IMMO-CROISSANCE SICAV - FIS

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

IMMO CROISSANCE

Registered office:
11-13, Boulevard de la Foire
L-1528 Luxembourg
Grand-Duchy of Luxembourg
R.C.S Luxembourg : B 28.872

No subscriptions can be accepted on the basis of the financial reports alone. Subscriptions are valid only if made on the basis of the prospectus and a copy of the latest annual report. Subscriptions are accepted only as part of an issue duly announced by the Temporary Director. Redemptions of shares cannot be made at the unilateral request of shareholders.

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Administration

Registered office
Immo-Croissance SICAV-FIS
Centre Etoile
11-13 Boulevard de la Foire
L-1528 Luxembourg

Temporary Director (since October 22, 2014)
Mr. Yann BADEN
Zone d'activité Gehaansraich
L-6187 Gonderange

Custodian, administrative and transfer agent
RBC Investor Services Bank S.A.
14, Porte de France
L-4360 Esch-sur-Alzette

BOARD OF DIRECTORS

Chairman
Mr. Peter LANG
Banque Havilland S.A.
35a, Avenue JF Kennedy
L-1855 Luxembourg

Members
Mr. Jean-François WILLEMS
Banque Havilland S.A.
35a, Avenue JF Kennedy
L-1855 Luxembourg

Mr. Marc ARAND
Banque Havilland S.A.
35a, Avenue JF Kennedy
L-1855 Luxembourg

Administration (Continued)

Auditors
PricewaterhouseCoopers, Société coopérative
2, rue Gerhard Mercator
B.P. 1443
L-1014 Luxembourg

Property appraiser
Inowai S.A. (formerly known as Property Partners S.A.)
51-53, rue de Merl
L-2146 Luxembourg

Activity report

Luxembourg has known another good year in terms of rental take-up as, over the full year, it once again exceeded 200,000 sqm, due to an exceptionally high number of owner-occupier deals.

Vacancy rate increased from 4,1% in 2015 to 5.3% at the end of 2016. There is currently a 210,000 sqm. vacancy in Luxembourg.

Prime rents stabilized at 45 euro/sqm/month, unchanged on a quarterly and yearly basis, and may increase in 2017.

Kirchberg remains a market mainly driven by large deals and the CBD (Central Business District) by a larger number of smaller transactions.

Investment volume in 2016 exceeded EUR 1 billion, making the year the best since 2007 thanks to large size transactions, primarily offices.

Our portfolio has lived a relatively calm year.

In **Centre Monterey**, the surface vacant since beginning 2016 has finally been taken up as from January 2017 for a 3, 6, 9 term lease.

The **Residence Monterey** has lived a 100% rented out year in 2016 but the tenant gave its notice and left the building end of March 2017. We signed a lease contract with Bo-Pro (the initial tenant's previous sub-tenant) for a 2 year period (until end of March 2019). One flat is yet to be rented out and we are currently negotiating with a potential tenant for the 3rd quarter 2017.

Unfortunately, we still have some rental issues with the tenant of the retail space who has accumulated a rental debt of over EUR 110,000 (charges included). The case has been entrusted to a legal advisor and has been heard by the court. The Court has adjudicated on June 14, 2017. It ordered the tenant to repay all the debt. The Court has also terminated the lease contract and ordered the eviction of the lessee in a period of 3 months.

In **Strassen**, the overall situation remains difficult. Grant Thornton (formerly PKF) vacated the premises end of October 2015 and we are facing strong difficulties to have the vacant surfaces rented out again.

After initial difficulties, we finally managed to rent the part B of the 4th floor (744sqm) to the Luxembourg government as from beginning of March 2017 until end 2021. Unfortunately, the premises had not been renovated for almost 10 years and the technical equipment is outdated so that we had to invest around EUR 155,000 to renovate the space. These renovations have occurred during April and May and the tenant is using its new surface since beginning of June.

Garanti Bank who is renting out 744sqm in the same building informed us of their intention to leave the space during summer 2017 despite the next contractual termination period being only at the end of February 2018. The branch of the Turkish bank is actually closing down all business in Luxembourg. We are presently negotiating a settlement for their departure.

As a result, there are currently 2.913sqm available in the building and 744sqm are to be vacated by the end of this summer, although the Luxembourg government has shown a very strong interest to renting other surfaces in the building so that we are hopeful to reduce the vacancy rate of Edison.

Activity report (continued)

Our building in **Hesperange** is still in a transition phase; the reconstruction project being currently on hold. As a reminder, the plot is currently situated on a commercial zone and used as office building.

We decided to mandate PROgroup S.A. to prepare a new project that would change the property into a mixed area with a focus on residential usage. Several discussions had taken place with the municipality, the Interior Department and other governmental agencies and the project has been amended in accordance with their requirements.

We are now waiting for the municipality to vote the new PAG, which should happen before the end of 2017.

We have been approached by several movie production companies who have been renting out Hesperange for short periods (weeks) in 2016 and 2017.

Our current portfolio consists of 4 buildings at year end 2016, representing a total net value of EUR 43,880,000. The same buildings were evaluated at EUR 43,750,000 at the end of the previous year.
The rental income in 2016 decreased from EUR 2.3 million in 2015 to EUR 1.8 million. This decrease is mainly due to the departure of PKF from the Edison building end of October 2015.

Regarding the shareholding of the Fund, the lawsuit between its former shareholder R Capital and Pillar securitisation S.à r.l. is still ongoing. On July 10, 2013, the Commercial Court of Luxembourg returned a verdict in favor of R Capital and ordered Pillar securitisation S.à r.l. to return all Immo Croissance shares to its former shareholder. Pillar securitisation S.à. r.l. has appealed this decision. The appeal is pending. An order on appeal is currently expected to be given on July 5, 2017.

In the meantime, R Capital asked in Court for all Immo Croissance shares to be put under receivership and for the appointment of a temporary director. On December 17, 2013, the court rejected the request of a temporary director but decided to put all Immo Croissance shares under receivership. On February 25, 2014 Pillar securitisation S.à r.l. filed an appeal against this decision and by order of October 22, 2014, the Court of appeals maintained the receivership over the shares, reversed the first instance court's decision by removing the receiver's voting rights and appointed Maître Yann Baden as temporary director of the Company until resolution of the Court litigation between R Capital and Pillar securitisation S.à r.l..

The Company introduced in 2010 legal actions against R Capital, its subsidiaries and some of its Director and former Director to recover sums that Immo Croissance considered having been unduly paid for a total amount of EUR 3,010,600. By order of March 26, 2015, Immo Croissance's requests were granted. R Capital has filed an appeal against this decision on July 16, 2015. The appeal is pending.

Additionally, the Company introduced summary proceedings in April 2014 against R Opera 6, and R Opera 2 for the reimbursement of both loans for a total amount of EUR 2,665,600.

In June and November 2014, both companies were condemned to reimburse the above mentioned amounts and did not appeal the decision.

Activity report (continued)

Unfortunately, there is no chance that Immo Croissance recovers these amounts as both companies left their registered office for an unknown destination, do not seem to have had any assets available to ordinary ("chirographaire") claimants and have since filed for or have been put under court ordered winding up/bankruptcy proceedings.

The operating expenses dropped to EUR 0.9 million in 2016 (EUR 1.1 million in 2015) and the financial expenses have decreased from EUR 1.9 million in 2015 to EUR 1.8 million in 2016 which is due to a decrease of the policy rate. On December 31, 2016, the outstanding amount due was EUR 35,090,138 (PIK interests included).

The Company closed the financial year 2016 with a loss of EUR 732,917. The net asset value of the Company dropped from EUR 11.1 million end 2015 to EUR 10.3 million at the end of 2016.

On January 22, 2014, the Fund signed an agreement with Pillar securitisation S.à r.l. for a short-term bridge financing of EUR 33.7 million repayable on December 31, 2014. This agreement has been extended on a yearly basis, the currently applicable agreement having been signed on January 30, 2017 is due to expire on January 31, 2018.

The indebtedness ratio was 74.7% by the end of 2015 and increased to 76.4% by the end of 2016.

Shareholder information

The total equity value of Immo-Croissance SICAV-FIS and the total equity value per share are available at the registered office of the Fund.

The Fund publishes a detailed annual report on its activity and the management of its assets. These documents may be obtained by any interested shareholder free of charge from the Fund's registered office.

The Fund's financial year runs to December 31 of each year.

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Audit report

To the Shareholder of
Immo-Croissance SICAV-FIS

We have audited the accompanying consolidated financial statements of Immo-Croissance SICAV-FIS, (the "Fund") and its subsidiary which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Responsibility of the Temporary Director for the consolidated financial statements

The Temporary Director of the Fund is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Temporary Director of the Fund determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Temporary Director, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)
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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Immo-Croissance SICAV-FIS and its subsidiary as of 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information

The Temporary Director is responsible for the other information. The other information comprises the information included in the activity report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 29 June 2017

Dauvergne

Isabelle Dauvergne

Consolidated statement of financial position

As at December 31, 2016

Unless otherwise stated all amounts are expressed in Euros

	Notes	As at December 31, 2016	As at December 31, 2015
Assets			
Non-current assets			
Investment property	3c, 7, 8	43,880,000	43,750,000
		43,880,000	**43,750,000**
Current assets			
Trade and other receivables	3d, 3e, 9	290,460	383,774
Current income tax assets	20	14,415	10,403
Cash and cash equivalents	3d, 3f, 10	1,572,599	1,539,123
		1,877,474	**1,933,300**
Total assets		**45,757,474**	**45,683,300**
Equity			
Share capital	3g, 11	38,122,861	38,122,861
Accumulated losses		(27,766,270)	(27,033,353)
Total equity		**10,356,591**	**11,089,508**
Liabilities			
Current liabilities			
Trade and other payables	3d, 14	294,695	338,352
Bank borrowings	3d, 12, 21a	35,090,138	34,239,390
Current income tax liabilities	20	16,050	16,050
		35,400,883	**34,593,792**
Total liabilities		**35,400,883**	**34,593,792**
Total equity and liabilities		**45,757,474**	**45,683,300**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended December 31, 2016

Unless otherwise stated all amounts are expressed in Euros

	Notes	Year ended December 31, 2016	Year ended December 31, 2015
Rental income	3i	1,844,165	2,295,012
Property operating expenses	16	(472,364)	(762,107)
Net rental income		**1,371,801**	**1,532,905**
Custodian and central administration fees	17	(31,871)	(44,303)
Employee benefit expenses	18	(91,066)	(81,709)
Administrative and professional fees	19	(260,385)	(262,493)
Other expenses		(45,863)	(29,087)
Other income		3,975	2,244
Net operating profit		**946,591**	**1,117,557**
Net gain/ (loss) from fair value adjustment on investment property	8	130,000	(2,860,000)
Profit/ (loss) before finance cost		**1,076,591**	**(1,742,443)**
Finance income		-	-
Finance cost		(1,809,508)	(1,881,313)
Finance cost, net		**(1,809,508)**	**(1,881,313)**
Net loss before income tax		**(732,917)**	**(3,623,756)**
Income tax expense	20	-	(5,350)
Loss for the year		**(732,917)**	**(3,629,106)**
Other comprehensive income		-	-
Total comprehensive income for the year		**(732,917)**	**(3,629,106)**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended December 31, 2016

Unless otherwise stated all amounts are expressed in Euros

	Year ended December 31, 2016	Year ended December 31, 2015
Net cash flow from operating activities		
Loss before tax	(732,917)	(3,623,756)
Adjusted for:		
Net (gain)/ loss from fair value adjustment on investment property	(130,000)	2,860,000
Depreciation of property, plant and equipment		
Interest expense	1,764,238	1,840,467
Tax paid	(4,012)	(2,408)
Decrease in current assets	93,314	86,799
Decrease in current liabilities excluding bank borrowings and taxes	(43,657)	(13,520)
Net cash flow from operating activities	**946,966**	**1,147,582**
Net cash flow from financing activities		
Interest paid	(913,490)	(1,172,494)
Net cash flow from financing activities	**(913,490)**	**(1,172,494)**
Net increase/ (decrease) in cash and cash equivalents	**33,476**	**(24,912)**
Cash and cash equivalents at the start of the year	1,539,123	1,564,035
Cash and cash equivalents at the end of the year	**1,572,599**	**1,539,123**

The accompanying notes form an integral part of these consolidated financial statements.

Changes in investment property

As at December 31, 2016

Unless otherwise stated all amounts are expressed in Euros

As at December 31, 2016		As at December 31, 2015		
Acquisition Cost	**Market value**	**Acquisition Cost**	**Market value**	**Net gain from fair value adjustment**
45,400,586	43,880,000	45,400,586	43,750,000	130,000
-				

Changes in number of shares in issue

For the year ended December 31, 2016

	Ordinary shares
Number of shares in issue at the start of the year	25,042,231
Number of shares subscribed during the year	-
Number of shares redeemed during the year	-
Number of shares in issue at the year end	**25,042,231**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

As at December 31, 2016

Unless otherwise stated all amounts are expressed in Euros

	Share capital	Retained losses	Total equity
Balance as at December 31, 2014	**38,122,861**	**(23,404,247)**	**14,718,614**
Loss for the year	-	(3,629,106)	(3,629,106)
Other comprehensive income	-	-	-
Total comprehensive income	-	(3,629,106)	(3,629,106)
Balance as at December 31, 2015	**38,122,861**	**(27,033,353)**	**11,089,508**
Loss for the year	-	(732,917)	(732,917)
Other comprehensive income	-	-	-
Total comprehensive income	-	(732,917)	(732,917)
Balance as at December 31, 2016	**38,122,861**	**(27,766,270)**	**10,356,591**

Statistics

For the last three years

Unless otherwise stated all amounts are expressed in Euros

	As at December 31, 2016	**As at December 31, 2015**	**As at December 31, 2014**
Total net asset value	10,356,591	11,089,508	14,718,614
Net asset value per share	0.41	0.44	0.59
Dividend paid during the year	-	-	-

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated portfolio holdings

As at December 31, 2016

Unless otherwise stated all amounts are expressed in Euros

a. Portfolio – Break down by property

	Acquisition date	Year of construction	Tenants	Office space (sq.m.)	Residential/ Commercial space (sq.m.)	Archive space (sq.m.)	Car park (units)
Centre Monterey 23 Av. Monterey L-2163 Luxembourg	22-Nov-1988	1969	Trustee	1,639	-	495	20
Résidence Monterey 22 Av. Monterey L-2163 Luxembourg	29-Jun-1989	1993	Commercial residential	198	716	112	3
Auf der Hart 1 Ceinture Um Schlass L-5880 Hesperange	27-Oct-1988	1990	Vacant	2,080	-	157	119
Edison 7 Rue Thomas Edison L-1445 Strassen	10-Feb-1999	2000	Bank trustee	7,121	-	157	382

b. Portfolio – geographical repartition

Valuation in euros	Acquisition value	Estimated value	Insured value	% of total portfolio
Grand Duchy of Luxembourg	45,400,586	43,880,000	71,443,930	100.00%

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended December 31, 2016

Note 1 – General information

Immo-Croissance SICAV-FIS (the "Fund") is a real estate investment company that was created on September 22, 1988 in the form of an investment fund (Luxembourg SICAV) in accordance with the Luxembourg law of August 10, 1915 (as modified) relating to commercial companies, and the law of March 30, 1988 relating to collective investment undertakings. With effect from February 13, 2004, the Fund has been governed by the law of December 20, 2002. Since June 25, 2008 the Fund is governed by the law of February 13, 2007 on specialized investment funds, as amended. The Fund qualifies as alternative investment fund ("AIF") eligible to the grand-fathering provisions of Article 58(3) and Article 58(4) of the law of July 12, 2013 on alternative investment fund managers (the "AIFM Law"). Accordingly, the Fund is not subject to any specific requirements applicable to other non-exempted AIFs.

The Fund's registered office is located at 11-13 Boulevard de la Foire, L-1528 Luxembourg, Grand Duchy of Luxembourg. The Fund is registered in the Luxembourg trade and companies registry under number RCS B028872. As at December 31, 2016, the Fund is fully owned by Pillar Securitisation S.à r.l. ("Pillar").

The Fund's objective is to offer to its shareholders the opportunity to invest in a diversified portfolio that is specialised in high-quality property assets located within the European Union and especially in Luxembourg. While the Fund's property investments take a variety of forms, they primarily concern office premises.

The Fund's investment policy is directed towards the long term, frequent purchases and sales of assets are not considered. The Temporary Director may, however, sell the Fund's property assets at any time in view of future prospects or market concerns, or for any other reason that the Temporary Director deems appropriate.

The consolidated financial statements are prepared in Euros, which is the functional and reporting currency of the entity and its subsidiaries.

The Fund's consolidated financial statements were approved by joint decision between the Temporary Director and Pillar Securitisation S.à r.l. on June 29, 2017.

Notes to the consolidated financial statements (Continued)

For the year ended December 31, 2016

Going concern assessment

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Fund will be able to meet its debt obligations. The Fund's current liabilities exceed its current assets by EUR 33,523,409 (2015: EUR 32,660,492) as at December 31, 2016.

Since the Fund successfully negotiated the extension of the shareholder loan from Pillar, representing almost 100% of the Fund's current liabilities, up to January 30, 2018, the Temporary Director has concluded that the continued application of the going concern assumption is appropriate.

As of 31 December 2016, some loan covenants were breached. The lender temporarily waived its rights in respect of this breach until the earlier of (i) January 31, 2018 or (ii) the replacement or removal of or any change in the mission of the Temporary Director of the borrower. Considering the waiver referred to above, the Temporary Director is of the opinion that the Fund will be able to either refinance or repay its debts in due time and to continue in operational existence for the foreseeable future.

Based on the aforementioned, the Temporary Director has concluded that the continued application of the going concern assumption is appropriate.

Note 2 – Basis of preparation

The consolidated financial statements have been prepared under the historical-cost convention, except for investment property being measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of accounting estimates. The Temporary Director is also required to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the Note 4.

The consolidated financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board ("IASB"), as far as endorsed by the European Union ("EU"). The consolidated financial statements are prepared in Euros ("EUR") and rounded to the nearest Euro.

(a) New and amended standards and interpretations mandatory for the first time for the financial year beginning January 1, 2016 and being currently of relevance to the Fund

During the financial year, the Fund has adopted a number of new and amended standards and interpretations mandatory for the first time for the financial year beginning on or after January 1, 2016.

The impact of those being of relevance to the Fund is summarized below:

- **IAS 1, 'Disclosure Initiative'** (amendments). The amendments to IAS 1 'Presentation of Financial Statements' are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:
  - Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
  - Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
  - Notes – confirmation that the notes do not need to be presented in a particular order.
  - OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

  According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments. There was no significant impact on the consolidated financial statements of the Fund upon adoption of these amendments.

(b) New and amended standards issued but not effective for the financial year beginning January 1, 2016 and not early adopted by the Fund

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's consolidated financial statements are disclosed below, except for those standards which, in the opinion of the Temporary Director, are not relevant to the Fund. The Fund intends to adopt these standards, if applicable when they become effective. The Fund's assessment of the impact of these new standards and interpretations is set out below:

- **IFRS 9, 'Financial Instruments'**. On July 24, 2014, the IASB issued the final version of IFRS 9 bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, 'Financial Instruments: Recognition and Measurement'. The version of IFRS 9 issued in 2014 supersedes all previous versions and is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Except for hedge accounting, retrospective application is required, but the provision of comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Fund plans to adopt the new standard on the required effective date. During 2016, the Fund has performed a high-level impact assessment of all three aspects of IFRS 9.

This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Fund in the future. Overall, the Fund expects no significant impact on its statement of financial position.

Classification and measurement

The Fund does not expect a significant impact on its balance sheet from applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Fund expects that these will continue to be measured at amortised cost under IFRS 9.

Impairment

IFRS 9 requires the Fund to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. Given the limited exposure of the Fund to those instruments, this requirement is expect not to have a significant impact on the consolidated financial statements.

Hedge accounting

The Fund has not applied hedge accounting under IAS 39 and will not apply hedge accounting under IFRS 9 either.

- IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS and is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. Given that the majority of revenue streams of the Fund, being rental income, fall outside of the scope of IFRS 15, preliminary impact assessments made during 2016 indicate minimal impact arising on the adoption of this standard.

- IFRS 16 'Leases' was issued in January 2016. For lessees, it will result in almost all leases being recognised on the statement of financial position. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard is effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted. The Fund does not expect that IFRS 16 will have a significant impact on its current accounting practices.

- IAS 7 'Disclosure Initiative' (Amendments). The amendments to IAS 7 'Statement of Cash Flows' are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Fund.

Note 3 – Main accounting policies

3a Consolidation principles

Subsidiaries

A subsidiary is a company in which the Fund holds a direct or indirect controlling interest. Control is achieved when the Fund is exposed, or has rights to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. Specifically, the Fund controls a company, if and only if, the Fund has:

- Power over the company (i.e. existing rights that give the current ability to direct the relevant activities of the company);
- Exposure, or rights to variable returns from its involvement with the company; and
- The ability to use its power over the company to affect its returns

The Fund re-assess whether or not it controls a company if facts and circumstances indicate that there are changes to one or more of three elements of control.

The subsidiary is referred to in Note 6.

The consolidated financial statements include the financial statements of the Fund and those of its subsidiary, prepared as at December 31 of each year. The subsidiary is consolidated from the date on which the Fund assumes control through to the date on which the Fund ceases to have control. The subsidiary is incorporated into the consolidated financial statements using the acquisition method. As a consequence, the acquisition cost is allocated to the assets and liabilities based on their fair value on the acquisition date.

To prepare the consolidated financial statements, the individual financial statements of the Fund and of its subsidiary are combined on a line-by-line basis by adding together similar assets, liabilities, income and charges. To ensure that the consolidated financial statements present the group's financial information as if it related to a single company, the carrying value of the Fund's holding in the subsidiary and the Fund's share of the shareholders' equity of the subsidiary are eliminated.

Intra-group eliminations

Intra-group balances and transactions, including sales, charges and dividends, are eliminated in full.

3b Fair value measurement

The Fund measures non-financial assets such as investment properties at fair value at each reporting date.

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 most advantageous market must be accessible to by the Fund.

The fair value of an asset or 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 the 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 (see Note 4a) that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observables inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy (see Note 7).

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.

3c Investment property

Investment property includes property assets (land and buildings) held by the Fund in order to get rental earnings or to enhance their capital value, (or both reasons) as well as properties being redeveloped.

Investment properties are initially recorded at cost, including related transaction costs. Transaction costs include property transfer taxes, professional fees and initial leasing commissions to bring the property to the condition necessary of it to operate in the manner intended by the Fund. Subsequent expenditure on major renovation and development of investment properties is capitalized at cost. The costs of maintenance, repairs and minor improvement are expensed when incurred.
After initial recognition, investment property is carried at fair value.

The fair value of investment property is determined on the basis of a valuation prepared by an independent property appraiser possessing an appropriate and recognized professional qualification, as in the case of Inowai S.A. (appointed for the first time on October 18, 2010), who has proven experience in the valuation of investment property. The appraiser's appointment is renewed annually by the general meeting of shareholders.

Gains or losses arising from changes in the valuation of investment property are included in the consolidated statement of comprehensive income in the year in which they arise under 'Net gain/ (loss) from fair value adjustment on investment property'.

Investment properties are derecognized when they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of properties are recognized in the consolidated statement of comprehensive income in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between the net disposal proceeds and the carrying value of the asset concerned, as shown in the previous full period consolidated financial statements.

A detailed breakdown of investment property is provided in the consolidated portfolio holdings.

3d Financial instruments

Classification

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets, as appropriate. The Fund determines the classification of its financial assets at initial recognition.

The Fund's financial assets consist of trade and other receivables and cash and cash equivalents.

Liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or other liabilities, as appropriate.

The Fund's financial liabilities consist of trade and other payables and interest-bearing borrowings. They are classified as other liabilities in accordance with IAS 39.

Initial measurement

When financial assets are recognized initially, they are measured at fair value, except for investments not classified as financial assets at fair value through profit or loss, which are measured at fair value plus directly attributable transaction costs.

Initial recognition of financial liabilities is at fair value less directly attributable transaction costs. Accordingly, all borrowings are stated net of any borrowing costs.

Subsequent measurement

The financial assets are measured subsequently at amortized cost less provisions for impairment. Discounting is omitted for short term loans and receivables.

The Fund assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that such a loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

As regards the "loans and receivables" item, 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income.

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 recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statement of comprehensive income.

The financial liabilities including the interest-bearing loans and borrowings are measured subsequently at amortized cost, which is calculated by taking into account all issuance costs and any redemption premiums or discounts.

De-recognition

Financial assets are derecognized only when the contractual rights to the cash flows from the financial assets expire or when the Fund transfers substantially all risks and rewards of ownership.

A financial liability is derecognized if the obligation relating to the liability is extinguished or cancelled, or expires. An exchange between the Fund and an existing lender of loan instruments with significantly different terms and conditions is recognized as an expiry of the initial financial liability, and a new financial liability is recognized.

The same applies in the event of a significant modification of the terms and conditions of an existing financial liability. The difference between the respective accounting values of the initial financial liability and the new financial liability is recognized in the consolidated statement of comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3e Trade and other receivables

Trade receivables and other debtors mostly represent amounts due from tenants arising from rental of office units and other related services. They are generally due between 15 and 90 days.

3f Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term deposits with an initial maturity of less than three months.

For the purpose of the consolidated cash flow statement, cash and cash equivalents are stated net of bank overdrafts.

3g Shares

The Fund only offers shares in the form of ordinary shares. The Temporary Director shall have full discretion to declare and pay interim dividends in accordance with applicable law and the articles of incorporation.

3h Provisions

Provisions are recognized when the Fund has a present obligation (legal or constructive) arising from a past event and it is deemed likely that a payment will be required in order to extinguish this obligation and the amount of this payment can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost.

3i Rental income

Leases are agreements under which the lessor transfers to the lessee the right to use all or part of the investment property for a given period in exchange for a rent payment.

A non-cancellable lease is a lease that can be cancelled only:

- if an unlikely event occurs;
- with the authorization of the lessor;
- if the lessee enters into a new lease with the same lessor for the same investment property or an equivalent asset; or

- on payment by the lessee of an additional amount (any form of compensation), agreed on the signing of the lease.

The term of the lease indicates the non-cancellable period for which the lessee undertakes to rent the property asset, and any subsequent periods for which the lessee has the option to extend his lease in exchange for the payment of an additional amount if applicable provided that, from the inception of the lease, there is reasonable certainty that the lessee will exercise his option.
Rental income on investment property is recognized on a straight-line basis over the duration of the leases in force.

3j Taxation

Current income tax

Current income tax assets and liabilities for the year and prior years are measured at the amount that is expected to be collected from or paid to the tax authorities. The tax rates and regulations used in determining these amounts are those that were adopted, or about to be adopted, at reporting date.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are offset if a legal enforceable right of set-off of current tax assets and liabilities exists, and provided that these deferred taxes concern the same taxable entity and the same tax authority.

3k Related parties

Related parties are defined as parties that are directly or indirectly controlled by the Fund. When control exists, information on relations between the related parties is provided, whether or not any transactions have actually taken place between the parties.

3l Events after reporting date

Events after reporting period that provide additional information about a position of the Fund at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Events after the reporting period that are non-adjusting events are disclosed in the notes when material.

Note 4 – Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an on-going basis. Actual results may differ from these estimates.

In the process of applying the Fund's accounting policies, management has made the following significant judgments, estimates and assumptions.

4a Fair value of real estate investments

The Fund obtains on an annual basis valuation reports prepared by an external appraiser appointed by the Temporary Director and recognized by the CSSF.

In determining the fair value, the income capitalization method and the discounted cash flow ("DCF") methods have been used. These approaches require assumptions and judgement in relation to the future receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, property capitalisation rate or estimated yield and make reference to market evidence of transaction prices for similar properties.

The DCF method involves the projection of a series of cash flows deriving from a property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the income stream associated with the property. These projections are based on the lease terms and conditions, other existing agreements and external evidence such as current rental values offered on the market for similar properties in the same location. The discount rates applied on the reporting date reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Under the income capitalization method, a property's fair value is estimated based on the normalized net operating income generated by the property, which is divided by the capitalization rate (otherwise stated the investor's rate of return or the market yield). The difference between gross and net rental income includes the same expense categories as those for the DCF method with the exception that certain expenses are not measured over time, but included on the basis of a time weighted average, such as the average lease up costs. Under the income capitalization method, over (above market rent) and under-rent situations are separately capitalized.

The market yields were estimated depending on the actual location, type and quality of the properties, and taking into account market data and projections at the valuation date. Fair value estimates of investment property are subjective and actual values can be established only during a sale transaction.

For further details on key inputs used by the valuers and sensitivity analysis to significant changes in such inputs, see Note 8c.

The information provided to the valuers (i.e. terms and conditions of the existing lease agreements) and the assumptions and valuation models used by the valuers are reviewed by the Temporary Director before final review.

4b Recognition and measurement of current and deferred income taxes

The Fund's subsidiary is subject to income and capital gains taxes. Significant judgment is required in determining the total provision for current and deferred income taxes. The Fund recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made.

4c Investment entities

The management has assessed whether the Fund meets the criteria for being an investment entity as defined in IFRS 10. Had the Fund been considered an investment entity, the Fund would have accounted for its investment into subsidiaries at fair value through profit or loss. When doing this assessment, the management has considered whether the Fund meets the criteria defined in IFRS 10.27 which are:

- obtains funds from one or more investors for the purpose of providing those investors with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and;
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

Even though the two first criteria are met, the performance of the Fund, the management of the Fund and of the portfolio are measured using various performance indicators such as IRR, capitalisation rate, compliance with debt covenants, tenant quality/ profile, property location, dividends yields, occupation rate, net income generated from properties, etc. Therefore, according to the management, the third criterion is not met.

Furthermore, the management also considered the following typical characteristics of an investment entity in accordance with IFRS 10.28:

- it has more than one investment;
- it has more than one investor;
- it has investors that are not related parties of the entity; and
- it has ownership interests in the form of equity or similar interests.

As the Fund has just one investor, who is also its main financial support, management concluded that the Fund is not an investment entity. The consolidated financial statements of the Fund prepared in accordance with IFRS include all the subsidiaries listed in Note 6.

Notes to the consolidated financial statements (Continued)

For the year ended December 31, 2016

Note 5 – Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Until October 21, 2014, the Chairman of the Board of Directors was entrusted with the duty to supervise the risk management and associated internal compliance and control procedures, in conformity with applicable Luxembourg laws and regulations and the Fund's risk management policy (RMP). Any risk identified by the Chairman which required action was managed by the Board as a whole. As from October 22, 2014, the Temporary Director replaced the Board of Directors and has been entrusted with the supervision of the risk management and associated internal compliance and control procedures.

5a Risks associated with real estate investments

Investments in real estate are subject to various risks, including adverse changes in national or international economic conditions, adverse local market conditions, financial conditions of tenants, buyers and sellers of properties, changes in availability of debt financing, changes in interest rates, real estate tax rates and other operating expenses, environmental laws and regulations, zoning laws and other governmental rules and fiscal politics, environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which inadequate reserves had been established, energy prices, changes in the relative popularity of property types and locations leading to an oversupply of space or a reduction in tenant demand for a particular type of property in a given market, the quality and strategy of property and asset management risks due to dependence on cash flow, risks and operating problems arising out of the presence of certain construction materials, as well as acts of God, uninsurable losses and other factors which are beyond the control of the Temporary Director.

Many of these factors could cause fluctuations in occupancy rates, rent schedules, operating expenses or market yield (refer to Note 8c for sensitivity analysis) causing a negative effect on the value of real estate and income derived from real estate. Valuation of real estate will generally be a matter of the external valuer's opinion, and may fluctuate up or down. The capital value of the Fund's real estate may be significantly diminished in the event of a sudden downward turn in real estate market prices. This risk is particularly real in light of the economic downturn that Luxembourg, as most economies, has been facing the last three years. As economic growth falters, natural consequences are lower demand and rental pricing for commercial real estate as companies rationalize and downsize.

Tenant risk

The tenants' financial status and strength, and thus their ability to service the rent, will always be a decisive factor when evaluating the risk of property projects. The termination of leases with subsequent vacancy of the premises, or lower rent levels, will influence the rental income negatively.

5b Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the Fund or otherwise fail to perform as agreed.

Credit risk is found in all activities where profitability depends on the performance of a counterparty (risk to each party of a contract that the counterparty will not meet its contractual obligations), issuer, lessee or borrower.

The Fund will be exposed to a credit risk that could arise at any time. The Fund's funding is committed, invested, or otherwise exposed through actual or implied contractual agreements, reflected on the consolidated statement of financial position.

The Fund mainly assesses the credit quality of its tenants at the time of the tenant acceptance. Before accepting any new tenant, the risk profile is analysed based on its business sector.

An advance deposit or bank guarantee is required from any non-public sector tenants. Please also refer to Note 3d for accounting policy of the Fund in relation to impaired financial assets.

According to the tenant type, the annual rent allocation is as follows:

Tenants	**2016**	**2015**
Banks and trust companies	55%	64%
Commercial companies	37%	31%
Parkings and residential	9%	5%

The Fund's maximum exposure to credit risk by class of financial assets is as follows:

	As at December 31, 2016	**As at December 31, 2015**
Trade and other receivables	290,460	383,774
Cash and cash equivalents	1,572,599	1,539,123
	1,863,059	**1,922,897**

At year-end none of those assets are past due or impaired.

Most of the cash is held with Banque Internationale à Luxembourg S.A. ("BIL"). BIL is rated A- by Standard & Poor's and BBB+ by Fitch ratings.

5c Market risk

The Fund's market risk comprises the current or prospective risk to earnings and capital arising from adverse movements in the general economy, the property market and commodity prices as well as other fluctuations.

Currency risk

The Fund holds both monetary and non-monetary assets all denominated in Euros. The Fund is not exposed to foreign currency fluctuations.

Interest rate risk

Interest rate risk arises from the Fund's exposure, due to its financial obligations, to adverse movements in interest rates. All assets and liabilities are directly or indirectly affected by interest rates.

Real estate is financed by debt and will be exposed to interest rate fluctuations.

As at December 31, 2016, the Fund is exposed to the increase/decrease in interest rates through a variable interest-bearing loan amounting to EUR 35,090,138 (2015: EUR 34,239,390).

The sensitivity analysis below has been determined based on the exposure to interest rates for floating rate borrowings at the end of the reporting period. The analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/ lower and all other variables were held constant, the Fund's profit for the year ended December 31, 2016 would decrease/increase by EUR 350,901 (2015: decrease/ increase by EUR 342,394).

In addition, the interest rate level over time is an important factor in the development of the value of the properties and the return which investors can obtain.

The interest rate level could also indirectly affect rent levels by having a negative impact on the revenue of the tenants, and rent levels are also relevant when renewing or entering into new leases.

Price risk

The Fund is not exposed to price risk related to financial instruments. For price risk on investment property, please refer to Note 4a.

5d Liquidity and refinancing risk

The Fund is exposed to a liquidity risk that could materially affect its operating results and financial position. Liquidity risk can be divided into funding risk and market liquidity risk.

The definition of funding risk is the current or prospective risk to earnings and capital arising from the Fund's inability to meet its liabilities when they come due without incurring unacceptable losses. Funding risk arises from the inability to manage unexpected decreases or changes in funding sources.

Market liquidity risk is the current or prospective risk to earnings and capital arising from the Fund's inability to quickly unwind its positions either at current market rates or at a rate which would not be adversely affected by the unwinding to an extent which would result in unacceptable losses.

The Fund is particularly exposed to liquidity risk as its holdings are in real estate and are therefore relatively illiquid.

The Fund's liquidity position is monitored on a monthly basis by management and is reviewed annually by the Temporary Director. A summary table with maturity of financial liabilities presented below is used by key management personnel to manage liquidity risks. The amounts disclosed in the below tables are the contractual undiscounted cash flows.

The maturity analysis of financial liabilities as at December 31, 2016 is as follows:

Financial liabilities	Less than 1 month (EUR)	1 to 3 months (EUR)	3 months to 1 year (EUR)	more than 1 year (EUR)	Total (EUR)
Bank borrowings	35,179,596	-	-	-	35,179,596
Trade and other payables	20,735	-	256,335	-	277,070
Total	**35,200,332**	-	**256,335**	-	**35,456,667**

The maturity analysis of financial liabilities as at December 31, 2015 is as follows:

Financial liabilities	Less than 1 month (EUR)	1 to 3 months (EUR)	3 months to 1 year (EUR)	more than 1 year (EUR)	Total (EUR)
Bank borrowings	34,239,390	-	-	-	34,239,390
Trade and other payables	69,509	133,961	110,527	7,820	321,817
Total	**34,308,899**	**133,961**	**110,527**	**7,820**	**34,561,207**

5e Capital risk management

The Fund manages its capital to ensure that entities in the Fund will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

Notes to the consolidated financial statements (Continued)

For the year ended December 31, 2016

The loan-to-value ratio at year-end was as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Debt	35,090,138	34,239,390
Cash and cash balance	(1,572,599)	(1,539,123)
Net debt	33,517,539	32,700,267
Investment property	43,880,000	43,750,000
Loan-to-value ratio	**76.38%**	**74.74%**

In accordance with the loan agreement entered into by the Fund with Pillar, financial covenants require that the loan-to-value ("LTV") ratio does not exceed 75% and the debt-to-equity ratio is not higher than 2.75. In addition, the Fund shall respect a minimum net asset value of EUR 13 million.

With effect on April 11, 2016, Pillar temporarily waived its rights in respect of the breaches of the covenants until January 31, 2018 or (ii) the replacement or removal of or any change in the mission of the provisional administrator of the Fund. See Note 12.

Note 6 – Subsidiary

The consolidated financial statements combine the financial statements of the Fund with those of its subsidiary listed below:

		Holding and control %	
Name	**Country of registration**	**2016**	**2015**
Immo Hesperange S.à r.l. 42-44 avenue de la Gare L-1610 Luxembourg	Luxembourg	100	100

Note 7 – Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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:

- Quoted (unadjusted) market prices in active markets for identical assets or liabilities (level 1);
- Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable (level 2); and
- Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable (level 3).

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the fair value hierarchy by reassessing categorization at the end of each reporting period. No such transfers occurred during the year ended December 31, 2016.

The following table analyses within the fair value hierarchy the Fund's assets measured at fair value at December 31, 2016:

Assets measured at fair value	Date of valuation	Level 1	Level 2	Level 3	Total balance as at December 31, 2016
Investment properties (Note 8)	31/12/2016	-	-	43,880,000	43,880,000

The following table analyses within the fair value hierarchy the Fund's assets measured at fair value at December 31, 2015:

Assets measured at fair value	Date of valuation	Level 1	Level 2	Level 3	Total balance as at December 31, 2015
Investment properties	31/12/2015	-	-	43,750,000	43,750,000

Since significant unobservable inputs (including estimated market rentals, rent growth rate, long-term vacancy rate and discount rate) were used in the fair value of property, the fair value of investment property is included within level 3.

Valuation techniques, inputs used in the fair value measurement and valuation processes implemented by the Fund in that respect are further disclosed in Note 4a and Note 8.

The reconciliation of all movements in the fair value of the Fund's assets categorized within level 3 between the beginning and the end of the reporting period is shown in Note 8.

Note 8 – Investment property

8a Disposals

No disposals occurred in 2016 and 2015.

8b Reconciliation of level 3 fair value measurement

	Year ended December 31, 2016	Year ended December 31, 2015
Opening balance	43,750,000	46,610,000
Acquisition during the year	-	-
Sale during the year	-	-
Total gains or losses	130,000	(2,860,000)
Closing balance	**43,880,000**	**43,750,000**
Total gains or losses for the year relating to investment properties held at the end of the reporting year	130,000	(2,860,000)

Total gains or losses are recognized in the consolidated statement of comprehensive income under "Net gain/ (loss) from fair value adjustment on investment property".

8c Valuation techniques used and key inputs to fair value measurements categorized within level 3 of the fair value hierarchy

Investment properties	Valuation technique	Significant unobservable inputs	Range or weighted average
		Estimated rental value (sqm p.a.)	210€ - 384€
		Discount rate	4,75% - 7,50%
Office/ Residential/		Rent growth	1.25%
Commercial	DCF method	Long-term vacancy rate	51.2%
Office/ Residential/ Commercial	Income capitalization method	Market yield	3,50% - 8,00%

For further details on the valuation methods, see Note 4a.

As shown below, significant increases or decreases in market rentals in isolation would result in a significant higher or lower fair value of the investment properties. Significant increases or decreases in long-term vacancy rate in isolation would result in a significant lower or higher fair value. Generally, a change in the assumptions made for the estimated rental value is accompanied by an opposite change in the long-term vacancy.

The following details the Fund's sensitivity to a 0.5% increase and decrease in the market yields, with 0.5% being the sensitivity rate used when reporting price risk internally to key management personnel and representing management's assessment of the possible change in market prices.

At December 31, 2016, if market yields had increased by 0.5% with all other variables held constant, the total equity value attributable to holders of the ordinary shares for the year would have been 24.42% lower (2015:21.89% lower), due to the decrease in the fair value of investment properties by EUR 2,530,000 (2015: EUR 2,440,000).

At December 31, 2016, if market yields had decreased by 0.5% with all other variables held constant, the total equity value attributable to holders of the ordinary shares for the year would have been 28.67% higher (2015: 25.48% higher), due to the increase in the fair value of investment properties by EUR 2,970,000 (2015: EUR 2,840,000).

At year-end, the investment properties have been pledged to a lender as collateral to secure borrowings (Note 12).

Note 9 – Trade and other receivables

As of December 31, 2016, the loans to entities affiliated to R Capital S.à r.l. ("R Capital"), the former shareholder of the Fund, amounted to EUR 2.7 million. The Fund initiated a legal action against R Capital and other related entities and persons in order to claim back the loans. As the recovery of those amounts remains at risk, those loans have been fully written down in 2009.

At year-end, the trade and other receivables are also composed of the following:

	As at December 31, 2016	**As at December 31, 2015**
Rental guarantee	4,850	3,878
Rent receivables	144,791	263,434
Prepaid expenses and other receivables	140,818	116,462
	290,460	**383,774**

Note 10 – Cash and cash equivalents

Cash at bank is remunerated at variable interest rates indexed to the rates paid on demand deposits. Short-term deposits cover various periods ranging from one day to three months depending on the Fund's immediate cash needs.

Note 11 – Share capital

The Fund's capital is represented by ordinary shares with no par value carrying one vote each. They are entitled to dividends when declared. The Fund has no restrictions or specific capital requirements on the issue and re-purchase of ordinary shares.

During the year ended December 31, 2016, no shares were issued or redeemed (2015: none). On December 17, 2013, the Court of First Instance in Luxembourg ordered the escrow of all the Fund's shares owned by Pillar Securitization S.à r.l. in relation to a judicial action introduced by R Capital claiming restitution of the shares of the Fund.

Notes to the consolidated financial statements (Continued)

For the year ended December 31, 2016

Note 12 – Bank borrowings

At year-end, the borrowings are composed of the following:

Lender	Interest rate	Maturity	As at December 31, 2016	As at December 31, 2015
Current				
Pillar Securitisation S.à r.l.				
Principal	Euribor + 350 b.p. margin	31/01/2017	35,090,138	34,239,390
Total borrowings (including interest payable)			**35,090,138**	**34,239,390**

The principal amount outstanding includes a PIK interest of 2%, accrued on the principal amount drawn down and capitalised at the end of each interest period. As at December 31, 2016, the capitalized interests amounted to EUR 1,971,047 (2015: EUR 1,298,243). For the year ended December 31, 2016, interests amounting to EUR 1,764,238 has been charged to the consolidated statement of comprehensive income (2015: EUR 1,840,467).

The going concern assessment is disclosed in Note 1.

On January 22, 2014 an agreement was signed with Pillar for a short-term bridge financing of EUR 33.4 million repayable on December 31, 2014.

Further to two successive extensions of the aforementioned loan until January 31, 2016 and January 31, 2017, the maturity date of the loan has been postponed for the third time to January 31, 2018. See Note 24.

In 2015, the Fund failed to comply with all of the covenants. Due to the un-remedied breaches of the required covenants, Pillar was contractually entitled to request immediate repayment of the outstanding loan. By letter dated March 1, 2016, the Fund informed Pillar that certain financial covenants are likely to be breached as a result of a large decrease in the value of one of the borrower's buildings, namely the Edison building located 7, rue Thomas Edison, L-1445 Strassen, which was causing a substantial drop in the borrower's equity value as per December 31, 2015. By Waiver Letter dated April 11, 2016, Pillar temporarily waived its rights in respect of this breach until the earlier of (i) December 31, 2016 or (ii) the replacement or removal of or any change in the mission of the provisional administrator of the Fund. The aforementioned waiver has been extended concurrently to the maturity of the loan, being January 31, 2018.

As at December 31, 2016, the carrying amount of such short-term borrowings was not materially different from their fair value.

Notes to the consolidated financial statements (Continued)

For the year ended December 31, 2016

Note 13 – Guarantees and security deposits

At year-end, the Fund has a EUR 35,090,138 (2015: EUR 34,239,390) loan secured by a first ranking mortgage over the properties owned by the Fund, a first ranking pledge over the shares of Immo Hesperange S.à r.l., the Fund's subsidiary, a first ranking pledge over the rental accounts and a first priority assignment on any lease contracts, rental guarantees and insurance agreements related to the properties.

Note 14 – Trade and other payables

	As at December 31, 2016	As at December 31, 2015
Accounts payable	110,527	110,527
Audit fees	44,100	44,100
Custodian and central administration fees (Note 17)	47,967	28,463
Directors' fees (Note 21b)	22,952	55,000
Prepaid rental income and services charges	20,366	60,110
Real estate valuation fees	6,000	5,913
Rental guarantee	7,800	7,820
Subscription tax	277	368
VAT	-	13,237
Other payable	34,706	12,814
	294,695	**338,352**

Note 15 – Lease commitments

Minimum future lease payments receivable in respect of non-cancellable operating leases were as follows:

	As at December 31, 2016	As at December 31, 2015
Due in less than 1 year	1,614,793	1,858,245
Due in 1 to 5 years	3,037,405	2,349,071
Due in more than 5 years	-	-
	4,652,198	**4,207,316**

Note 16 – Property operating expenses

The main charges in respect of rental properties concern individual and collective services (maintenance, lighting, etc.), property charges (cleaning, sewerage and household waste), land taxes, caretaking charges, management charges and insurance.

Notes to the consolidated financial statements (Continued)

For the year ended December 31, 2016

Some rental property charges such as individual services (e.g. hot water, meter rental and heating) are mostly recoverable from the lessees. The Fund makes available to lessees, prior to the expiry of their leases, supporting evidence for all expenses incurred by the Fund as well as the calculations of the split of property charges by lessee.

The property operating expenses are broken down as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Service charges and maintenance	404,634	717,996
Insurance	21,800	19,899
Property tax	45,930	24,212
	472,364	**762,107**

Note 17 – Custodian and central administration fees

Based on the agreement signed on September 23, 1988 between the Fund and Banque Internationale à Luxembourg S.A. and its endorsement on February 2, 2006, RBC Investor Services Bank S.A. ("RBC") has been appointed as custodian, administrator and registrar and transfer agent of the Fund.

The custodian has the right to levy a custodian fee on the Fund's assets, which is payable at each quarter end and is calculated as follows:

- 0.10% per annum of the gross value at the quarter end of marketable securities, cash and other assets excluding any direct investment in property assets;
- 0.01% of property assets up to a maximum of EUR 1,239 per building.

In addition, the custodian shall be entitled to be reimbursed by the Fund for all charges and fees levied by correspondents (clearing systems or banks) for the Fund's assets and marketable securities.

As administrator and transfer agent, RBC is entitled to receive out of the assets of the Fund an annual fee of EUR 30,958 for the provision of administration and transfer agency services, which is payable annually (plus VAT thereon, if any).

Note 18 – Employee benefit expenses

During the financial year 2016, the Fund had on average 1.50 full time equivalents employees (2015: 1.33 employees).

At year-end, employee benefit expenses were as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Salaries	68,150	60,662
Social charges	22,916	21,047
	91,066	**81,709**

Notes to the consolidated financial statements (Continued)

For the year ended December 31, 2016

Note 19 – Administrative and professional fees

	Year ended December 31, 2016	Year ended December 31, 2015
Legal fees	-	23,151
Audit fees	43,559	44,100
Other professional fees	106,386	77,746
Directors' fees (Note 21b)	73,003	75,549
Administrative expenses	37,437	41,947
	260,385	**262,493**

Note 20 – Taxation

Taxation at Fund level

Pursuant to current legislation and regulations, the Fund is liable in Luxembourg to an annual tax ("Taxe d'abonnement") of 0.01% payable quarterly and calculated on the basis of the Fund's net assets at each quarter end.

Pursuant to current legislation in Luxembourg, the Fund is not liable for any company levies or taxes on capital gains, or any property taxes on buildings that it owns in the Grand Duchy of Luxembourg, apart from land taxes.

Taxation at subsidiary level

The subsidiary is subject to all taxes applicable to commercial companies in Luxembourg.

Note 21 – Transactions with related parties

21a Borrowings

As at December 31, 2016, the loan owed to Pillar, including capitalised interests, amounted to EUR 35,090,138 (2015: EUR 34,239,390). See Note 12.

21b Directors' fees

For the year ended December 31, 2014, each member of the Board of Directors of the Fund was entitled to receive remuneration consisting of fixed annual remuneration ranging from EUR 16,153 to EUR 60,000 (net of taxes) to be paid quarterly in arrears and on a prorata temporis basis, plus an attendance fee per board meeting of EUR 538.

By appointing Mr. Yann Baden as Temporary Director of the Fund on October 22, 2014, the court has suspended the Board of Directors.

Total Directors' fees for 2016 were EUR 73,003 (2015: EUR 75,549). Total Directors' fees payable as at December 31, 2016 were EUR 22,952 (2015: EUR 55,000). For 2016, those amounts only consist of the fee owed to the Temporary Director.

Note 22 – Issue, redemption and conversion of shares

The Fund is not under any obligation to redeem its shares at the unilateral request of a shareholder. The Temporary Director will have full discretion to operate such redemptions in accordance with the Fund's and its shareholders' general interests.

Shareholders whose shares are redeemed by the Fund will be paid a price per share based on the net asset value per share of the Class as determined on the relevant valuation date, in accordance with the provisions of Article 22 of the articles of incorporation and payable within 15 business days thereafter.

If in exceptional circumstances beyond the Fund's control it is not possible to make the payment within such period then such payment shall be made as soon as reasonably practicable thereafter but without interest.

Any repurchase request by a shareholder shall be made in a written instrument and shall be treated by the Fund as an irrevocable request.

Note 23 – Contingencies

As at December 31, 2016, there is no material contingent liability outstanding.

Note 24 – Subsequent events

On January 30, 2017, the maturity date of the loan provided by Pillar was extended until January 31, 2018 (see Note 12).