.48%
Swedbank AS	287	1.42%
OBB Patrimonium land	283	1.41%
Shareholdings of less than1.4% interest	9,545	47.36%
	20,150	**100%**

10.2. Share premium

As at 31 December 2016 share premium amounts to 3,245 EUR thousand (2015: EUR 3,245 thousand), representing the excess of the proceeds of the issue of new shares in 2006 over their nominal value. The share premium can only be utilized for covering current or prior year losses and under specific conditions for increase of the registered capital.
In 2015 as per decision of the General Meeting of Shareholders of the Fund part of the share premium at the amount of EUR 1,771 thousand was used to cover accumulated losses from 2014.

11. Long-term interest bearing loans

	Nominal interest rate %	Maturity	2016	2015
Current portion			*EUR thousand*	*EUR thousand*
EUR 7,000 thousand investment bank loan, at nominal value	1 month Euribor + 1.6%	December 2016	-	962
Interest payable			-	3
Adjustment to amortized cost			-	(1)
Investment bank loan with maximum permitted limit of BGN 11,000 thousand	3-month Sofibor + 3.1%	December 2025	537	-
Interest payable			5	-
Adjustment to amortized cost			(2)	-
			540	**964**

	Nominal interest rate %	Maturity	2016	2015
Non-current portion			*EUR thousand*	*EUR thousand*
Investment bank loan with maximum permitted limit of BGN 11,000 thousand	3-month Sofibor + 3.1%	December 2025	4,575	-
Adjustment to amortized cost			(16)	-
			4,559	**-**

EUR 7,000 thousand investment bank loan
The purpose of the loan is to finance the acquisition of the two commercial investment properties. The loan is secured by mortgage over these investment properties, pledge over present and future receivables under operating lease agreements of commercial properties and promissory notes to the amount of EUR 7,000 thousand together with the interest at 5% on this amount. The loan is repayable in monthly instalments due on 14th of each month. As of 31 December 2016 the loan is fully repaid.

Investment bank loan with maximum permitted limit of EUR 5,624 thousand (BGN 11,000 thousand)
On 18 January 2016 the Fund signed an agreement for investment bank loan with Eurobank Bulgaria AD with maximum permitted limit of BGN 11,000 thousand (EUR 5,624 thousand), utilized in tranches. The purpose of the loan in to finance the construction of business investment property – office building in Sofia, Vitosha region, Malinova dolina. The term of the agreement is 10 years with one year grace period for the principal. The loan is secured by a mortgage over the office property and other two commercial properties with total fair value as of 31 December 2016 amounting to EUR 21,200 thousand, pledge on all current and future receivables related to contracts for operational lease with the office property, as well as pledge on all current and future receivables on bank guarantees issued in favour of the Fund by the lessee of the commercial properties. The loan is repayable in monthly instalments due on the 21st of each month. Analysis on the maturity structure of the loan, based on the contractual undiscounted payments is presented in Note 18. As of 31 December 2016 the not utilized part of the loan amounts to BGN 1,000 (EUR 511 thousand). The deadline for utilization of the loan was 23 December 2016.

12. Derivative financial instrument

	2016	2015
	EUR thousand	*EUR thousand*
Liability on interest rate swap reported in the statement of financial position	-	**23**

	2016	2015
	EUR thousand	*EUR thousand*
Unrealised gain on interest rate swap reported in income statement	**23**	**58**

The swap agreement is with maturity 14 December 2016. The nominal amount of the agreement is EUR 7,000 thousand. The Fund shall pay a fixed interest at 4.04% and receive a variable interest at 1 month Euribor. The Fund has fully repaid its obligations under the agreement.

13. Provision for dividends due

	2016	2015
	EUR thousand	*EUR thousand*
Provision for dividends due	746	808
Provision for withholding tax	14	14
	760	**822**
Adjusted weighted average number of ordinary shares (in thousand)	20,150	20,150
Dividend per share, gross (in Euro)	**0.038**	**0.041**

Following a decision of the General Meeting of the Shareholders of the Fund, the nominal value of the issued shares was increased to EUR 1.534 and their number was reduced to 20,150 thousand. The ratio dividend per share, gross for 2015 and 2014 is calculated based on the number of shares after the decision to reduce their number – 20,150 thousand.

According to the Act on Special Investment Purpose Companies (ASIPC), the Fund is obliged to distribute at least 90% of its annual net profits as adjusted by the effects of all transactions with investment properties carried out throughout the year. Such effects include fair value adjustments for investment properties, which are not subject to distribution i.e. the recognized gains or losses from revaluation of investment properties recognized in the current period, as well as the cumulative gains or losses related to properties disposed in the current period in order to arrive at their acquisition cost, which includes the initial and subsequent acquisition costs.

The above provision requires the Fund to make estimations related to the allocation of initial and subsequent acquisition costs of the investment properties, when at the end of the reporting period only part of the property is sold, or when there is a change in the regulation status of part of the investment property owned. When the initial and subsequent acquisition costs cannot be directly allocated to the part of the property sold, the Fund uses appropriate for the particular situation allocation base, such as sold square meters compared to the total area of the property, fair value of the sold part of the property compared to the fair value of the whole property as determined at the date of purchase and others. The table below presents the initial and subsequent acquisition costs of the investment properties owned by the Fund as of 31 December 2016:

13. Provision for dividends due (continued)

	2016	
	Initial and subsequent acquisition cost	Fair value
	EUR thousand	*EUR thousand*
Investment properties		
Office building - Kambanite	8,549	9,818
Office building – Business Park Sofia	7,410	7,891
Bricolage Sofia	6,064	6,781
Investment properties - Sofia - Mladost IV	4,817	1,770
Bricolage Varna	4,313	4,602
Investment propety - Tsarevo	2,254	2,973
Investment property - Vidin	301	631
Investment property - V. Tarnovo	192	622
Agricultural land	59	173
Investment property held for sale		
Vacation property - Borovets	1,664	760
Investment properties - Sofia - Mladost IV	4,636	3,368
Total	**40,259**	**39,389**

As disclosed in Note 6.1, the Fund has signed preliminary agreements for sale of two investment properties, part of the Investment properties in Mladost 4 district, Sofia. These properties are presented as investment property held for sale as at 31 December 2016.

In addition to the requirements of the Act on Special Investment Purpose Companies (ASIPC) related to the distribution of dividends, the Fund also considers the requirements of the Commercial law in relation to the required value of the net assets.

Based on the Fund's financial performance for the year ended 31 December 2016 dividend distribution was considered on the basis of operational and legal considerations. As a result, the Fund recognised provision for dividends at the amount of EUR 760 thousand (2015: EUR 822 thousand), based on 90% of its profit for the year adjusted as per the requirements of ASIPC, which the Fund had legal obligation to distribute, as a minimum, at the reporting date.

14. Trade and other payables

	2016 *EUR thousand*	2015 *EUR thousand*
Payables to the Management Company	653	697
- payables related to construction works	377	460
- management fee payable	264	210
- other payables	12	27
Prepayments by clients	782	89
VAT payables	108	-
Received deposits by tenants	68	63
Accrued liabilities for claims	39	59
Payables to suppliers	25	20
Dividend payables	1	1
Other payables	19	29
	1,695	**958**

Terms and conditions of the financial liabilities are:

- Payables to the Management Company are non-interest bearing and normally settled on 30 day terms or in accordance with the individual contractual provisions with the sub-contractors. Additional disclosures are provided in Note 15.1.
- Payables to various suppliers are non-interest bearing and are normally settled on 14 day terms.

Preliminary agreements for sale of property - retentions
In 2016 the Fund signed two preliminary agreements for sale of two investment properties, part of the non-agricultural land in Mladost 4 district in Sofia. At the time when the contract was signed, the Fund has received irrecoverable advance payment, amounting to EUR 700 thousand, which serves as a guarantee for the finalization of transactions. The transfer of the ownership over the property will take place after the payment of the remaining part of the purchase price, set to be finalized by the end of November 2017. Taking this into account, the Fund has recognized the advance payment received as a short-term liability as of 31 December 2016.

Guarantees for qualitative fulfilment of contractual obligations -retentions
According to the contracts signed with subcontractors in relation to its investment projects, the Fund retains certain amounts as guarantee for qualitative fulfilment of contractual obligations by subcontractors. Retentions are determined as a percentage of each progress payment. They are non-interest bearing and are payable in the period 2017-2018. Upon initial recognition, the retentions are measured at the present value of the related future cash flows. As of 31 December 2016 the short-term portion of the retentions is amounting to EUR 224 thousand and is presented as part of the Obligations under construction contracts (2015: EUR 219 thousand). The long-term portion of the amounts retained for quality performance under construction contracts is in the amount of EUR 79 thousand as of 31 December 2016 (2015: nil). It is presented as other long-term liability.

15. Related party disclosures

During the year, the Fund entered into transactions with related parties. These transactions along with the related balances as at 31 December 2016 and 2015 are presented below.

15.1. Fees and payables to Management Company

Real Estate Management Company (Management Company) has been appointed by the Board of Directors of the Fund as a management company of the Fund under the terms of an agreement dated 11 January 2005. The Management company is a partnership incorporated in Bulgaria. It is responsible for the daily management, including investment management of the Fund and rendering of advisory services. The Management company may, subject to the approval of the Board of Directors, appoint at its own cost one or more investment advisor(s) who shall supply the Management company with recommendations and advice with respect to the Fund's investment policy as described in the Prospectus, and who may have discretion on a day-to-day basis and subject to the overall control of the Management company, to purchase and sell investment properties as agent for the Fund, as appropriate, and otherwise to manage the investments of the Funds for the account and in the name of the Fund, as appropriate, in relation to specific transactions, under the terms of the agreement and related annexes.

Real Estate Management Company is entitled to receive management fees. These fees are based on an aggregate of 1.5% per annum on the Net Asset Values of the Fund. Management fees are payable monthly in arrears.

The Management Company is entitled to receive success fees for the sale of properties amounting to 15% on the positive difference between the selling price of every property sold and the cost of that property (including the direct current expenses and the related part of the overhead expenses for the period of owning the property).

As per the Articles of Association of the Fund the total amount of the annual fees payable/paid to the Management Company, directors, auditors, valuers and depository bank cannot exceed 8% of the total assets of the Fund.

For 2016 management fees charged were EUR 523 thousand (2015: EUR 519 thousand).

For 2016 no success fee was charged by the management company (2015: nil).

Other receivables from and payables to the Management Company are presented in Note 8 and Note 14, respectively.

15.2. Directors' remunerations and Board expenses

The Directors are entitled to remuneration for their services at rates determined by the General Meeting of Shareholders. In addition, Directors are reimbursed for reasonable travelling, hotel and other incidental expenses in respect of attending meetings of the Directors or General Meetings of the Fund. The Director's fees vary from one to ten minimal monthly salaries for Bulgaria. For the year ended 31 December 2016 Directors' remunerations were EUR 56 thousand, including social securities in the amount of EUR 8 thousand (2015: EUR 58 EUR thousand, including social securities in the amount of 8 EUR thousand).

16. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year.

On 22 February 2016 following a decision of the General Meeting of the Shareholders of the Fund, the nominal value of the issued shares was increased to EUR 1.53 and their number was reduced to 20,150 thousand. For the purposes of calculation of earnings per share for 2016 and 2015, the number of ordinary shares outstanding before the event was adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

The following reflects the income and share data used in the basic earnings per share computations:

	2016	2015
	EUR thousand	*EUR thousand*
Profit for the year	2,147	1,027
Adjusted weighted average number of ordinary shares (in thousand)	20,150	20,150
Basic earnings per share (in Euro)	**€ 0.107**	**€ 0.051**

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date these financial statements have been authorised for issue.

17. Commitments

Capital commitments

In relation to the construction of investment property for administrative purposes, the Fund has entered into construction contracts. Of these not completed as at 31 December 2016 are EUR 198 thousand.

Operating lease commitments – Fund as a lessor

Lease of commercial properties (investment properties)
The Fund has entered into two commercial property leases. These leases had initial term of 10 years. The lease agreements include a clause to enable upward revision of the rental charge according to prevailing market conditions. The leases have terms of renewal and sale whereas the Fund is obliged to offer these first to the lessee at market conditions. In 2012 the Fund signed new annexes to the lease agreements prolonging the operating lease agreements' term up to 31 December 2021 (or with 5 more years). To secure its receivables under the lease agreements the Fund has received one year revolving guarantees for good performance from the lessee in the amount 90% of five monthly lease payments.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2016	2015
	EUR thousand	*EUR thousand*
Within one year	1,083	1,160
After one year but not more than five years	4,497	4,332
More than five years	-	1,124
	5,580	**6,616**

The Fund's present and future receivables under bank guarantees, issued in favour of the Fund from the lessee of the commercial properties, are subject to pledge to secure bank loans as disclosed in Note 11.

17. Commitments (continued)

Operating lease commitments – Fund as a lessor (continued)

Leasing of office properties (investment properties)
After the purchase of two investment properties representing an office building, the Fund has taken over/ entered into lease agreements for office space with an initial period of up to six years. The lease agreements include various options for termination, increase of the lease payments and provisions for renewal of the lease term. In 2015 the Fund has entered into annexes for extension of the period in regards to two of the lease agreements until 31 October 2019 and 31 May 2021. The Fund's receivables under the main lease agreements are secured by bank guarantees or deposits received covering two to three gross monthly rents and service charges.

In 2016 after the construction of an investment property, representing office building, the Fund has entered into lease agreements for offices with initial period of five years. The Fund's receivables under the main lease agreement are secured by bank guarantee, covering three gross monthly rents and service charges.

As at 31 December, the future minimum lease payments are presented below:

	2016	2015
	EUR thousand	*EUR thousand*
Within one year	1,719	753
After one year but not more than five years	5,185	1,895
More than five years	-	110
	6,904	**2,758**

The current and future receivables of the Fund under operating lease agreements related to the investment property constructed in 2016 are pledged as a security for a bank loan, as disclosed in Note 11.

Lease of agricultural and non-agricultural land (investment properties)
The Fund has entered into operating lease agreements of agricultural and non-agricultural land. These leases have terms between 1 and 10 years.

Future minimum rentals receivable under non-cancellable operating leases of agricultural land as at 31 December are as follows:

	2016	2015
	EUR thousand	*EUR thousand*
Within one year	6	3
After one year but not more than five years	20	10
More than five years	10	3
	36	**16**

18. Financial risk management objectives and policies

The Fund is exposed to different risks - market risk on investment properties, interest rate risk, credit risk, liquidity risk and currency risk arising from the financial instruments and investment properties it holds.

The Fund has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy and has established processes to monitor and control investment transactions in a timely and accurate manner. These guidelines are reviewed annually by the Board of Directors and weekly reviews are undertaken to ensure that the Fund's guidelines are adhered to.

Market risk on investment properties
The Fund's investment properties are susceptible to market price risk arising from uncertainties about future prices. The positions held by the Fund at the year end, major assumptions used in fair value estimates and related sensitivity analyses are disclosed in Note 6.

Interest rate risk
The Fund's exposure to the risk of changes in market interest rates relates primarily to its debt obligations with floating interest rates. The Fund's policy is to manage its interest cost through continuous negotiations with financial institutions (banks) aimed at achieving the most favourable terms and conditions that are on offer.

The table below provides analysis of the sensitivity to possible changes in interest rates with their effect on the profit for the period (through the effect on loans and borrowings with floating interest rates), provided that all other variables are assumed to be constant. There is no effect on the other components of equity of the Fund.

	Increase/decrease in points basis	**Effect on profit**
		EUR thousand
2016		
Loans in BGN	+51	(51)
Loans in BGN	-51	51

As at 31 December 2015 the interest rate risk is limited, as all interest bearing bank loans and deposits are with fixed rates (the interest rate risk of the EUR 7,000 thousand investment loan is minimized by the contracted swap agreement).

Liquidity risk
The investments in deposits are realizable on demand. The Fund has entered into long-term lease contracts with creditworthy tenants and monitors closely timely collection of related receivables. For investment projects the management considers various ways of attracting capital.

18. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Fund's financial liabilities at 31 December based on contractual undiscounted payments.

As of 31 December 2016	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
Investment bank loan with maximum permitted limit of BGN 11,000 thousand	-	169	523	2,809	2,343	5,844
Trade and other payables	89	535	142	79	-	845
	89	**704**	**665**	**2,888**	**2,343**	**6,689**

As of 31 December 2015	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
EUR 7,000 thousand investment bank loan and liability on a derivative financial instrument	-	247	740	-	-	987
Trade and other payables	434	342	34	-	-	810
	434	**589**	**774**	**-**	**-**	**1,797**

Foreign currency risk
The Fund's exposure to foreign currency risk is minimal due to the fact that the majority of foreign currency transactions relating to rental contracts are denominated in euro, which is currently fixed at BGN 1.95583 for 1 EUR.

18. Financial risk management objectives and policies (continued)

Credit risk
Credit risk is the risk that an issuer or counterparty will be unable to meet the commitments that it has entered into with the Fund. It is the Fund's policy to enter into financial instruments with a diversity of creditworthy counterparties. In order to secure its receivables on contracts for rent of commercial and office properties, the Fund requires its tenants to provide deposits or bank guarantees. In addition, rental income receivable balances are monitored on an ongoing basis with the result that the Fund's exposure to bad debts is minimized as much as possible.

The Fund's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at 31 December 2016 in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the statement of financial position.

The main credit risk to which the Fund is exposed related to other financial assets (different from trade receivables) arises from deposits in bank institutions. In order to manage the credit risk, the Fund works only with accredited bank institutions, with high credit ratings. As of 31 December 2016 the cash and long-term deposits of the Fund are deposited in banks with the following credit rating:

	EUR thousand	*Credit Rating*
Bank 1	2,197	BB+
Bank 2	1,694	BBB-
Bank 3	12	B-

Capital management
The primary objective of the Fund's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to maximize its shareholders' value.

The Fund manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Fund issues new shares, borrows or repays bank loans. The Fund monitors its market capitalization which has direct impact on its shareholders value. It also monitors total equity and long-term and short-term debt, equity to debt ratio and investment properties to equity ratio.

	2016	2015
	EUR thousand	*EUR thousand*
Share capital	30,907	30,907
Share premium	3,245	3,245
Retained earnings	1,592	205
Total equity	35,744	34,357
Investment properties, including held for sale	39,389	34,848
Long-term interest bearing loans (long and short-term portion)	5,099	964
Equity to long-term debt	7.01	35.64
Investment properties, including held for sale to equity	1.10	1.01
Market capitalization	23,356	16,041

19. Fair value measurement

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as of 31 December 2016.

			Fair value measurement using		
	Date of valuation	Book value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*
Assets measured at fair value:					
Investment properties (Note 6.1)					
Commercial properties	31.12.2016	11,383	-	-	11,383
Non-agricultural lands	31.12.2016	5,996	-	-	5,996
Office properties	31.12.2016	17,709	-	-	17,709
Agricultural lands	31.12.2016	173	-	-	173
Investment properties held for sale (Note 6.2)					
Vacation properties	31.12.2016	760	-	-	760
Non-agricultural land	31.12.2016	3,368			3,368
Liabilities for which fair values are disclosed:					
Interest-bearing loans and borrowings (Note 11)					
Floating rate borrowings	31.12.2016	5,099	-	5,099	-
Other long-term liability	31.12.2016	79	-	79	-

19. Fair value measurement (continued)

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as of 31 December 2015.

			Fair value measurement using		
	Date of valuation	Book value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*
Assets measured at fair value:					
Investment properties (Note 6.1)					
Commercial properties	31.12.2015	10,966	-	-	10,966
Non-agricultural lands	31.12.2015	10,960	-	-	10,960
Office properties	31.12.2015	7,604			7,604
Office properties under Construction	31.12.2015	4,432			4,432
Agricultural lands	31.12.2015	108	-	-	108
Investment properties held for sale (Note 6.2)					
Vacation properties	31.12.2015	778	-	-	778
Liabilities measured at fair value:					
Derivative financial liabilities (Note 12)					
Interest rate swap	31.12.2015	23	-	23	-
Liabilities for which fair values are disclosed:					
Interest-bearing loans and borrowings (Note 11)					
Floating rate borrowings	31.12.2015	964	-	964	-
Assets for which fair values are disclosed:					
Long-term financial assets (Note 9)					
Long-term deposits	31.12.2015	360	-	360	-

In 2016 and 2015 there have been no transfers between the levels of the fair value measurement hierarchy.

19. Fair value measurement (continued)

Fair value of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Fund's financial instruments that are carried in the financial statements:

	Carrying amount		*Fair value*	
	2016	2015	2016	2015
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*
Financial assets				
Trade and other receivables	38	38	38	38
Cash and short-term deposits	3,903	1,795	3,903	1,795
Long-term financial assets	-	360	-	360
Financial liabilities				
Long-term interest bearing loans	5,099	964	5,099	964
Derivative financial instrument	-	23	-	23
Trade payables	766	810	766	810
Long-term financial liability	79	-	79	-

The fair value of the financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used to estimate the fair values:

- The fair value of cash and short-term deposits, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts due to the short-term maturities of these instruments;

- The fair value of floating rate loans is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortized transaction costs. The own non-performance risk is assessed to be insignificant.

- The fair value of the derivative interest rate swap contract is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The counterparty bank performed the fair value assessment of the interest rate swap.

- The fair value of long-term financial assets with fixed interest rate and long-term interest-free liabilities is determined by discounting the expected future cash flows using current market interest rates. As of 31 December 2016, the carrying value of long-term financial liabilities does not differ significantly from the estimated fair value.

20. Events after the reporting date

There are no subsequent events between the reporting date and the date these financial statements have been authorised for issue that would require adjustment and/or disclosure in the financial statements of Bulgarian Real Estate Fund ADSIC for the year ended 31 December 2016.