This announcement contains inside information within the meaning of the Market Abuse Regulation (EU) (No 596/2014).

28 April 2017

BCRE – Brack Capital Real Estate Investments N.V.

(“**BCRE**” or the “**Company**”)

FINAL RESULTS 2016

The Board of BCRE announces its results for the year ended 31 December 2016 and the publication of its 2016 Annual Report.

Key highlights for the year ended 31 December 2016 and up to the publication of the Annual Report

- The net asset value (“NAV”) of the Group increased to €254.1 million as at 31 December 2016 (31 December 2015: €240.7 million).

- After the sale of 420,809 shares of Brack Capital Properties N.V. (“BCRE Germany”) through an off-market transaction for a total consideration of approximately €32.4 million (including transaction costs) the Company does not consolidate the financial position of BCRE Germany starting 28 September 2016 which will be accounted under the equity method.

- The Company’s gain (net of transaction costs) from the above-mentioned sale of shares and the revaluation of the remaining investment in BCRE Germany to fair value upon loss of control is €6.7million and €43.8 million respectively.

- 720 West End Avenue project is being let to the Salvation Army and serves as a senior housing facility. The building will be vacated once the replacement facility being built on 125th street is completed, expected by the end of 2018.

- Following the approval of the condo offering plan for 90 Morton Street, a major development in the West Village, Manhattan, construction began in the second quarter of 2016 and the project is expected to be completed during the second half of 2018.

- Acquisition of 336 multifamily units (c. 334,000 sq ft) in January 2017 by the BCRE REIT for a total consideration of $26.5 million in Preserve at Sagebrook, in Dayton, Ohio.

- During March/April 2016, both the Company and BCRE Germany distributed capital to their shareholders in relation to 2015, of approximately €4.8 million and €6 million, respectively.

- In September 2016, the Company issued 4.25% convertible bonds for an aggregate principal amount of €19.8 million (net of expenses) convertible into ordinary shares of the Company.

- In December 2016, certain subsidiaries/associates of BCRE Russia entered into agreements with the existing financing bank concerning four major projects in Russia (Kazan, Lyubertsy, Lobnia and Dmitrov). The main loan terms have been amended and the corporate structure of the subsidiaries/associates will be revised. The Company expects the amendments to the existing loan facilities to have a positive impact on the debt servicing obligations and on the liquidity of BCRE Russia.

- In December 2016, Midroog, the credit rating agency accredited by Israel and a subsidiary of Moody's Investor Service Inc. (Midroog), reaffirmed the credit rating of the Company's Series A, B and C bonds at A2 on a local Israeli scale, with negative outlook.

- In March 2017, Standard & Poor's Maalot, a credit rating agency accredited by Israel, reaffirmed the credit rating of BCRE Germany and its existing debentures at ilAA- with stable outlook.

- Under the share buyback programme of up to a maximum of €3 million, which was completed on 31 December 2016, the Company repurchased approximately 2 million shares for a total consideration of approximately €1.96 million.

- Following the extension of the programme for the issuance of bonds from $60 million to $180 million a total amount of $29.6 million, net of expenses, has been raised in April 2016.

- An additional amount of approximately $18.9 million, net of expenses, has been raised under the bond programme during the first quarter of 2017.

- No distribution will be made for the year ended 31 December 2016, with a view to increasing the Company's liquidity.

The Annual Report 2016 is now available to view or download from the company's website, www.brack-capital.com.

ENQUIRIES:

BCRE - Brack Capital Real Estate Investments N.V.

Ariel Podrojski, Chief Executive Officer

Nansia Koutsou, Chief Financial Officer / Chief Operating Officer +31 20 514 1004

Novella Communications

Tim Robertson

Toby Andrews +44 203 151 7008

1 DIRECTORS' REPORT

Please read the following directors' report in conjunction with the audited consolidated financial statements and the notes to those statements, included elsewhere in this annual report. In addition to historical facts, this annual report contains forward-looking statements.

1.1 CHAIRMAN'S STATEMENT

Harin Thaker, Chairman, said:

"BCRE has delivered another year of improved focus on geographical consolidation and further strategic progress. On behalf of the Board and our shareholders, I would like to thank our management team and all our colleagues for the hard work in delivering the financial results set out in this Annual Report.

The financial results for the 12 months to 31 December 2016 reflect the benefits of our strategy over the past two years, during which BCRE moved from a period of four distinct local platform strategy to consolidation on growth economies and stabilizing the emerging market portfolios.

The Board is confident that BCRE will meet its ambitious goals, generating sustainable growth across western economies and achieving a balanced portfolio mix, which should in turn drive shareholders' returns. The Board will continue to oversee management's performance closely, ensuring that the Group executes its strategy with financial discipline and with integrity.

Already, BCRE is a leaner, more focused and growth-oriented company. We have expanded our presence in multifamily sector in the USA and preferred to wind down the small ticket lending business but continue to explore further the same segment now to a larger ticket lending in New York Manhattan markets, the markets the management is well familiar with. Loans restructuring in Russia was a major achievement in difficult market conditions. The management continues to remain focused on funding and liquidity management in what appears to be uncertain times with the threats of interest rates rising and inflation raising its heads.

It is encouraging to see that the US residential development programme is delivering on stream. Acquisitions in the multifamily are likely to remain an important component of growth for BCRE in the future. All capital commitments will continue to be made in a disciplined manner and will remain subject to rigorous strategic and financial hurdles.

On behalf of all shareholders, the Board continues to monitor BCRE's performance in important areas such as compliance, risk management and remuneration. In 2016 we took steps to improve further the governance and controls in place across the Group, including further investment in our risk and compliance teams and internal systems.

BCRE puts an emphasis to the quality of its people at every level including the Board. As part of this commitment to quality, we will continuously evaluate our own Board and that of our investee companies and make appropriate recommendations".

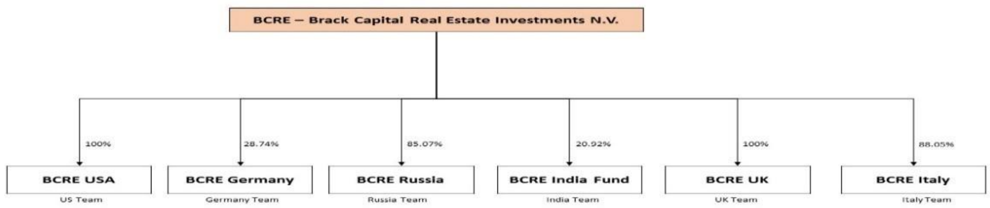
1.2 OVERVIEW

1.2.1 About us

BCRE-Brack Capital Real Estate Investments N.V. ("BCRE" or the "Company") is a public limited liability company incorporated under the laws of the Netherlands. BCRE, its subsidiaries and other affiliates which are controlled by BCRE are collectively referred to as the "Group". BCRE was converted from a private limited liability company into a public limited liability company on 28 May 2014, prior to the listing of the Company on the London Stock Exchange.

BCRE is an internationally active real estate investment, development and management group. The Group is part of the group of BCH – Brack Capital Holdings Ltd, established in 1992. The Group's investment and management philosophy is based on the combination of local expertise and high professional standards.

The Group's simplified corporate structure as at 31 December 2016 is shown in the chart below.



The Group operates through its key geographical platforms in the US, Germany and Russia. The Group currently has an interest in 10,661 income producing residential units (10,147 as at 31 December 2015) and in -35 income producing commercial properties (40 as at 31 December 2015) across the US, Germany and Russia. Such properties have a total built area (both commercial and residential) of approximately 1,337,459m² (approximately 1,296,459m² as at 31 December 2015).

The Group also has an interest in 8 residential and commercial projects (8 as at 31 December 2015) in various stages of development and refurbishment across the US, Germany and Russia, with a total lettable or saleable area of such properties expected to be approximately 232,000m² (approximately 277,000m² as at 31 December 2015). The Group has also an interest in approximately 349,000m² (approximately 349,000m² as at 31 December 2015) of land plots available for sale and in approximately 170 hectares (approximately 130 hectares as at 31 December 2015) of land plots available for future development.

The Group operates through highly experienced and on the ground management teams. For each property, the relevant local team performs the entire project cycle of activities; from market research and deal sourcing, negotiating and financing, to asset and property management. The Group is also active in running the development process and closely supervises the construction phase of its developments. The Group did not undertake any R&D activities during the period under review.

1.2.2 Key highlights

The key highlights for 2016 and 2017 until the signing of this annual report are as follows:

- On 28 September 2016, the Company sold 420,809 shares of Brack Capital Properties N.V. ("BCP or "BCRE Germany") through an off-market transaction for a total consideration of approximately €32.4 million (including transaction costs) reducing the holding of the Company in BCRE Germany to 28.31%. Due to the reduction of the Company's shareholding in BCRE Germany, the Company reached the conclusion that it no longer has control over BCRE Germany and therefore does not consolidate the financial position of BCRE Germany starting 28 September 2016 (the "Deconsolidation Date") and will be accounted for using the equity method. The financial results of BCRE Germany are consolidated for the financial year ended 31 December 2016 up to the Deconsolidation Date and subsequently are accounted for under the equity method. The Company's gain (net of transaction costs) from the above-mentioned sale of shares and the revaluation of the remaining investment in BCRE Germany to fair value upon loss of control is €6.7million and €43.8 million respectively.

- The Group generated revenues of €11.22 million from rental income during the period (31 December 2015 (*): €8.98 million).

- The net asset value ("NAV") of the Group amounted to €254.1 million as at 31 December 2016 (31 December 2015: €240.7 million).

- As at 31 December 2016, the aggregate value of total assets in which the Company has an interest in different percentages was approximately €0.9 billion (31 December 2015: €2.1 billion). The significant decrease in the aggregate value of total assets compared to last year is due to the deconsolidation of BCRE Germany as mentioned above.

- 720 West End Avenue project is being let to the Salvation Army and serves as senior housing facility. The building will be vacated once the replacement facility that is being built on 125th street is completed, expected by end of 2018. As of now, on 125th Street demolition of the existing building was completed, the construction started and the excavation and foundations works are underway. Once the 720 West End Avenue project is vacant, the Company will have a number of options, among others, a conversion of the existing building to a major residential building in the Upper West Side of Manhattan.

- Following the approval of the condo offering plan for 90 Morton Street, a major development in the West Village, Manhattan, by the New York City attorney general, construction began in the second quarter of 2016 and the project is expected to be completed during the second half of 2018.

- The Indigo Lower East Side Hotel in Manhattan, the 294-room hotel operated by InterContinental Hotel Group (IHG) was not fully operational during the first half of 2016, and during the second half of 2016 when it was fully operational the occupancy was approximately 78% with an approximately $283 average daily rate (hotels in New York City typically perform better in the second half of the year rather than the first). The outstanding performance of the hotel's unique rooftop food & beverage outlet as well as the refinancing of the hotel's construction loan boosts the asset's funds from operations. The hotel won 1st place as North America's Leading Boutique Hotel and North America's Leading New Hotel and World's Leading Lifestyle Hotel in the 2016 World Travel Awards.

- Despite Russian economy signs of recovery, the on-going contraction in private consumption continues to impact our Russia operation. The Company continues the efforts of stabilizing the Russian platform, as the shopping center in Dmitrov, the logistic warehouse in Lobnia and Kazan's main retail module are almost fully occupied, whereas the Lyubertsy shopping center and the two additional modules in Kazan are still ramping up.

- During March/April 2016, both the Company and BCRE Germany distributed capital to their shareholders of approximately €4.8 million and €6 million, respectively in relation to 2015, as approved at General Meetings in 2016.

- In March 2017, Standard & Poor's Maalot, a credit rating agency accredited by Israel, reaffirmed the credit rating of BCRE Germany and its existing debentures at ilAA-, with stable outlook.

- In September 2016, the Company issued 4.25% convertible bonds at an initial bondholder's conversion price of approximately €1.50 (can be adjusted in accordance with the terms and conditions) due 2020 for an aggregate principal amount of €19.8 million (net of expenses) convertible into ordinary shares in the capital of the Company. A subsidiary of the Company purchased convertible bonds in a total amount of €5.3 million to be sold in the secondary market to investors. The convertible bonds were admitted, on issuance, to the Marche Libre, segment of Euronext Paris.

- In December 2016, certain subsidiaries/associates of BCRE Russia entered into agreements with the existing financing bank concerning four major projects in Russia (Kazan, Lyubertsy, Lobnia and Dmitrov). The main loan terms have been amended and the corporate structure of the subsidiaries/associates will be revised. The aggregate principal amount of the restructured loans is approximately US$ 267 million. The key amendments to the existing loan facilities and to the corporate structure of the subsidiaries/associates , include among other things, prolonging the final maturity dates by 3 to 5 years, amortisation payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a 'golden' share in each project, which provides the financing bank with a veto right in respect of material decisions at the level of the subsidiaries/associates. The 'golden' shares can be repurchased subject to meeting certain conditions. The completion of the refinancing is expected in 2017 and specifically within a period of eight months after the signing of the relevant agreements and is subject to certain other conditions which need to be fulfilled by the subsidiaries/associates and the approval of the transfer of the 'golden' shares to the financing bank, by the Federal Antimonopoly Service of the Russian Federation.

- In December 2016, Midroog, the credit rating agency accredited by Israel and a subsidiary of Moody's Investor Service Inc. (Midroog), reaffirmed the credit rating of the Company's Series A, B and C bonds of A2 on a local Israeli scale, with negative outlook.

- On 21 December 2016, the Company extended the maturity date of the convertible loan notes of 24 December 2014 in the aggregate amount of €16.8 million until 30 November 2018. The amended conversion price of the convertible loan notes is equal to €1.5 per share.

- A share buyback programme of up to a maximum of €3 million was announced and commenced in June 2016, and further extended on September 2016, and was completed before 31 December 2016. During 2016, the Company repurchased approximately 2 million shares for a total consideration of approximately €1.96 million. The share capital of the Company was reduced by approximately 1,5 million shares by means of a cancellation of these shares following the purchase of shares under the share buyback programme, on 10 January 2017.

- Following the extension of the programme for the issuance of bonds from $60 million to $180 million a total amount of $29.6 million, net of expenses, has been raised in April 2016. An additional amount of approximately $18.9 million, net of expenses, has been raised during the first quarter of 2017.

- The acquisition of 336 multifamily units (approximately 334,000 sf) in January 2017 by the (private) BCRE REIT (Real Estate Investment Trust) for a total consideration of $26.5 million in Preserve at Sagebrook, in Dayton, Ohio, brought the multifamily portfolio in Ohio, US to over 850 units.

- No distribution will be made for the year ended 31 December 2016, with a view to increasing the Company's liquidity.

(*) For the adjustments on the comparable figures refer to further explanation in Section 1.4.1.

1.2.3 Investment philosophy

BCRE's investment policy includes an analytical approach to the investment decisions throughout the life cycle of a project. The Group's financial approach to portfolio allocation is focused on the continuous monitoring and adjustment of its portfolio, ensuring diversification by country, asset class, currency, specification and development to income-producing properties.

As part of our business model, we control and manage our deals by establishing our own proprietary local teams. We focus on value addition to our properties through proactive asset and property management. Rigorous research & analysis and risk management are cornerstones to our business philosophy.

1.2.4 Objective and strategy

The Group's objective is to identify and execute opportunities in local markets by leveraging off its global investment, development and management experience and to generate excess returns by employing expert local management teams.

The following are key components of the Group's strategy:

a. an analytical approach to investment decisions based on multi-layered risk management throughout the life cycle of a project, taking into consideration the special financial attributes of the project, including the length of the project, liquidity and transaction costs. The Group's financial approach to portfolio allocation is focussed on the continuous monitoring and adjustment of its portfolio, ensuring diversification by country, asset class, currency, specification and development to income producing properties;

b. maintaining independently managed local teams in each of its key markets;

c. focusing investment primarily on the Group's key markets;

d. benefiting from organic return growth at project level;

e. accessing quality deal flow in each local market through the strength and depth of its local platforms and their connections;

f. retaining staff with a substantial aggregate knowledge base and diversified experiences who have remained with the Group over a long period of time;

g. taking a global view on investment based on detailed knowledge of the drivers in its key markets which allows for diverse risk analysis and efficient funds allocation;

h. developing and retaining in-house research and finance capabilities including experience with M&A transactions and structured finance;

i. developing and retaining in-house development capabilities such as design coordination, procurement and property management; and

j. developing and retaining in-house construction, management, supervision, procurement and estimation capabilities by employing internal construction and engineering experts, and maintaining financial flexibility through reasonable leverage and debt duration and maturity.

1.2.5 Key strengths

Combination of local market presence and international transactional expertise

The Group combines local knowledge of, and contacts within, its key markets with international experience of research, due diligence, structuring, financing, developing and delivering large scale real estate projects to international standards. The Group considers this combination uncommon.

Focus on known markets and sectors

The Group has been active in its key markets for many years – in Manhattan since 1994 (initially, as Brack Capital Group), in Germany since 2005 and in Russia since 2006. The Group focuses its attention mostly on specific sectors in these markets which it knows and understands – in Germany retail, multifamily income producing and residential development, in the US on Manhattan conversion, renovation and development (recently mainly in the residential and hospitality sectors) and in Russia, development for commercial and residential, respectively. The Company believes this enables the Group to understand its markets and to analyse the real risks and opportunities of each project in the context of those markets.

Substantial "on the ground" platforms

The Company believes that real estate is a local business and believes the foundation of its strength is real, local experience and expertise. The Group's local teams in each market are managed by dedicated, specialised, experienced and incentivised professionals with a local knowledge and an understanding of the business they are carrying out. Their capabilities and expertise are full service and include sourcing off-market deals, in-house research and analysis, underwriting budgets, timetables, sales and leases, raising finance from local and international lenders, maintaining close working relationships with local authorities, detailed, hands on, property management, development capabilities, experience of refurbishment works and improvements and lease negotiations. The Company believes this depth of knowledge, experience and contacts gives the Group a competitive advantage over other international investors in its key markets and the Company believes this enables the Group to identify and deliver transactions other international investors are often unable or unwilling to source or deliver.

Experienced management team

Most of the senior executives of the Group's platforms have years of experience in real estate transactions in their local market and most of them have been with the Group for many years. In addition, in most of the Group's platforms the Group has experienced management below these senior executives who also have been with the Group for long periods. The Group believes the depth of its management expertise in its key markets gives it a competitive advantage over its competitors and enables it to better manage its portfolio even in adverse conditions. For instance, our local team in Russia has been instrumental in keeping our assets operational and in addressing various challenges on the ground.

Significant large scale development expertise

The Group has significant expertise of delivering large scale development projects and is able to use and transfer that experience to develop large scale projects in each of its key markets. Since its establishment, the Group has developed projects (across hospitality, residential, retail, office and logistics segments) with significant lettable/saleable areas.

Strong transaction structuring skills

The Group is experienced in structuring transactions so as to seek to mitigate risk. It occasionally seeks to do this as early as practicable in the transaction through co-investing with international investors (including members of its former Co-Investment Club (*)), seeking pre-lets or other contractual protections wherever practicable prior to development, adopting phased development when possible in large developments and only commencing a phase when the previous phase is significantly underwritten by sales or leases. The Group adopts an analytical approach to identify the risks in its projects in accordance with international standards before acquiring a property and continues throughout the project to seek to find ways to reduce risk and realise value as early as possible through sales or refinancing.

(*) The framework agreement entered into between the Company and a number of co-investors in April 2011, has expired in April 2014.

Access to co-investors

The Group is able to leverage its operational platform by co-investing with international investors (including members of its former Co-Investment Club). This often enables it to share the risk and in many cases earn management fees and potential promote fees in addition to its equity interest in the project. The Group's relationship with its co-investors enables it to react quickly and flexibly to investment opportunities.

Good access to debt financing

The Company believes that the Group's deep connections with local and international banks enable it to secure finance for its projects either internationally or locally on favourable terms. For instance, during 2016, the Group has been able to achieve financing and refinancing for its projects with local banks at a time when bank lending has been difficult in certain financial markets. The Company believes that the depth of its relationships with both international and local banks enables it to source debt financing even when availability is relatively limited.

1.2.6 Outlook

Our priorities for 2017 are execution and de-risk oriented. With significant profit expected in the next few years from the US (as previously announced), the execution of the development is a key focus. In view of the major global uncertainties resulting from the combination of prolonged period of very low interest rates, very long positive business cycle, and heightened geopolitical tensions, we will endeavour during 2017 to continue the de-risking and deleveraging of our investment portfolio by discontinuing certain non-core activities, dispositions, and focusing on our core operations and balancing our portfolio. We will be further focusing on reducing exposure to rising rates, refinancing the bank loans or any other loan arrangements which will be maturing in the next 12 – 24 months from the signing of this report and raise further equity or bonds if this is necessary. We do not expect any major changes to the workforce of the Group in its main locations, subject to the above.

1.2.7 Sustainability

Stakeholder involvement is fundamental to our business. We are successful in making our portfolio more attractive because our employees work closely together with our key stakeholders: visitors, local communities, tenants, investors and suppliers. Sustainability means investing time, effort and money in our assets and employees, in order to strengthen the relationship with all stakeholders. This should lead to more sustainable and profitable returns on capital in the short and long term. BCRE wants to combine sustainability and commercial business in an integrated approach, investing not only in projects, but at the same time in our employees, partners, and society.

1.3 BUSINESS OVERVIEW

1.3.1 CEO's statement

Ariel Podrojski, Chief Executive Officer, said:

"In line with the strategy to focus on our core operations and maintain a balanced business, we continue to revisit our portfolio. In this respect, we will continue to focus on growth economies and the discontinuing of certain non-core activities while taking into consideration the market developments that have occurred over the last couple of years.

The low interest and inflation environment experienced over a long period combined with a prolonged positive business cycle present uncertainty as to the corresponding forthcoming trends. This, together with current geopolitical tensions and the volatility in the global energy markets increases the economic uncertainty for 2017 and underscores the importance of macro-economic analysis and maintenance of liquidity."

1.3.2 Our key markets

Set out below are the highlights for the period in relation to the Company's main regional platforms:

US

The Company has an interest in BCRE USA of 100% as of 31 December 2016. Currently BCRE USA mainly focuses on residential conversions and hotels in Manhattan, in addition to income producing activity that includes acquiring and owning multifamily residential properties outside New York.

BCRE USA made important and meaningful advancement in both major residential projects in Manhattan, 720 West End Avenue and 90 Morton Street, by securing the capital structure along with pre-commitments, reducing the risk associated with the projects.

The programme of the replacement facility which is being built on 125th street in Manhattan for 720 West End Avenue project, a major residential building with a gross area of approximately 240,000 sq ft in the Upper West Side of Manhattan, is progressing well, with the demolition of the existing building completed. The construction on 125th street started and the excavation and foundations works are underway. The completion date of the replacement facility is expected by end of 2018.

Following the approval of the condo offering plan for 90 Morton Street, a major development in the West Village, Manhattan with a net area of approximately 90,000 sq ft, by the New York City attorney general, construction began in the second quarter of 2016 and this project is expected to be completed during the second half of 2018.

Since the opening of the ground up development 295-room hotel in Manhattan's trendy Lower East Side, operated by InterContinental Indigo hotel. The hotel was not fully operational during the first half of 2016. During the second half of 2016 when it was fully operational the occupancy was approximately 78% with an average daily rate of approximately $283. The hotel is recognized as a premier hotel at a global stage. It has been named by World Travel Awards as North America's Leading Boutique Hotel, North America's Leading New Hotel, and World's Leading Lifestyle Hotel.

In addition, the 230 room CitizenM Hotel in Times Square recorded an average occupancy of 89% and an average daily rate of $248 per room during 2016. The construction of the 300 room CitizenM hotel at Bowery street is progressing well and is scheduled to be completed in the first half of 2018.

In line with its strategy, BCRE USA commenced about three years ago investing in the multifamily real estate market in the US (primarily in Ohio), using the Group's extensive experience of this asset class in Germany and in Manhattan. As at 31 December 2016, the total number of multifamily units under management in Cincinnati, Ohio stands at 516. The performance of the portfolio continues to improve with an overall average occupancy of more than 95% as at 31 December 2016 (31 December 2015: 94%). During 2016 the setting up of a private real estate investment trust ("REIT") was completed to carry out our multifamily business in the USA. The REIT purchased in January 2017 additional 336 multifamily units (approximately 340,000 sq ft) for a total consideration of $26.5 million in Preserve at Sagebrook, in Dayton, Ohio bringing the multifamily portfolio in Ohio, US to 852 units.

The real estate lending business, since inception, has been undertaken by BCRE USA at a relatively limited scale compared to other activities of the Group and outside the Group's core business. In light of this and with the intention of focusing on its main activities, the Group has decided to discontinue this business by not granting new loans, awaiting the repayment / refinancing of the outstanding ones. The number of loans paid off till 31st of December 2016 was 27 totaling $34.7 million. The portfolio as of 31st of December 2016 is comprised of 8 loans totaling $16.7 million, of which $10.7 million was outstanding as of 31st of December 2016. All loans in the portfolio continue to perform.

In light of the recent headwinds faced by the lending market in Manhattan (in particular construction lending), BCRE USA sees opportunities in the US debt markets.

Germany

The Company has an interest in BCRE Germany of 28.74% as of 31 December 2016 (31 December 2015: 34.76%).

The Company has sold on 28 September 2016, 420,809 shares of BCRE Germany through an off-market transaction for a total consideration of approximately €32.4 million (including transaction costs) reducing the holding of the Company in BCRE Germany to 28.31%. The transaction that was aimed, among others, at increasing the free float of BCP and trading volume in its shares further increased the Company's liquidity and cash reserves.

In January 2017, BCRE Germany raised capital in the amount of approximately NIS200 million (approximately €50 million) by issuing ordinary shares. The Company's holding in the issued share capital of BCRE Germany was further reduced to 26.33%.

BCRE's Germany portfolio embodies a balanced business model, stable cash flow and growth. A quality player in the multifamily sector, BCRE Germany is the leading player in the retail parks sector in Germany and among the large players in condo development in Dusseldorf.

During the period under review, BCRE Germany performed well with the rental income growing by 16% to €72.11 million (31 December 2015: €66.42 million) and net profit attributable to equity holders growing by 20% to €76.28 million (31 December 2015: €63.44 million).

With the recent acquisitions, BCRE Germany now holds 28commercial properties with a total lettable area of approximately 334,000 sq m (377,000 sq m as at 31 December 2015) with around 95% overall occupancy. In addition, it holds over 10,000 multifamily residential units with a total leasable area of approximately 609,000 sq m (9,901 multifamily residential units and 571,000 sq m as of 31 December 2015) with approximately 96% overall occupancy.

In 2016, Standard & Poor's Maalot, a credit rating agency accredited by Israel, has increased the credit rating of BCRE Germany and its existing debentures to ilAA- from ilA+, with stable outlook. In March 2017, Standard & Poor's Maalot reaffirmed the credit rating.

Russia

The Company, with around 85% interest in the Russian platform, is continuing with its hands-on management approach and focus on the stabilization of its projects in Russia. The protracted economic recession, range of economic and financial sanctions with their extension and significantly off-peak energy prices, continue to have a significant negative effect on the Russian economy and US and EU stand on Russian sanctions remains to be seen. Some recent macro indicators showing signs of stabilization in the Russian economy with stabilization of oil prices and reduced currency volatility, however the Company's management foresees the Russian consumer market to remain under pressure for a longer period.

The effect of the current economic situation in Russia is being reflected in the valuations of December 2016 (for further details refer to Section 1.4.1), thus reducing the Company's exposure to this geography. However, the Group has managed to keep its assets in Russia fully operational, reduce overall risk profile by completing projects under progress, restructure the bank loans of its 4 main assets by, among others, improving the interest rates and postponing the amortization payments and have shifted from development risk to the domain of income producing assets.

The Company continues to focus on stabilizing the Russian platform, as the shopping center in Dmitrov, the logistic warehouse in Lobnia and Kazan’s main retail module are income producing assets almost fully occupied, whereas the Lyubertsy shopping center, 27,000 sq m, opened in December 2015 and benefits from signed leases and term sheets nearing 90% occupancy and the two additional modules in Kazan are still ramping up. In addition, BCRE Russia successfully entered into agreements with the existing financing bank concerning four major projects in Russia (Kazan, Lyubertsy, Lobnia and Dmitrov), whereby the main terms have been amended (prolonging the final maturity dates by 3 to 5 years, amortization payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed) and the corporate structure of the subsidiaries/associates have been revised. The Company expects that the amendments of the existing loan facilities will have a positive impact in the debt servicing obligations and on the liquidity of BCRE Russia.

Overall, it was a challenging period and uncertainty remains in Russia. However, our team in Russia with its proactive approach is well equipped to monitor and react to the various challenges on the ground. The Company believes that its efforts to maintain and stabilize its Russian position will turn fruitful in the long run.

1.3.3 Other markets and activities

In line with the Group strategy over the past two years, BCRE continued to focus on its key growth economies markets and stabilization of its emerging market portfolio. In parallel, the Group continued to reduce or discontinue activities in its non-core markets.

During the period under review, the Group completed the sale of Fountain Court in Manchester UK at a significant profit to its acquisition cost amounting to approximately to €2.5 million.

The BCRE India Fund closure has been extended by twenty-four months until March 2019 to provide for the time necessary for an orderly disposition of the fund’s investments in India and the investments in the USA held through the BCRE India Fund.

In relation to the Marconi Project in Rome, Italy, the Group is also exploring ways to monetize the investment.

The Group is in the process of winding down the small ticket lending business in the US while continuing to explore the same segment to a larger ticket lending in New York, Manhattan, a market the local management is well familiar with.

1.4 FINANCIAL OVERVIEW

1.4.1 CFO’s statement

Nansia Koutsou, Chief Financial Officer, said:

“The economic environment in Russia continued to significantly influence our financial results during 2016. Going forward, the Company's operations should be less influenced by the Russia results. The strategy of the Company to focus on growing economics proved fruitful with strong profitability and performance in Germany and the US.

During the period, we raised additional funds through the issue of additional bonds under series C at the same rating as reaffirmed by the rating agency and issued additional convertible notes increasing further *our liquidity".*

Financial review

Consolidated income statement

In €1,000		
Particulars for consolidated income statement	**Year ended 31 December**	
	2016	**2015**
Gross rental income	11,221	8,979
Service charge, management and other income	8,432	5,982
Revaluation of investment property	(38,046)	98,980
Share of loss of associates and joint ventures	(46,609)	(103,854)
Profit from discontinued operations, net	109,474	77,492
Net profit (loss) for the year	3,047	(18,029)
Loss attributable to equity holders of the Company	(3,749)	(27,675)

The Group prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) and with the requirements of the Dutch law.

As previously stated, following the loss of control over BCRE Germany, and based on the related requirements of IFRS 10, the comparable figures of the consolidated income statement have been adjusted to reflect BCRE Germany as discontinued operations.

The gross rental income and the service charge, management and other income of the Group increased by approximately 25% to €11.2 million and by approximately 41% to €8.4 million respectively (31 December 2015: €9 million and €6 million respectively) mainly due to the full year operation of the shopping center in Lyubertsy, Moscow and growth from our existing properties.

The profit recognized from the partial sale of BCRE Germany shares amounted to €6.7 million (net of transaction costs) and the gain recognized from the re-measurement of the remaining investment in BCRE Germany at fair value amounted to €43.8 million, which are included in the "Profit from discontinued operations, net". The remaining amount of €59 million included in the "Profit from discontinued operations, net" relates to the results of BCRE Germany for the period from 1 January 2016 up to the deconsolidation date.

The overall administrative expenses were €8.7 million for the year ended 31 December 2016 (31 December 2015: €7 million). Out of which the amount of approximately €2.5 million relates to general and administrative expenses relating to inventory of buildings under construction and investment property (approximately 31 December 2015: €1.5).

The Management and the Board of Directors monitor the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on gross profit including revaluation of investment properties and share of profit/(loss) of associates and joint ventures. Also, the Group financing (including finance costs and finance income), administration and other expenses and income taxes are managed on a Group basis and are not allocated to operating segments.

The profit for the year amounted to €3 million (2015: loss of €18 million). The profit (2015: loss) can be analysed as follows:

	Year ended 31 December	
	2016	2015
	€000	€000
Segment results	(87,856)	73,423
Administrative and other expenses, net	(14,338)	(23,029)
Finance expenses, net	(5,441)	(49,922)
Income tax benefit	1,208	(18,501)
Profit from discontinued operations, net	109,474	-
Profit/(loss) for the year	3,047	(18,029)

The results of each segment before the unallocated profit and loss items is as follows:

	Year ended 31 December	
Segment:	2016	2015
	€000	€000
Germany	6,898	77,492
USA	13,285	94,478
Russia	(99,784)	(93,806)
Other	(8,255)	(4,741)
Segment results for the year	(87,856)	73,423

The loss from Russia derives mainly from the valuation loss of the investment properties (including currency translation impact) amounting to €51.6 million (31 December 2015: gain of €2.3 million) and from the share in the loss of its associates and joint ventures' amounting to €46.7 million (31 December 2015: loss of €98.8 million), which mainly relates to the valuation loss of the associates'/joint ventures' projects (including currency translation impact). The valuation losses of the investment properties and of the associates'/joint ventures' projects is mainly from the reduction of income derived from low tenant's turnovers, signing of new rent agreements and a slower increase in occupancy than expected all in context of the Russia market situation

The profit from USA derives mainly from the valuation gain of the investment properties (including currency translation impact) amounting to €15.2 million (31 December 2015: €95.2 million) and reduced by the share in the loss of its associates/joint ventures amounting to €1.8 million (31 December 2015: loss of €0.3 million), which mainly relates to the valuation loss of the associates'/joint ventures' projects (including currency translation impact). The valuation gain of the investment properties is due mainly from the improvements in the rental income of the multifamily properties in Cincinnati, Ohio and the increase in value of 720 West End Avenue project due to the increase in present value of future sales.

The loss attributable to the equity holders of the Company amounted to €3.7 million (31 December 2015: loss of €27.7 million).

Consolidated statement of financial position

In €1,000			
Particulars for consolidated statement of financial position	**31 December**		
	2016	**2015**	**2015***
Investment property	389,606	1,618,132	536,851
Investments and loans to associates and joint ventures	197,374	146,231	141,226

Cash and cash equivalents	21,853	71,590	15,770
Total assets	946,998	2,086,324	932,184
Interest bearing loans and other borrowings	543,553	1,222,212	506,635
NAV attributable to equity holders of the Company	254,094	240,651	n/a

* Based on the related requirements of IFRS 10, no adjustment is required to the comparable figures of the consolidated statement of financial position to reflect BCRE Germany as discontinued operations. However, for the purposes of the below analysis, the figures of 2015 have been adjusted to exclude BCRE Germany.

Investment property of the Group decreased by €147.3 million to €389.6 million (31 December 2015: €536.9 million) primarily from the reclassification of the 90 Morton project into inventory during the year of an amount of €152.3 million and from the revaluation losses of €38million (31 December 2015: gain of €102 million, excluding BCRE Germany).

Investments and loans to associates and joint ventures of the Group increased by €51.1 million to €197.4 million (31 December 2015: €141.2 million) mainly due to the reclassification of BCRE Germany into an associate amounting to €151.3 million but on the other hand reduced from the reclassification of the two projects in the US to held for sale amounting to €66.1 million. Interest-bearing loans and other borrowings of the Group increased by €37 million to €543.6 million (31 December 2015: €506.6 million) primarily for financing the existing projects. The Group continues to manage its financial liabilities and its exposure to interest rate changes.

The cash and cash equivalents of the Group increased by €6.1 million to €21.9 million (31 December 2015: €15.8 million). The decrease in cash and cash equivalents taking into account the deconsolidation of BCP is from €71.6 million to €21.9 million which represents a reduction of approximately €50 million.

The NAV attributable to the equity holders increased to €254.1 million during the year (31 December 2015: €240.7 million).

Consolidated statement of cash flows

The Group cash flow movements during 2016 and 2015 were as follows:

In €1,000	**Year ended 31 December**	
Particulars for consolidated statement of cash flows	2016	2015
Cash flows provided by operating activities	36,533	72,243
Cash flows used in investing activities	(75,347)	(157,398)
Cash flows (used in)/provided by financing activities	(11,481)	57,171
Net cash outflow	(50,295)	(27,984)

During the year, the Group repaid interest bearing loans and other borrowings amounting to €112.6 million (31 December 2015: €29 million) and received new interest bearing loans and other borrowings in the amount of €98.9 million (31 December 2015: €170.9 million). Furthermore, the Group raised cash from the issue of new convertible bonds and issue of new debentures amounting to €13.6 million (31 December 2015: nil) and €24.3 million (31 December 2015: €3.3 million) respectively. Finally, there was a net decrease of

€36.2 million from the deconsolidation of BCRE Germany and proceeds from the partial sale of BCRE Germany shares.

The decrease in the cash flows provided by operating activities by approximately €35 million compared to last year relates mainly to the deconsolidation of BCRE Germany. The decrease in the cash flows used in investing activities by approximately €81 million relates mainly to the acquisition of 720 West End Avenue project, acquired in 2015 amounting to €95 million. In 2015 there were positive cash flows from financing activities of €57 million compared to negative cash flows from financing activities in 2016 of €11 million due to the financing amounting to €95 million obtained in relation to the acquisition of the 720 West End Avenue.

1.4.2 Fund raising

On 3 March 2016, BCRE has increased the series C bond programme from $60 million to $180 million. On 1 April 2016 and on 21 April 2016, BCRE raised amounts of $17.5 million and $12.1 million, respectively, net of expenses under the programme. Since the financial year end, on 17 February 2017 and 2 March 2017, the Company raised additional amounts of approximately US$12 million and US$7 million, respectively, net of expenses, under the programme. The proceeds were used to refinance existing or future debt upon or prior to their maturity, to make investments, to on-lend and/or for general corporate purposes. The bond issuances were undertaken within the A2/negative rating on a local Israeli scale by Midroog.

In September 2016, the Company issued 4.25% convertible bonds at an initial bondholder's conversion price of approximately €1.50 (can be adjusted in accordance with the terms and conditions) due 2020 for an aggregate principal amount of €19.8 million (net of expenses) convertible into ordinary shares in the capital of the Company. The Company has the option to call for conversion only upon the redemption date or enforcement events as described in the terms and conditions. The initial Company's conversion price is approximately €0.70 (can be adjusted in accordance with the terms and conditions). A subsidiary of the Company purchased convertible bonds in total amount of €5.3 million to be sold in the secondary market to investors. The sale of the convertible bonds by the subsidiary is expected to be completed in 2017. The proceeds were used to refinance existing or future debt upon or prior to their maturity, to make investments, to on-lend and/or for general corporate purposes.

1.4.3 Distribution

Following a capital reduction in March 2016, the Company distributed approximately €4.8 million (€0.03 per share) to its shareholders in April 2016 in relation to the year ended 31 December 2015, in line with its dividend policy. A similar capital reduction of €0.03 per share totalling approximately €4.8 million was made by the Company for the year ended 31 December 2014 and was paid to shareholders in January 2015.

No distribution will be made for the year ended 31 December 2016, with a view to increasing the Company's liquidity.

1.4.4 Share buyback programme

On 3 June 2016 BCRE announced a share buyback programme up to a maximum of €3 million. BCRE will be cancelling the shares upon repurchase. The purpose of the share buyback programme was to reduce the discount between the share price and the net asset value per share. The share buyback programme was further extended on 14 September 2016 and completed before 31 December 2016.

The total number of shares repurchased under the share buyback programme was 2,013,165 for a total consideration of approximately €1.96 million. The share capital of BCRE was reduced by 1,533,415 by means of a cancellation of these shares repurchased under the share buyback programme on 10 January

2017. As a result, the issued share capital of BCRE to date consists of 160,076,649 ordinary shares, including 479,750 shares purchased under the share buyback programme which are not yet cancelled.

1.4.5 Sale of BCRE Germany shares and deconsolidation

On 28 September 2016, BCRE sold 420,809 shares of BCRE Germany through an off-market transaction at a price of NIS 324 per share and for a total consideration of NIS 136 million (approximately €32.4 million). The transaction reduced BCRE's holding in the issued share capital of BCRE Germany to 28.31%.

The transaction that was aimed, among others, at increasing the free float of BCP and trading volume in its shares and further increased the Company's liquidity and cash reserves.

Due to the reduction of the BCRE's shareholding in BCRE Germany and after careful consideration, BCRE reached the conclusion that, it no longer has control over BCRE Germany and therefore does not consolidate the financial position of BCRE Germany starting from the Deconsolidation Date. This conclusion is also supported by the receipt of an indication that changes to the voting arrangement in respect of BCRE Germany, to which BCRE is a party, would be made and the further reduction of BCRE's shareholding in BCRE Germany to approximately 26.33% (non-fully diluted basis) due to a capital raising in the amount of approximately NIS200 million (approximately €50 million) by issuing ordinary shares by BCRE Germany on 31 January 2017. It should be further noted that to the best knowledge of the Company the aforesaid deconsolidation is not expected to have an effect on the classification of the controlling shareholders of BCRE Germany, in accordance with the applicable Israeli securities law, 1968.

The financial results of BCRE Germany are consolidated for the financial year ended 31 December 2016 up to the Deconsolidation Date and subsequently are accounted for under the equity method. The gain (net of transaction costs) from the sale of the BCRE Germany shares and the revaluation of the remaining investment in BCRE Germany to fair value upon loss of control is €50.5 million in total. In addition, the decrease in the total assets and total liabilities of BCRE is approximately 55% and 60% respectively, compared to the Company's total assets and total liabilities as of 31 December 2015.

1.4.6 Extension of convertible loan

The convertible loan notes amounting to €16.8 million, which were issued in December 2014 and bear 2.25% annual compounded interest, following the extension on 21 December 2016 effective as of 15 November 2016, will have an extended term maturing on 30 November 2018.

1.4.7 Refinancing of bank loans in Russia

In December 2016, certain subsidiaries/joint ventures of BCRE Russia have entered into agreements with the existing financing bank concerning the four major projects in Russia (Kazan, Lyubertsy, Lobnia and Dmitrov), whereby the main loan terms have been amended and the corporate structure of the subsidiaries/joint ventures will be revised. The key amendments to the existing loan facilities and to the corporate structure of the subsidiaries/joint ventures, include among other things, prolonging the final maturity dates by 3 to 5 years, amortisation payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a 'golden' share in each project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the subsidiaries/joint ventures. The 'golden' shares can be repurchased subject to meeting certain conditions. The completion of the refinancing is expected to be completed within 2017 and specifically within a period of eight months after the signing of the relevant agreements and is subject to certain other conditions which need to fulfilled by the subsidiaries/joint ventures and the approval of the transfer of the 'golden' shares to the financing bank, by the Federal Antimonopoly Service of the Russian Federation.

1.4.8 Rating

In December 2016, Midroog has reaffirmed the credit rating of Company's Series A, B and C bonds of A2 on a local Israeli scale, with negative outlook.

1.5 CORPORATE GOVERNANCE STATEMENT

1.5.1 Directors and senior managers

Directors of the Company (the "Directors") as of 31 December 2016:

Harin Thaker (62) **Chairman** **Non-executive Director (non-independent)** **Member of Audit, Remuneration, Nomination, Investment Advisory and Risk Management Committees**	Harin Thaker has been with the Group since April 2013 and is currently the Chairman of the Company. He was initially appointed as an Executive Director and was re-appointed as Non-executive Director with effect from 15 May 2014. Since 2013, Harin has been Chief Executive of Aeriance Investments S.A., which is an independent multi-strategy and multi product Debt Manager, established in 2008. Aeriance has raised €600 million of equity across 4 closed-end funds focusing on commercial and residential lending such as whole loans, stretch senior, mezzanine and bridge financing across North western countries of Europe. Harin is also a non-executive director of an AIM listed company, Secure Property Development & Investment since 2012. Prior to these appointments, Harin was Head of International Real Estate Finance at PBB Deutsche Pfandbriefbank, a specialised lender in real estate finance and public sector finance from 2008 until 2012. Harin also served as a General Manager at Hypo Real Estate Bank International, before becoming a member of its management board in 2007 (prior to its merger with Hypo Real Estate Bank in 2009). Between 2005 and 2008, he was Chief Executive – EMEA at Hypo Real Estate Bank International. In 1992, Harin joined Hypo Property holdings, a principal finance activity of the bank. Harin Thaker holds an MBA from London Guildhall University.
Jan van der Meer (78) **Non-executive Director (non-independent)** **Member of Remuneration Committee**	Jan van der Meer was initially appointed as an Executive Director in September 2007 and was reappointed as a Non-executive Director of the Company with effect from 15 May 2014. In addition, Jan van der Meer is the current Chairman of BCRE Germany. Previously, between 1998 and 2008, he was Chairman of the supervisory board of Woonstad Rotterdam, a housing corporation with 50,000 apartments, and Chairman of the supervisory board of Kuiper Compagnons, an office for urban development, architecture and landscaping. Between 1998 and 2002, Jan van der Meer was a member of the supervisory board at Rodamco UK and was CEO of the Rodamco Continental Europe division from 1991 to 1998, which had a number of investments across Western Europe. Prior to this, Jan was also the CEO of area West / South of Hollandsche Beton Maatschappij and has worked with Ballast Nedam Group. Jan van der Meer holds an engineering degree in general building construction from Technical University Delft, Netherlands. Jan van der Meer resigned as Non-executive Director effective as of 3 March 2017.

Daniel Aalsvel (45) **Non-executive Director (independent)** **Member of Audit, Remuneration, Nomination and Risk Management Committees**	Daniel Aalsvel has been a Non-executive Director of the Company since 15 May 2014. Daniel has over 20 years of experience in the real estate industry including fund raising, investments and asset management. Daniel is a Co- founder of Coast Capital Partners (www.coastcapital.cz), a real estate investment and development company, which was founded in London in 1995 and later expanded with the establishment of its Czech Republic and Florida offices in 2004. In the Czech Republic Daniel is developing high-end luxury projects, specialising in historical heritage protected buildings in Prague's old town. He also leads investments in excess of $100 million of equity in assets in South of Florida and is part of the investment committee of Florida Opportunity Fund, a Czech regulated real estate fund investing in Florida. Between 1995 and 2007, Daniel was managing multiple joint-ventures, running portfolios in the UK.
Michiel Olland (57) **Executive Director** **Member of Audit, Nomination, Disclosure and Risk Management Committees**	Michiel Olland has been an Executive Director of the Company since 15 May 2014. Michiel is also the principal of MO Real Estate B.V., an investment, capital and finance services firm based in the Netherlands and is Chairman and Managing Partner of SHUMAN Capital, a real estate investment management platform based in Paris. Between 2006 and 2011, Michiel was a Managing Director International at SNS Property Finance, formerly known as Bouwfonds Property Finance, an ABN Amro subsidiary. Previously, Michiel was Executive Vice President and Global Co-head of the real estate investment division of Dutch pension fund ABP (APG) and was also Chief Financial Officer at KFN, ABP's Dutch office fund. Between 1992 and 2001, he was a real estate banker at ING Group. Michiel has been a founding member and Chairman of the board of INREV, the European association for Investors in Non-listed Real Estate Vehicles. Michiel's experience includes real estate fund management, finance and investment, capital markets, private equity, risk analysis and governance. Michiel has completed the general management program from INSEAD (CEDEP) (France) and holds a Master in Law degree from the University of Utrecht, Netherlands.
Luca Tomesani Melotti (33) **Executive Director** **Member of Risk Management Committee**	Luca Tomesani Melotti has been an Executive Director of the Company since June 2015; he has joined Brack Capital Group, in January 2012. In the past, Luca served as an advisor at Gabedelem S.A., founding partner of Compagnie des Parcs S.A, a property holding and developer focused on commercial real estate in Switzerland and oversaw projects in different industries in his 10 years' experience. Luca has been Lecturer of Real Estate Investment Strategy at LUISS Guido Carli University since 2015; he holds an Executive M.B.A. Global Network from Kellogg School of Management at Northwestern University and from Coller School of Management at Tel Aviv University, with a focus on Economics, graduated in Political Sciences with a cum laude specialization in International Relations at LUISS Guido Carlo University.

Senior managers

Ariel Podrojski (48) **CEO** **Member of Investment Advisory, Disclosure and Risk Management Committees**	Ariel Podrojski has been with the Group for over a decade and is currently the CEO of the Company. His key experience includes investments, financing, development and asset management and has over 20 years of professional experience predominantly in the real estate sector. Within the Group, he has been in charge, among others, for establishing the Group's operations in India and the UK, setting up the BCRE India Fund, which is mainly comprised of institutional investors and invested in the US and India. Prior to joining the Group, Ariel worked with Doughty Hanson & Co European Real Estate Fund where he headed the Central and Eastern European operations. Before this, Ariel worked as a lawyer where he specialised in corporate law focusing on capital markets and large-scale property transactions. Ariel received a M.Sc. in Property Investment from City University (Cass Business School), London and a LLB from the University of London.
Nansia Koutsou (36) **CFO & COO** **Member of Investment Advisory, Disclosure and Risk Management Committees**	Nansia Koutsou has been with the Group since 2007 and is curently the CFO and COO of the Company. Her key experience includes financial reporting, budgeting, control, corporate finance, audit and international accounting and has over nine years of professional experience. Nansia is responsible for the preparation of the Group's financial reports, budgets and cash flows, leading the secretarial and legal work of the Amsterdam and Cyprus offices and facilitating payments. She is also responsible for supervising the financial operations of the Company's regional activities. Previously, Nansia worked as a Senior Associate with PricewaterhouseCoopers in Cyprus in the International Business Unit. Nansia holds a BA in Economic Analysis from the University of Cyprus and a Master of Science in Accounting from Fairleigh Dickinson University in the US. Nansia is a member of NJ Certified Public Accountant (CPA) (in the US) since 2006, a member of AICPA (in the US) since 2007 and a member of SELK (Institute of Certified Accountants of Cyprus) since 2012.
Eyal Gutman (55) **Member of Investment Advisory and Risk Management Committees**	Eyal Gutman has been with the Group for over 15 years and worked on the acquisition of Haslemere in 2002 on behalf of the consortium. His key areas of expertise include finance, economics and real estate. During the 1990s, Eyal was a consultant to a number of real estate companies and was a regular visitor to several universities and colleges as a lecturer in the area of finance, economics and real estate. Eyal holds a B.Sc. in Economics and Management from Technion, Israel Institute of Technology, a M.Sc. in Economics from Technion and a PhD from Technion and Haifa University.
Prof. Pradeep Dubey (65) **Member of Investment Advisory Committee**	Prof. Pradeep Dubey is leading professor and co-director at the Center for Game Theory at Stony Brook University, US, and specializes in Game Theory and Mathematical Economics. He is also a visiting professor at Yale University, and a fellow of the Econometric Society and a founding member of the Game Theory Society. Previously, through short academic visits, Prof. Dubey has been associated with the Hebrew University of Jerusalem, Israel; University Catholique de Louvain, Belgium; the International Institute for Applied Systems Analysis, Austria; the Indian Statistical Institute, India; and many other reputable institutions. Prof. Dubey holds a B.Sc. in Physics (Honours) from the University of Delhi

	and a Ph.D. in Applied Mathematics from Cornell University.
Shai Shamir (42) **CEO, US Operations**	Shai Shamir has been with the Group since 2003 and is responsible for the Group's operations in the US. In February 2016, he was appointed CEO of the Group's operations in the US. In his 14 years with the Group, he led the development of the various BCRE USA hotels, including the James New York and Orchard hotels in SoHo and the CitizenM hotel in Times Square, as well as 35th street hotel. Shai holds an M.S. degree in Real Estate from Columbia University and a B.A. in Economics. He is an Adjunct Professor at NYU and Columbia University.
Gal Tenenbaum (44) **Co-CEO, Germany Operations**	Gal has been with Brack Capital Group since 2003 and is currently the Co-CEO of BCRE Germany. He was involved in setting up BCRE Germany and is currently involved with the operation of the business with the aim of successfully implementing the long-term strategy and business plan of BCRE Germany. Gal has significant experience in real estate transactions worth over €1 billion, and a good understanding of the banking system in Germany, having performed asset purchase financing transactions and the refinancing of existing assets. Gal, along with his other team members, was instrumental in the listing of BCRE Germany on the Israeli stock exchange and its transformation into a public company, raising capital and debt (public and private). Gal holds a BA in Economics and a MBA from Tel Aviv University, Israel.
Ofir Rahamim (47) **Co-CEO, Germany Operations**	Ofir joined BCRE in 2004 and is currently the Co-CEO of BCRE Germany. He was involved in setting up BCP and is currently involved with the day-to-day management of BCRE Germany. Ofir has significant knowledge and experience having supervised a number of asset purchases and the financing and refinancing of properties worth over €1 billion. Ofir also supervises the legal, accounting, tax and other regulatory-related business management activities in Germany. Ofir, along with his other team members, was also instrumental in the listing of BCRE Germany on the Israeli stock exchange and its transformation into a public company, raising capital and debt (public and private). Ofir holds a BA in Law and Economics from the University of Haifa and a MBA from Technion in Haifa, Israel.
Yosef Levin (67) **CEO, Russia Operations**	Yosef Levin has been with the Group since 2006 and is currently heading the Russian operations for the Group. He has over 40 years of real estate experience including over 20 years of experience in Russia. Yosef, together with his Russian team, is currently involved with the Group's Russian portfolio which comprises of income producing properties across the retail and warehouse sectors and large development projects. Prior to joining the Group, Yosef held several senior positions at the Africa Israel Group, including latterly the Head of the Income producing Properties Division and Chief Engineer. In 1998, Yosef established Africa Israel's development and investment operations in Russia and was responsible for the development of a large and versatile Russian property portfolio across various real estate sectors – more than one million m² over a 10-year period. Prior to this, Yosef has also held various positions in other

	companies such as Solel Boneh and Even Ziv. Yosef is a qualified civil engineer from the Technion in Haifa, Israel.
Lior Shmuel (42) **CEO, India Operations**	Lior Shmuel joined the Group in 2008 with over 15 years of professional experience and is currently the CEO of BCRE India. At BCRE India, Lior is involved with the development of projects in India. Besides this, he is also involved with financial planning, reporting, taxation and the budgeting aspects of the business. Prior to joining the Group, Lior worked with Gmul Investment Company Ltd, an Israel-based listed company dealing with investments in real estate and other asset classes with interests in the US and Eastern Europe. Previously, Lior also worked with Deloitte & Touche LLP for four years. Lior holds a BA in Business Management from the College of Management (Rishon Lezion), a LLM from Bar Ilan University and is a CPA.

1.5.2 Introduction

As a company, whose shares are admitted to the standard listing segment of the Official List of the UK Listing Authority, the Company is not required to comply with the requirements of the UK Corporate Governance Code published by the Financial Reporting Council ("FRC") in 2014 (the "Corporate Governance Code"). However, the board of Directors of the Company (the "Board") acknowledges the importance of good corporate governance and has put in place a framework which enables the Company to voluntarily comply where considered appropriate of the Corporate Governance Code as described below and which, in the opinion of the Directors, is appropriate for the Group.

The Board is committed to maintaining a high standard of corporate governance and intend to continue to comply with those aspects of the Corporate Governance Code which they consider appropriate, considering the size of the Company and the nature of its business.

The Company is also subject to the Dutch Corporate Governance Code, which applies, among others, to all companies whose registered offices are in the Netherlands and whose shares have been admitted to listing on a stock exchange or to trading on a regulated market, whether in the Netherlands or elsewhere.

The Corporate Governance Code and the Dutch Corporate Governance Code are mainly based upon the same or at least comparable principles of good corporate governance. In view of the listing of its shares on the London Stock Exchange, the Company complies voluntarily with aspects of the Corporate Governance Code considered appropriate to the Group instead of complying with the Dutch Corporate Governance Code.

The Corporate Governance Code consists of principles (main and supporting) and provisions and uses a "comply or explain" approach. Listed companies (with a premium listing, but not those with a standard listing, of shares on the London Stock Exchange) are required to apply the main principles of the Corporate Governance Code and report to shareholders on how they have done so. Listed companies are required to either confirm that they have complied with all provisions set out in the Corporate Governance Code or, where they have not, to provide an explanation where justified in particular circumstances if good governance can be achieved by other means. Companies with a standard listing can voluntarily comply with the aspects of the Corporate Governance Code that are appropriate to be adopted.

A revised version of the Corporate Governance Code came into effect in 2016, applying to financial years beginning on or after 17 June 2016 and will apply, where considered appropriate for the Company to comply with it, to the Company from 1 January 2017. The Corporate Governance Code can be found on the FRC website at: www.frc.org.uk and the Dutch Corporate Governance Code (as revised on 8 December 2016) can be found at: www.commissiecorporategovernance.nl.

1.5.3 Board composition, roles and independence

The Corporate Governance Code recommends that the board of directors of a listed company should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision making. The Corporate Governance Code also recommends that the chairman should, on appointment, be independent. Jan van der Meer, who was on the Board during the period under review, has resigned as non-executive director effective as of 3 March 2017 for personal reasons, as a result of which the Company currently has four Directors (biographies are set out in Section 1.5.1), two of whom are non-executive Directors: Harin Thaker and Daniel Aalsvel and two executive Directors: Michiel Olland and Luca Tomesani Melotti. One non-executive Director, Daniel Aalsvel, is regarded by the Company as being independent of management and free from any business or other relationship that could materially interfere with the exercise of his independent judgement. Harin Thaker (non-executive Chairman) is not technically independent given that he was appointed as an executive Director of the Company in October 2013 before being appointed as a non-executive Director in 2014, was a director of BCRE UK Limited (in relation to which he has been granted co-investment rights) and is a member of the Investment Advisory Committee. Harin Thaker also has co-investment rights in the Group's lending business. However, the Board considers that his extensive experience of European real estate makes him appropriate to be Chairman notwithstanding his other involvement in the Group's business. In addition, the number of independent non-executive Directors does not comply with the recommendation of the Corporate Governance Code that at least two of the directors, excluding the chairman, should on independent non-executive directors. During 2016, Luca Tomesani Melotti sold the shares indirectly held in the Company and his co-investment rights in the Group business.

The independence of non-executive Directors is based on criteria suggested in the Corporate Governance Code. The Corporate Governance Code recommends that the Board should appoint one of its independent non-executive Directors as Senior Independent Director. At present, the Company does not intend to appoint any Director to fulfil this role (given the limited size of the Board) but may decide to do so in the future.

The Directors of the Company, have entered into letters of appointment with the Company for an initial period ending the first day following the annual General Meeting to be held in 2015 after which their agreements are renewable upon their re-appointment. The agreements may be terminated by either the applicable Director or the Company by giving the other party three months' notice in writing. These are available for inspection at the Company's registered office during the normal business hours and are also available at annual General Meetings.

Pursuant to the articles of association of the Company ("Articles"), a Board member shall be appointed or re-appointed for a period ending on the first day following the annual General Meeting held in the year after his appointment, unless the resolution provides for a longer or shorter term. This is consistent with the Corporate Governance Code which recommends that all directors should be subject to re-election by shareholders at intervals of no more than three years after the first annual General Meeting after their appointment.

The Board has responsibility for the Group's strategic, financial policies and general business activities and meets regularly. All the Directors have access to the advice and services of the Company Secretary and are able to gain access to external independent professional advice at the Company's expense should they wish to do so in relation to their duties. The Company offers to all the Directors the possibility to regularly update and refresh their skills and knowledge. Newly appointed Directors receive an induction training offered by the Company. Further details of the Board's powers and function are described in Section 1.5.13.

The Company is in process of assessing the appropriate balance of skills and experience, independence and knowledge of the Board, as part of its succession planning to ensure progressive refreshing of the Board and, in particular, following the implementation of Directive 2014/56/EU on statutory audits of annual accounts and consolidated accounts in the Netherlands and the departure of Mr. J.H. van der Meer.

An appropriate balance of executive and non-executive members of the Board is maintained and the Board is supplied with regular and timely information concerning the activities of the Group in order to enable it to exercise its responsibilities and control functions in a proper and effective manner. The Board has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption.

1.5.4 Board meetings and Committees attendance (*)

Name	Role	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
Harin Thaker(1)	Non-executive Chairman	12/15	7/7	5/5	5/5
Michiel Olland(2)	Executive Director	14/15	7/7	2/5**	5/5
Jan van der Meer(3)	Non-executive Director	14/15	4/7**	5/5	1/5**
Daniel Aalsvel(4)	Non-executive Director (independent)	15/15	6/7	5/5	5/5
Luca Tomesani Melotti	Executive Director	13/15	3/7**	N/A	N/A
Total meetings held		15	7	5	5

1. Chairman of the Remuneration Committee.
2. Chairman of the Nomination Committee.
3. Resigned as of 3 March 2017.
4. Chairman of the Audit Committee.

* Reference made only to the mandatory committees
** Attended the meeting by invitation (not a Committee member)

The Board considers agenda items laid out in the notice of Board meetings and agendas which are formally circulated to the Board in advance of the Board meetings as part of the Board papers and therefore Directors may request any agenda items to be added that they consider appropriate for Board discussion. In instances when the Chairman is not present, the members of the Board present shall appoint a Director from among them to chair that meeting. Each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion. Each Director contributes positively to Board and where relevant Committee meeting deliberations. The primary focus at Board meetings is a review of the Company's strategy and management, regular business activities and other matters such as financing arrangements, risk management, general administration and compliance.

1.5.5 Board effectiveness

The Corporate Governance Code recommends that the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The 2016 performance evaluation of the Board was undertaken in April 2017. During April 2017, the Chairman of the Board has reviewed the performance of the current Board based on the following factors and questions: i) the appropriate composition of the Board with the right mix of knowledge and skills; ii) the internal and external Board relationships; iii) the level of interaction between non-executive and executive Directors; iv) interaction between the Board and its main committees and between the committees themselves; v) interaction between the Board and the executive management; and vi) the operation of the Board, including the conduct of Board meetings. The outcome of the Board evaluation was determined to be satisfactory and appropriate. The evaluation of the individual Directors was conducted by the Board Chairman by means of email correspondence to each Director. The evaluation of the Chairman was led by Daniel Aalsvel in his capacity of independent non-executive director. The results of the evaluation of the individual Directors and of the Chairman were satisfactory and new targets were set. The evaluation of the Board committees was undertaken in November 2016 by means of completing a self-evaluating questionnaire by the committees and concluded by the Board as being appropriate with some recommendations to take actions during 2017. The results of the committees' evaluations for the year 2016 were reconfirmed by the Board and its committees on 4 April 2017.

The roles of the Chairman and the Chief Executive Officer are separate and clearly defined. The scope of these roles is approved and kept under review by the Board so that no individual has unfettered decision-making powers.

The Chairman is responsible for the leadership and governance of the Board and the Chief Executive Officer, for the management of the Group and the implementation of the Board strategy and policy on the Board's behalf. In discharging his responsibilities, the Chief Executive Officer is advised and assisted by the other members of the senior management. Biographies of the Chief Executive Officer and the other members of the senior management team are set out in Section 1.5.1.

During the financial year, the Board held fifteen Board meetings. In addition, the Board held discussions with the senior management team on a regular basis during 2016. Several meetings of non-executive Directors were held, without the presence of the executive Directors, during 2016.

1.5.6 Directors' duties

The Directors have adopted a set of reserved powers, which establish the key purpose of the Board and detail its major duties. Full details are set out in the Regulations for the Board of Directors, available on the BCRE website at: www.brack-capital.com

These duties cover the following areas of responsibility:

- statutory obligations and public disclosure;
- strategic matters and policy designed to achieve the Company's objectives;
- financial reporting process;
- annual budget and important capital investments;
- financing of the Company;

- oversight of management;
- risk assessment and management, including reporting;
- monitoring, governance and control; and
- corporate social responsibility issues.

These reserved powers of the Board have been adopted by the Directors to clearly demonstrate the seriousness with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions.

1.5.7 External appointment of Directors

Directors may hold directorships or other significant interests with companies outside of the Group which may have business relationships with the Group. Executive Directors may not be a member of a supervisory board or act as a non-executive board member of more than one other large Dutch company or FTSE 100 company. Such appointment requires approval of the Board. Nor can an executive Director be chairman of a supervisory board or one-tier board of another large Dutch company or FTSE 100 company. Other positions held by the executive Directors must be notified to the Board. A non-executive Director may not be a member of a supervisory board or non-executive director of more than four other large Dutch companies. Being chairman of a supervisory board or a one-tier board counts as double. Such membership requires approval of the Board. Other positions held by a non-executive Director must be notified to the Board.

1.5.8 Directors' indemnities and protections

The Company has arranged appropriate insurance cover in respect of any legal action against Directors and senior members of companies within the Group. In addition, according to the Articles of the Company, the Company indemnifies the Directors and officers of the Company in respect of liabilities incurred as a result of their office.

1.5.9 Board Committees

In accordance with the Corporate Governance Code, the Company has established the following Committees in order to carry out work on behalf of the Board: An Audit Committee, a Remuneration Committee and a Nomination Committee. Only the chairman and members of each of the Audit, Remuneration and Nomination Committees are entitled to attend meetings, although others may attend by invitation of the relevant committee. In addition, the Company has established an Investment Advisory Committee and Disclosure Committee. During 2016 the Company established a Risk Management Committee. Terms of reference for the Audit, Remuneration and Nomination Committees are available on BCRE's website at: www.brack-capital.com.

Audit Committee

The Audit Committee is comprised of Harin Thaker (non-executive Chairman), Michiel Olland (executive Director) and Daniel Aalsvel (independent non-executive Director). Daniel Aalsvel chairs this committee.

The Board considers that the members' substantial experience of dealing with financial matters is more than adequate to enable the Audit Committee to properly discharge its duties in light of the nature of the Company's business. Michiel Olland has recent and relevant financial experience. The composition of the Audit Committee is expected to be changed during 2017 to comply with Regulation 537/2014/EC, which came into effect on 17 June 2016 (and applies as from 1 January 2017 in the Netherlands). There have been seven Audit Committee meetings during 2016.

For further details in respect of the Audit Committee's role, function and responsibilities, please refer to the Audit Committee Report in Section 1.8.

Remuneration Committee

The Remuneration Committee is comprised of Harin Thaker (non-executive Chairman), Daniel Aalsvel (independent non-executive Director) and until 3 March 2017 Jan van der Meer (non-executive Director). Harin Thaker chairs this committee, contrary to the recommendation of the Corporate Governance Code that recommends the Chairman of the Board may be a member of, but not chair, this committee provided he was independent on appointment as Chairman.

The Remuneration Committee advises the Board on an overall remuneration policy. The Remuneration Committee also proposes individual remuneration of the Chief Executive Officer, Chief Financial Officer, Company Secretary and the Chairman of the Board (if the Chairman is an executive Director), the executive Directors, the Company secretary, and such other members of the senior management of the Company to whom the Board has extended the remit of the Remuneration Committee. The remuneration of all Directors (including non-executive Directors and members of the Remuneration Committee) shall be determined by the Board within the limits set in the Articles and within the scope of the remuneration policy of the Board adopted by the annual General Meeting on 2 February 2015, provided that no Director or senior manager shall be involved in any decisions as to his or her own remuneration. The Remuneration Committee advises the Board on an overall remuneration policy and meets as and when required. The Remuneration Committee also determines, on behalf of the Board, the remuneration packages of the executive Directors.

There have been five Remuneration Committee meetings during 2016.

Further details in respect of the remuneration of the Directors are contained in the Remuneration Report in Section 1.7 and in Note 31 in the explanatory notes to the Consolidated financial statements.

Nomination Committee

The Nomination Committee is comprised of Harin Thaker (non-executive Chairman), Michiel Olland (executive Director) and Daniel Aalsvel (independent non-executive Director). Michiel Olland chairs this committee, but in accordance with the provisions of the Articles, as an executive Director, he does not take part in the decision-making process on the nomination of Board members. As such, Michiel Olland did not participate in the decision-making process relating to the nomination of Luca Tomesani Melotti to be appointed as a Board member in 2015.

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. The Nomination Committee also reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any changes. The Nomination Committee also gives consideration to succession planning for Board members and senior management and keeps under review the leadership needs of the Company.

Under Dutch law effective as of 13 April 2017, the Company must pursue a policy of having at least 30% of the seats on the Board held by men and at least 30% held by woman. Between 2014 and 2016, when selecting candidates for vacant seats on the Board, female candidates of the desired profile were not found. However, when filling future vacancies, the Board will continue to strive to identify female candidates and nominate them for appointment at a General Meeting.

The Company primarily considers skills, experience and background for internal appointments, ensuring that appropriate candidates are appointed.

There have been five Nomination Committee meetings during 2016.

Investment Advisory Committee

An Investment Advisory Committee has been established, (although not required under the Corporate Governance Code), to consider and provide advice only to the Board in respect of new acquisitions, asset management, financing and disposal of the Group's assets or, in relation to the German platform, the acquisition and disposal of shares in BCRE Germany. The committee provides an independent evaluation on market movements, assessing their impact on the Group's portfolio over the medium to long term and makes recommendations to the Board concerning potential investments and/or the management of risks associated with the Group's investments.

There have been several Investment Advisory Committee meetings during 2016.

Disclosure Committee

Michiel Olland (executive Director), as the only board member, is one of the members of the Disclosure Committee. The rest of the members are the Chief Executive Officer, Chief Financial Officer and Corporate Secretary.

A Disclosure Committee has been established, (although not required under the Corporate Governance Code), to lead the disclosure process of inside information and to prevent insider dealing, unlawful disclosure of inside information and market manipulation.

There have been several Disclosure Committee meetings during 2016.

Risk Management Committee

The Risk Management Committee is comprised of all the Directors of the Company who are members in its various sub committees. In addition, the Chief Executive Officer, Chief Financial Officer, Corporate Secretary and Eyal Gutman are members in the various sub committees of the Risk Management Committee.

A Risk Management Committee has been established, (although not required under the Corporate Governance Code), to assist the Board in the discharge of its statutory and fiduciary responsibilities of governance, ethics, integrity and risk management.

There have been several Risk Management Committee meetings during 2016.

1.5.10 Communications with shareholders

The Board is accountable to the Company's shareholders and as such it is important for the Board to appreciate the aspirations of the shareholders and equally that the shareholders understand how the actions of the Board and short-term financial performance relate to the achievement of the Company's longer-term goals.

The Board reports to the shareholders on its stewardship of the Company through the publication of interim and final results each year. Regulatory news releases are issued throughout the year and the Company maintains a website: www.brack-capital.com on which regulatory news releases and the annual report and accounts are available to view. Additionally, this annual report contains extensive information about the Company's activities. Enquiries from individual shareholders on matters relating to the business of the Company are welcomed. The Board and senior management also discuss with major shareholders the progress of the Company and to understand their issues and concerns, as well as discussing governance and strategy.

The senior management, as necessary, provides periodic feedback to the Board following discussions with shareholders.

The annual General Meeting provides an opportunity for communication with all shareholders and the Board encourages the shareholders to attend and welcomes their participation. Members of the Board attend the annual General Meeting and are available to answer questions.

1.5.11 Internal controls

The Board has overall responsibility for the Group's system of internal control and for reviewing its adequacy and effectiveness. Such system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and aims to provide reasonable but not absolute assurance against material misstatement. In order to discharge that responsibility in a manner that ensures compliance with laws and regulations and promote effective and efficient operations, the Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. These are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication.

The Audit Committee reviews the adequacy and effectiveness of the Group's internal control policies and procedures for the identification, assessment and reporting of risks. The Audit Committee discusses and examines with the senior managers on a quarterly basis regarding the internal policies and procedures. The Audit Committee reviews as well the results of the external auditors' audit findings concerning the audit of the financial statements and proposes recommendations accordingly.

The Group's internal control procedures include Board approval for all significant capital investment projects. All major expenditures require either senior management or Board approval at the appropriate stages of each transaction. A system of regular reporting covering both technical progress of projects and the state of the Group's financial affairs provides appropriate information to management to facilitate control. The Board reviews, identifies, evaluates and manages the significant risks that the Group faces. Section 1.9.2 sets out in detail the key risk factors relating to the strategy of the Company. The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the Groups' process for preparing financial statements. These systems include policies and procedures (i.e. certain committees were created in order to review the financial and operational performance of the Group) to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with the applicable accounting standards. The Directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, examine whether the system of internal control operated effectively throughout the financial year and up to the date the financial statements were signed and will make recommendations when appropriate.

1.5.12 Share dealing code

The Company adopted on 10 January 2017 a new share dealing code which is compliant with the Market Abuse Regulation (i.e. Regulation (EU) No 596/2014). The share dealing code imposes restrictions on conducting transactions in or relating to Company securities beyond those imposed by law. Its purpose is to ensure that PDMRs (persons discharging managerial responsibilities) and PCAs (persons closely associated with a PDMR) do not abuse, and do not place themselves under suspicion of abusing, inside information that they may be thought to have (in particular during periods leading up to an announcement of the Company's results).

1.5.13 Board responsibility and powers

The Articles provide that the number of directors shall be determined by the General Meeting, and shall consist of at least one and no more than four executive directors and at least two and no more than six non-executive directors. The Board members are collectively responsible for the Company's management, the general affairs of the Company's business and the general affairs of the group companies affiliated with the Company. The Board is responsible for complying with all relevant laws and regulations, for managing the risks associated with the Company activities and for financing the Company. The division of tasks and responsibilities in the Board as well as its operating procedures are established in the Articles and the Board's regulations. The Articles and the regulations are available on BCRE's website at www.brack-capital.com.

The Board is entrusted with the management of the Company. Under Dutch law, the Board is collectively responsible for the general affairs of the Company. Pursuant to the Articles, the Board may divide its duties among its members. Tasks that have not been specifically allocated fall within the power of the Board as a whole. The distinction between executive Directors and non-executive Directors implies at least that the executive Directors shall in particular be entrusted with the day-to-day management of the Company and the enterprise connected with it and that the non-executive Directors shall have the duty of supervising the Directors performing their duties. This last duty cannot be deprived from the non-executive Directors by means of an allocation of duties. In addition, both executive Directors and non-executive Directors must perform such duties as are assigned to them pursuant to the Articles and, as applicable, the Company's board regulations. Each Director has a duty towards the Company to properly perform the duties assigned to him or her. Furthermore, each Director has a duty to act in the corporate interest of the Company. Under Dutch law, the corporate interest extends to the interests of all corporate stakeholders, such as shareholders, creditors, employees and other stakeholders.

Pursuant to Dutch law and the Articles, an executive Director may not be allocated the tasks of: (a) serving as chairperson of the Board; (b) fixing the remuneration of the executive Directors; or (c) nominating Directors for appointment. Nor may an executive Director participate in the adoption of resolutions (including any deliberations in respect of such resolutions) related to the remuneration of executive directors. The non-executive Directors appoint a chairperson of the Board from among the non-executive Directors.

The Company may be represented by the Board. In addition, each Director shall also be authorised to represent the Company.

1.5.14 Appointment and dismissal of Directors

Appointment

Pursuant to the Articles, the Directors shall be appointed by the General Meeting from a nomination drawn up by the Board. Pursuant to Dutch law and the Articles, executive Directors may not take part in the decision-making process regarding the nomination of Directors. If and for as long as BCI – Brack Capital Investments Ltd ("BCI") holds at least 25% of the Company's shares or depositary interests representing Company's shares, it is entitled to draw up the nomination of one Board member. During 2016, BCI has not exercised this right.

Upon appointment, the General Meeting may determine whether the Director shall be appointed as an executive Director or as a non-executive Director. A nomination made in time by the Board (or BCI, as applicable) shall be binding. The General Meeting shall be free to make the appointment if the nomination has not been made within three months after the vacancy has arisen. Furthermore, the General Meeting can deprive a nomination of its binding character at any time by a resolution adopted with a majority of at least two-thirds of the votes cast, representing more than half of the issued share capital.

In the following cases, but only if BCI holds at least 25% of the Company's shares or depositary interests representing Company's shares, the binding nomination system as described above does not apply and the General Meeting is free to make the appointment of a Director:

(a) At the General Meeting at which the appointment at hand is made was convened by or at the request of BCI; or
(b) If the proposal to appoint the Director at hand was placed on the agenda at the request of BCI.

Suspension and dismissal

The Articles stipulate that a Director may be suspended or dismissed by the General Meeting at any time. A resolution of the General Meeting to suspend or dismiss a Board member requires a simple majority in the following cases:

(a) At the General Meeting at which the resolution is adopted was convened by or at the request of BCI;
(b) If the proposal to suspend or dismiss the Board member was placed on the agenda of the General Meeting at the request of BCI.

In all other cases a resolution to suspend or dismiss a Board member requires a majority of at least two thirds of the votes cast, representing more than half of the issued share capital.

An executive Director may also be suspended by the Board. The executive Directors shall not participate in the discussion and decision-making process of the Board on suspensions and dismissals. A suspension by the Board may be discontinued at any time by the General Meeting. Any suspension may be extended one or more times, but may not last longer than three months in the aggregate. If, at the end of that period, no decision has been taken on termination of the suspension or on dismissal, the suspension shall end.

1.5.15 General Meeting

General Meetings of shareholders are normally convened by the Board. Furthermore, shareholders, persons with depositary receipts rights and/or holders of depositary interests together representing at least ten percent (10%) of the Company's issued capital have the right to request the Board to convene a General Meeting, clearly stating the items to be dealt with. If (i) the request was made by BCI, (ii) at the moment of the request BCI held at least twenty-five percent (25%) of the shares and/or depositary interests and (iii) within four weeks from the date of the request, the Board has not proceeded to convene a General Meeting at such request, in such way that the General Meeting can be held within eight weeks after the receipt of the request, BCI may convene a General Meeting itself.

1.5.16 Amendment of the Articles

The General Meeting may resolve to amend the Articles at the proposal of the Board. A resolution of the General Meeting to amend the Articles is adopted by absolute majority of the votes cast. The General Meeting may furthermore resolve to change the corporate form of the Company. A change of the corporate form shall require a resolution to amend the Articles at the proposal of the Board. However, a resolution to an amendment that adversely affects the rights of the holders of depositary interests under the Articles requires a majority of at least two thirds of the votes cast, representing more than half of the issued capital.

1.5.17 Issuance of Company's shares

The Articles delegate the authority to issue shares in the capital of BCRE or grant rights to subscribe for shares to the Board. This authority of the Board: (a) relates to 28,918,340 shares in the capital of the Company during the period that commenced on 28 May 2014 and ends on the day of the annual General Meeting held in 2015, and (b) relates to 18,796,921 shares in the capital of the Company during the period that commenced on 28 November 2014 and that ends on the day of the annual General Meeting held in 2015 in addition to the number of shares in the capital of the Company set out under subsection (a) of this paragraph. Such authority may be extended, either by an amendment to the Articles, or by a resolution of the

General Meeting, for a subsequent period of up to five years in each case. On 24 June 2016, the General Meeting approved to extend the authority to issue shares in the capital of BCRE or grant rights to subscribe for shares to the Board up to 10% of the issued share capital of the Company at the date of the annual General Meeting of 2016 (being equivalent to 16,161,006 shares that ends on the day of the annual General Meeting held in 2017. On 3 November 2016 the shareholders of the Company resolved in an Extraordinary General Meeting ("EGM") to designate the Board as the authorized body to issue shares, grant rights to subscribe for shares and to restrict pre-emptive rights by another ten percent 10% (therefore 20% in the aggregate) of the issued share capital of the Company at the date of the annual General Meeting in 2016 (equivalent to 32.332.012 shares), in order to facilitate the issuance of the Company of further convertible bonds.

1.5.18 Acquisition of Company's shares

Subject to certain provisions of Dutch law and the Articles, the Company may acquire fully paid shares in its own capital if (a) its shareholders' equity less the payment required to make the acquisition, does not fall below the sum of the paid-in and called-up share capital plus the reserves as required to be maintained by Dutch law or by the Articles (such excess, the "Distributable Equity"), and (b) the Company and its subsidiaries would thereafter not hold shares or hold a pledge over the Company's shares with an aggregate nominal value exceeding 50% of the Company's issued share capital. Other than shares acquired for no consideration, shares may only be acquired if the General Meeting has authorised the Board thereto. This authorisation shall remain valid for a maximum of 18 months. The Board was so authorised by the General Meeting on 15 May 2014 for a period of 18 months. At the General Meeting on 24 June 2016 and at the EGM, this authorisation was approved to extend for a period that ends on the first day of the following annual General Meeting which will be held in 2017.

No authorization from the General Meeting is required for the acquisition of fully paid Company's shares for the purpose of transferring these shares to employees of the Company or any other member of the Group under a scheme applicable to such employees.

1.5.19 Depositary interests and the CREST system

In order to enable the trading of the Company's shares on the London Stock Exchange main market, the Articles permit the holding of shares under the CREST system. CREST is a paperless settlement procedure enabling securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. CREST is a voluntary system and shareholders who wish to receive and retain shares will be able to do so. The Company's shares have been enabled for settlement in CREST on the date of admission to the London Stock Exchange.

To enable investors to settle the securities of non-UK registered companies through CREST, a depositary or custodian in the United Kingdom must hold the relevant securities and issue uncertificated depositary interests ("DIs") representing the underlying securities which are held in trust for the holder of the DIs. With effect from admission of BCRE to the London Stock Exchange, it is possible for CREST members to hold and transfer DIs in respect of Company's shares within CREST pursuant to a depositary interest arrangement established between the Company and Capita IRG Trustees Limited (the "Depositary"). From a practical perspective, DIs can be credited to the same member account as all of the other CREST investments of a particular investor and held and transferred in the same way as the securities of any other company participating in CREST.

Holders of DIs do not have the rights which Dutch law confers on shareholders, such as voting rights. In respect of the shares underlying the DIs those rights vest in the Depositary (or its custodian). Consequently, if the holders of DIs wish to exercise any of those rights they must rely on the Depositary (or its custodian) to either exercise those rights for their benefit or authorise them to exercise those rights for their own benefit.

Pursuant to the deed poll which creates the DIs, the Depositary (or its custodian) must pass on to, and so far, as it is reasonably able, exercise on behalf of the relevant holders of DIs all rights and entitlements which it receives or is entitled to in respect of the underlying shares and which are capable of being passed on or exercised.

1.5.20 Major shareholders

The Company is aware of the following persons who are interested, directly or indirectly, in more than 3% of the shares in the Company's capital. According to the public register of the Dutch Authority of the Financial Markets, as at 28 April 2017 this interest was as follows: S. Weintraub 46.67%, Medinol Ltd. 6.72% and L.J. Schreyer 4.37%.

Shimon Weintraub is the controlling shareholder of the Company. On 21 May 2014, the Company and each of BCI, BCH - Brack Capital Holdings Limited and Shimon Weintraub entered into a controlling shareholders agreement, pursuant to which they have each undertaken to the Company to not pursue any real estate opportunities (subject to certain exceptions) without first referring them to the Company for consideration. Under the agreement, each of BCI, BCH - Brack Capital Holdings Ltd and Shimon Weintraub has agreed that all arrangements between such person and its respective associates on the one hand and each member of the Group, on the other hand, will be on arm's length terms and on a normal commercial basis.

Furthermore, the Articles stipulate that a Board member shall not participate in deliberations and the decision-making process in the event of a direct or indirect personal conflict of interest between that Board member and the Company and the enterprise connected with it. If there is such personal conflict of interest in respect of all Board members, the preceding sentence does not apply and the Board shall maintain its authority.

1.6 DECREE ARTICLE 10 TAKEOVER DIRECTIVE

With regard to the information referred to in the Decree Article 10 Takeover Directive (2004/25/EC) which is required to be provided according to Dutch law, the following can be reported:

- BCRE has an authorised share capital consisting of 700,000,000 ordinary shares. On 31 December 2016, 161,610,064 shares with a nominal value of €0.01 were issued and fully paid up. Following the repurchase of shares under the share buyback programme as announced on 3 June 2016 and further extended on 14 September 2016, the Company has reduced its share capital by means of cancellation of 1,533,415 of its own shares on 10 January 2017. The Company's entire issued share capital following the share cancellation consists of 160,076,649 ordinary shares, including 479,750 shares purchased under the share buyback program which are not yet cancelled.

- Following the decision of the General Meeting held on 15 January 2016, the nominal value of the shares has been increased from €0.01 to €0.04 on 15 January 2016 with a view to the announced distribution which will be effected by means of a capital reduction from €0.04 to €0.01 (as referred to in paragraph 1.4.3 above).

- There are no restrictions on the transfer of shares.

- Information on major shareholders can be found above in Section 1.5.20.

- If and for as long as BCI holds at least 25% of the Company's shares or depositary interests representing Company's shares, it is entitled to draw up the nomination of one Board member, please refer to Section 1.5.14.

- The Company is a party to an employee option plan pursuant to which the Board may grant options from time to time to employees of BCH – Brack Capital Holdings Ltd, BCI and S.I.B. Capital Future Market Ltd. Options may be exercised by the eligible employees to acquire shares in the Company against payment of the exercise price. For further details on employee option plans within the Group, please refer to Note 17 in the explanatory notes to the consolidated financial statements.

- There are no restrictions on voting rights on the Company's shares nor are the periods for exercising voting rights restricted.

- There are no agreements between the shareholders which are known to the Company that may result in restrictions on the transfer of securities and/or voting rights.

- The applicable provisions regarding the appointment and dismissals of the member of the Board and amendments to the Articles are set forth above, please refer to Section 1.5.14 and 1.5.16.

- The powers of the Board regarding the issue of shares and the exclusion of pre-emptive rights and the repurchase of shares are set forth above, please refer to Section 1.5.17 and 1.5.18.

- The bonds issued by the Company in November 2014 and the convertible bonds issued in September 2016 include change of control provisions. A change of control event occurs in case any person other than BCI will have an interest in (i) more than 50% of the issued share capital of the Company, or (ii) shares in the capital of the Company carrying more than 50% of the voting rights normally exercisable at a General Meeting. Please refer to the bonds prospectus and to the terms and conditions of the convertible bonds that are available on the Company's website at www.brack-capital.com. Under the update bond programme similar provisions apply for the new issuance of bonds.

- There are no agreements between the Company and its Board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases, all because of a takeover bid.

1.7 REMUNERATION REPORT

In accordance with Dutch law and the Articles, the Company has a policy with respect to the remuneration of the Board. Executive Directors may not take part in the decision-making process in respect of the remuneration of executive Directors. The Board established a remuneration committee of one independent non-executive Director and two non-independent non-executive Directors. Currently after the resignation of Jan van der Meer, effective as of 3 March 2017 the Remuneration Committee consists of one independent non-executive Director and one non-independent non-executive Director. The aim of the Remuneration Committee is to ensure that there is a formal and transparent procedure for developing policy on executive remuneration and for proposing to the Board its recommendation on the remuneration packages for individual Directors, Chief Executive Officer, Chief Financial Officer and Company Secretary.

The Remuneration Committee has conducted a benchmark analyses of peer group companies taking into consideration the Company's remuneration policy for the Board adopted by the general meeting on 2 February 2015, and recommended to change the remuneration package of the Directors. Following the recommendation of the Remuneration Committee, the Board adopted the change of the remuneration package of the Directors in line with the remuneration policy, the Articles and the Board's regulations, which led to the increase of the basic annual salary of the Directors and to the payment of additional fee for the participation in the Boards' Committees, as explained further below.

Executive Directors

The remuneration package for the executive Directors is fixed and consists of a basic annual salary and an additional fee for the participation in the Board's committee as described below.

Michiel Olland and Luca Tomesani Melotti are both entitled to a basic annual salary of €40,000 (less any tax and / or social security contributions) payable monthly in arrears. The basic annual salary of executive Directors was increased to €47,000 (less any tax and / or social security contributions) effective from 15 May 2016.

Executive Directors are entitled to receive a fee for the participation in the Boards' Committees, effective from 15 May 2016, as follows: (a) for being a member of the Audit Committee, an annual fee of €5,000, (b) for being a member of the Nomination Committee, an annual fee of €3,250 (c) for being a member of the Remuneration Committee, an annual fee of €3,250 and (d) for being a member of the Disclosure Committee. The fees are payable yearly in arrears calculated according to the actual participations in the committee meetings.

Michiel Olland is entitled to a total annual fee of €11,500 for his participation in the Audit Committee, the Nomination Committee and Disclosure Committee.

Luca Tomesani Melotti is not participating in any of the committees and therefore he is not entitled to any additional fee.

Non-executive Directors

The remuneration package for the non-executive Directors are fixed, except for Harin Thaker, and consists of a basic annual salary and an additional fee for the participation in the Board's committee as described below. Harin Thaker, who, in his capacity as a member of the Investment Advisory Committee, had been granted a share option (as described under section '*Variable income'* below) in addition to his fixed remuneration and co-investment rights in the US.

Harin Thaker, Jan van der Meer (until his resignation from the Board on 3 March 2017) and Daniel Aalsvel are each entitled to a basic annual salary of €30,000 (less any tax and / or social security contributions) payable monthly in arrears. The basic annual salary of executive Directors was increased to €36,000 (less any tax and / or social security contributions) effective from 15 May 2016.

Non-executive Directors are entitled to receive a fee for the participation in the Boards' Committees, effective from 15 May 2016, as follows: (a) for being a member of the Audit Committee, an annual fee of €5,000, (b) for being a member of the Nomination Committee, an annual fee of €3,250 (c) for being a member of the Remuneration Committee, an annual fee of €3,250 and (d) for being a member of the Disclosure Committee. The fees are payable yearly in arrears calculated according to the actual participations in the committee meetings.

Harin Thaker and Daniel Aalsvel are entitled to a total annual fee of €11,500 each for the participation in the Audit Committee, in the Nomination Committee and in the Remuneration Committee. Jan van der Meer is entitled to an annual fee of €3,250 for his participation in the Remuneration Committee, until his resignation on 3 March 2017.

In addition, Harin Thaker, in his capacity as a member of the Investment Advisory Committee, receives an additional annual salary of €149,610 or its equivalent in any other currency and is fixed at GBP 122,500 annually.

Variable income

Harin Thaker, the Chairman of the Board, had an option to purchase 2.5% of the equity of any transaction in which BCRE UK Properties B.V. ("BCRE UK") invests in accordance with the following terms: (a) term: 36 months from the closing of each transaction; (b) exercise price: 2.5% of the equity invested by BCRE UK and the Co-investment Club, adjusted for distributions and additional investments; and (c) type: regular or cashless as determined by Harin Thaker at the time of the exercise.

On 8 January 2016, Harin Thaker exercised his option to purchase 2.5% equity in Fountain Court, Manchester using the cashless type. Following the sale of the Fountain Court, Harin Thaker realised a profit GBP 46,979 (€58,800).

Remuneration summary table

The total remuneration, as intended in section 2:383 (1) of the Netherlands Civil Code, amounted to €425 thousand (2015: €463 thousand) for Directors. The composition of Directors remuneration is as follows:

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Michiel Olland (executive)	52	40
Luca Tomesani Melotti (executive)	45	40
Jan van Der Meer (non-executive)	36	30
Harin Thaker (non-executive)	250	323
Daniel Aalsvel (non-executive)	42	30
	425	463

Director fees in relation to Company's subsidiaries for the year ended 31 December 2016 amounted to €33 thousand.

Remuneration policy

The remuneration policy regarding the remuneration of the Board, as proposed by the Company's remuneration committee, has been adopted by the General Meeting on 2 February 2015.

The fundamental principle of the remuneration policy is that remuneration and other terms of employment for the members of the Board shall be in line with the market and in accordance with services and time commitment of the Directors, in order to ensure that the Company will be able to attract, motivate and retain necessary individuals to enable the Board to promote the interests of the Company in the medium and long term. The total remuneration to the Directors may consist of a fixed salary, remuneration for additional services and other benefits.

The remuneration policy is available on Company's website at www.brack-capital.com.

Remuneration Committee attendance and meetings

The Remuneration Committee met five times during 2016. All members of the Remuneration Committee attended all meetings. Certain other Board members also attended some of the Remuneration Committee meeting by invitation.

Throughout the year, the Remuneration Committee, among others, reviewed and considered the following:

- Reviewed and recommended a change to remuneration package for the Directors;

- The determination of the realization of the achievement of the targets based on the general and year specific parameters for the 2016 incentive scheme for the Chief Executive Officer, Chief Financial Officer and Corporate Secretary; and
- Setting the performance targets for 2017 for the Chief Executive Officer, Chief Financial Officer and Corporate Secretary.

1.8 AUDIT COMMITTEE REPORT

Audit Committee

The Audit Committee is comprised of Harin Thaker (non-executive Chairman), Michiel Olland (executive Director) and Daniel Aalsvel (independent non-executive Director). Daniel Aalsvel is the chairman of this committee.

Role

The Audit Committee assists the Board in observing its responsibility of ensuring that the Group's financial systems provide accurate and up-do-date information on its financial position and that the published consolidated financial statements represent a true and fair reflection of this position. It also assists the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place.

The Audit Committee receives and reviews information from the Chief Financial Officer, the Company Secretary and the external auditors regularly throughout the year and upon request.

External auditors

Ernst & Young Accountants LLP is the Company's current external auditor.

The Audit Committee considers the appointment of the external auditors and reviews their terms of appointment and negotiates fees on behalf of the Company prior to making recommendations through the Board to the shareholders to consider at the General Meeting.

Ernst & Young Accountants LLP was recommended by the Audit Committee and proposed to the Board to be appointed as the statutory auditor starting with the audit of the financial statements for the year ended 31 December 2014 and this appointment was approved by the General Meeting on 2 February 2015. There was no tender for the audit contract. Under Dutch law there is no requirement to re-appoint the external auditor each financial year to hold office until the conclusion of the next general meeting when the accounts are laid before the meeting. An auditor, whose appointment has been approved by the general meeting of shareholders, will remain in office until such time as that auditor is replaced and the new auditor is approved at the general meeting.

In accordance with corporate governance requirements, the Audit Committee reviewed on 15 November 2016 the independence and objectivity of the external auditors and has reported to the Board that it considers that the external auditors' independence and objectivity have been maintained.

To analyse audit effectiveness, the Audit Committee meets with senior management to discuss the performance of the external auditors without them being present. Separate meetings are also held with the external auditors without the presence of any member of the senior management, as requested.

The Audit Committee met on 28 April 2017 for the approval of the accounts. The Audit Committee recommended to the Board that:

(a) the consolidated financial statements for the year ended 31 December 2016 give a true and fair view of the assets and liabilities, the financial position and profit or loss of BCRE and the undertakings included in the consolidation taken as a whole;

(b) the Company financial statements for the year ended 31 December 2016 give a true and fair view of the assets and liabilities, the financial position and profit or loss of BCRE;

(c) the additional management information report provided in the annual report gives a true and fair view of the situation on the balance sheet date and the state of affairs at BCRE during the financial year 2016 and the undertakings included in the consolidation taken as a whole; and

(d) the principal risks to which BCRE is exposed are described in the annual report. For a description of these risks, see Section 1.9 below.

No non-audit fees were paid to the external auditors during 2016.

Internal audit

The Company does not have an internal audit function. The Audit Committee will continue to monitor and review the need for an internal audit function.

Financial reporting

Prior to submission to the Board, the Audit Committee monitors the integrity of the financial statements and annual accounts and confirms that they have been properly prepared in accordance with IFRS and the requirements of Dutch law.

The Audit Committee reviews the draft annual and interim reports before recommending their publication to the Board. The Audit Committee discusses with the relevant senior managers, as required, and external auditors the significant accounting policies, estimates and judgments applied in preparing these reports.

The Audit Committee or the Board and the senior management also review the reports to shareholders and any other public announcement concerning the Group's financial position and corporate governance statements.

During August 2016, the Audit Committee met in order to discuss and recommend to the Board to approve the valuations of the major investments in Russia in relation to 2016 interim reports. During March 2017, the Audit Committee met in order to discuss and recommend to the Board to approve the valuations of all investments in Russia and the major investments in the US in relation to the 2016 annual report. During the above meetings, the Audit Committee has held detailed discussions with the senior management and the Russia valuator in the presence of the external auditors with regards to the assumptions and methodology used in valuating these investments. The Audit Committee has also considered the external auditor's approach to the valuation of these investments. Based on their above review and analysis the Audit Committee concluded that they are satisfied with the valuation of investments and recommended them for approval to the Board.

During the last quarter of 2016 and January 2017, the Audit Committee discussed and considered whether BCRE should continue to consolidate the financial numbers of BCRE Germany after the reduction of the Company's shareholding in BCRE Germany. The Group, until the Deconsolidation Date, had determined that it had de facto control of BCRE Germany. The de fact control was supported by the size of voting rights held by the Group (including agreements or arrangements with other shareholders), the size of the holdings of the other shareholders and the number of votes at shareholders' meetings.

Taking into consideration the new size of the Group's holding in the voting rights of BCRE Germany following the sale of shares, relative to the size and dispersion of the holdings of the other shareholders of BCRE Germany and the uncertainty on whether the rights being held by the controlling shareholder can further enable the Group to exercise the majority of the voting power that participates in the shareholder's meetings of BCRE Germany, it was concluded that from the Deconsolidation Date onwards, the de facto control over BCRE Germany was lost. As a result, BCRE will not consolidate the financial position of BCRE Germany starting from the Deconsolidation Date, and will be accounted using the equity method of accounting.

Whistleblowing

The Company has a policy in place to receive, retain, investigate and act on employee complaints or concerns regarding accounting, internal controls and auditing matters.

For the period under review, no incidents have been reported.

Audit Committee attendance and meetings

The Audit Committee met seven times during 2016 and received regular financial updates from the Chief Financial Officer on the Group's performance. All members of the Audit Committee attended all meetings except Daniel Aalsvel who was not present in one of the meetings due to personal reasons. Certain other Board members also attended some of the Audit Committee meetings by invitation.

Throughout the year, the Audit Committee, among others, reviewed and considered the following:

- The financial information that is publicly disclosed, which included the accounts for the year ended 31 December 2015; and the interim results for the period ended 30 June 2016;
- The annual report 2015;
- The performance of the Group's assets throughout the year;
- The adequacy and effectiveness of the Group's internal control policies and procedures as per Section 1.5.11;
- Discussion of valuations of Russia and US assets;
- Deconsolidation of financial position of BCRE Germany following the sale of shares;
- The selection and recommendation of the external auditors;
- The independence and objectivity of the external auditors; and
- The fees for the external auditors.

On behalf of the Board

Daniel Aalsvel

CHAIRMAN OF THE AUDIT COMMITTEE

1.9 RISK MANAGEMENT

The following section describes the Group's risk management and control system.

The risk management and control system forms an essential part of the business operations and reporting, and aims to ensure with a reasonable degree of certainty that the risks to which the Group is exposed are identified and controlled adequately within the margins of a conservative risk profile.

1.9.1 Risk Appetite

BCRE’s approach to portfolio allocation is focused on the continuous monitoring and adjustment of its portfolio, ensuring diversification by country, asset class, currency, specification and development to income-producing properties. In addition to following an analytical approach to the investment decisions throughout the life cycle of a project, BCRE focuses on value addition to its properties through proactive asset and property management. Rigorous research & analysis and risk management are cornerstones to BCRE’s business philosophy. BCRE’s objective is to identify and execute, through its proprietary teams, opportunities in local markets by leveraging off its global investment, development and management experience.

BCRE, as part of its strategy which involves conservative underwriting, carries out continual high level reviews of the real estate sector in the markets in which it is present to ensure that it understands the opportunities they offer and reviews its existing portfolio in line with market movements. The Group’s teams in the markets where the Group operates are vertically integrated and comprise of professionals with many years of experience in the real estate sector and ensures that Group operations, follow high standards of governance, procedures and documentation. The Group’s highly experienced management team monitors the industry movements in their respective markets and globally to understand the impact of variables such as interest rates, investor demand, occupier demand, consumer demand and hospitality trends on the Group’s portfolio and potential opportunities under consideration.

The business in which BCRE is engaged inevitably involves risks. However, as mentioned in this Section 1.9 and other sections, the Company makes continuous efforts to balance and mitigate these risks through, among others, the use of different transaction and investment structuring methods. The Group has formulated guidelines for adhering to various compliance requirements and has implemented those through internal codes and regulations to ensure laws and regulations are adhered to.

The Risk Appetite of the Group varies from zero to moderate depending on the risk category as follows:

Risk Appetite Table		
Risk Category	**Category Description**	**Risk Appetite**
Business Strategic & Operational – Geographic Risks	Strategic and operational focus on ongoing review and assessment of relative and absolute position in the US and Germany, not seeking to increase exposure to emerging markets.	Low
Business Strategic & Operational – Real Estate Activity Risks	Strategic and operational focus on increasing position in US residential income producing assets and seeking “special situation” development projects with low basis and hedged equity. Hedge operational risk through minimum guarantee returns where possible.	Moderate
Financial Risks – Interest Rate	Partially hedged interest rate exposure across corporate and asset level to reduce the borrowing risks.	Low to Moderate
Financial Risks – Currency	Focus on matching currency for both sources and liabilities.	Low
Financial Reporting and Compliance Risks related to regulation and taxation issues	Strict compliance with applicable laws and regulations and financial reporting issues. Adherence to all relevant policies and procedures.	Zero – low tolerance

1.9.2 Key business risks – Strategy and operating activities (relating to real estate activity risks)

The key business risk factors relating to the strategy and operating activities aspect of the Group relating to the real estate activity risks include the following:

Risks relating to the real estate sector

The Group is exposed to a number of specific real estate factors, including all of the risks inherent in the business of acquiring, developing, owning, managing and using real estate, changes in laws and governmental regulations, property valuations and fluctuations in the property markets generally and in the local markets where the Group operates. If any of these factors were to materialise and be adverse, they could have a material adverse effect on the Group's business, financial condition and prospects. Liquidity of real estate assets differs substantially between markets, asset classes and between development and investment and during the development stage. Many of the Group's assets are less liquid due to their location (mainly in emerging markets), type (requiring intensive management and/or deterring institutional investors) and their stage of development (particularly in relation to uncompleted developments). Such illiquidity may affect the Group's ability to dispose of or liquidate some projects in a timely fashion and at satisfactory prices in response to changes in the economic environment, the local real estate market or other factors. The Group operates in highly competitive markets for investment opportunities. Competition in the real estate markets in the countries in which the Group invests may reduce investment opportunities and affect sale prices and occupancy and rental rates of the Group's properties.

The Group carries out continual high level reviews of the real estate sector in the markets in which it is present to ensure that it understands the opportunities they offer and reviews its existing portfolio in line with the market movements. Regular interaction and updates are presented by the local teams to senior management to gauge economic trends and analyse its impact on the Group's portfolio. The Group's teams in the markets where the Group operates are vertically integrated and comprise professionals with many years of experience in the real estate sector.

Risks relating to the Group's business

The Group's financial performance depends, amongst other things, on the economic situation in the markets in which it operates. There is uncertainty, and there will always be uncertainty, regarding whether real estate markets in these countries will continue to develop, or develop at the rate anticipated by the Group, or that the market trends anticipated by the Group will materialise.

The Group's portfolio suffers from a relatively high exposure level to large developments and re-developments, which are, a retail and wholesale market development project in Kazan, Russia (the Company's part in the loss for 2016 is approximately €21 million), and a conversion project (as well as another large potential conversion project) in Manhattan, New York, United States (the Company's equity value as of December 2016 is approximately €40 million). A deterioration in any of these projects or local markets or economies, as well as the Group's failure to achieve its business objectives in any of them, might have a material negative effect on the Group's value, business and prospects. The Group's portfolio suffers from a relatively high exposure level to two residential development projects in Düsseldorf, Germany. A deterioration in these projects or local market or economy might have a material negative effect on the Group's value of investment in BCRE Germany. The Group's revenues from retail properties, Manhattan Hotels, and multifamily residential properties are exposed to the risk of changes in retail economic conditions, fluctuations in the value, occupancy levels, regulation and other factors.

The Group relies on its years of experience across asset classes and across geographies in which it is operating to manage the risks associated with the industry. The Group's highly experienced management team monitor the industry movements in their respective markets and globally to understand the impact of variables such as interest rates, investor demand, occupier demand, consumer demand and hospitality trends on our portfolio and potential opportunities under consideration.

Risks relating to property development

The real estate development projects executed by the Group require significant capital outlays for the land acquisition, the obtaining of various permits and investment preparation as well as during the construction stages. The Company's part in future development cost (to be incurred over the next few years) in the Company's current development assets is currently estimated at $250 million – $350 million (under the assumption that all developments are completed and none are sold). Hence, a 10% – 15% cost overrun in all of the development would result in an additional cost of $25 million – $50 million. Additionally, 720 West End Avenue project may potentially be developed. The decision is subject to the market conditions and depending on the prevailing construction financing terms at the time of such future decision. In case of a development there may be a demand of an additional equity investment. This project represents a relatively high proportion of the Company's NAV, and as such, creates an inherent exposure to a single property.

Due to extensive financing requirements, such ventures are typically associated with considerable risks. The Group relies on subcontractors for all of its construction and development activities. If the Group cannot enter into subcontracting arrangements on terms acceptable to it or at all, the Group will incur additional costs which will have an adverse effect on its business. The revenue stream in the business plan of developments is difficult to project long term, and estimation thereof exposes the Group to significant fluctuations to the projected profitability of a development project. Sites that meet the Group's criteria must be zoned for the activity designated in the business plan (such as retail, residential or any other relevant designation). In instances where the existing zoning is not suitable or in which the zoning has yet to be determined, the Group will apply for the required zoning classifications. If the Group does not receive zoning approvals or if the procedures for the receipt of such zoning approvals are delayed, the Group's costs will increase, which will have an adverse effect on the Group's business.

In particular, an important element in the success of the Group's development projects is the Group's ability to supervise the construction process and to complete its projects ahead of its budgeted completion date. The Group works across its platforms with strong and experienced management teams and keeps control over most of its projects. Project execution is controlled through in-house teams and performed through contractors / sub-contractors with proven track-records. The Group, with years of experience, maintains regular engagement with relevant authorities at regional level to ensure development proposals are in accordance with regulatory requirements.

Risks associated with the Group's investment property business

The Group's operations include the letting of business premises for commercial purposes and letting of residential units to occupiers. If the premises intended for this purpose are not completed on time, are different from those stipulated in the lease agreements, or are damaged, the Group may be exposed to the risk which may have a material adverse effect on the operations, financial standing or results of the Group. The Group may be subject to the risk in maintenance of the properties and increases in operating and other expenses. The Group may also take on additional costs and liabilities associated with existing lease obligations, and is dependent on attracting third parties to enter into lease agreements.

The Group continuously monitors its exposure to key tenants across income generating properties, including upcoming vacancies and breaks. It undertakes comprehensive analysis of the market in which properties are located with a deep understanding of market terms (such as rent, breaks, and tenant incentives.) and compare those with the Group's properties to see the advantage and potential value addition the Group's properties offer. The Group makes sure that its properties are offering competitive terms in the market and tenants are given incentives to continue their engagement with the Group. The Group's properties are managed internally through its dedicated highly experienced teams in order to keep control over the operations.

Risks related to Changes in macroeconomic conditions

Real estate in general, and the Group's property portfolio in particular, are exposed to changes in the macroeconomic environment, as was strongly evidenced by the sharp negative impact of the downturn in Russia on the groups operation, performance, and assets. The Company is of the opinion that this risk is currently heightened due to a combination of (i) the increased probability of interest rate increases in the US and the EU, following a very long period of very low interest rates across the yield curve (ii) the prolonged positive business cycle, compared to other positive cycles over the past few decades (iii) the higher probability of reflation globally, but in particular in the US and Europe and (iv) heightened geopolitical tensions globally.

1.9.3 Key business risks – Strategy and operating activities (relating to geographic risks)

The key business risk factors relating to the strategy and operating activities aspect of the Group relating to the geographic risks include the following:

Risks related to the geographic markets in which the Group operates

The Group is subject to various risks related to its operations in Russia and India, including economic and political instability, political and criminal corruption and the lack of experience and unpredictability of the civil justice system. Operating in developing economies may be subject to various risks, which may include instability or changes in national or local government authorities, land expropriation, changes in taxation legislation or regulation, changes in the terms and conditions of permits, changes to business practices or customs, changes to laws and regulations relating to currency repatriation and limitations on the level of foreign investment or development. In addition, German legal requirements may impose additional obligations on BCRE Germany and thus affect the Group's investment in BCRE Germany.

The Group, while operating in its markets ensures that its operations, follow high standards of governance, procedures and documentation. In order to achieve this, the Group utilises its years of experience and operations across geographies, and avails services of top professional advisors in each of the markets it operates.

Risks related to the hotel portfolio of the Group

The Group's revenues from hotel properties are exposed to the risk of changes in economic conditions, lodging demand, fluctuations in the value, occupancy levels and daily room rate. The hotel portfolio in which the Group is interested is subject to certain risks common to the hotel industry. The Group currently has interests in one hotel development property in Manhattan and two operating hotels in Manhattan. The Group's operations and the results of its operations are subject to a number of factors that could adversely affect its business, many of which are common to the hotel industry and beyond the Group's control. The impact of any of these factors (or a combination of them) may adversely affect room rates and occupancy levels in the Group's hotels, or otherwise cause a reduction in the Group's rental streams generated from its hotel properties. Such factors (or a combination of them) may also adversely affect the value of the Group's hotels and in either such case would have a material adverse effect on the Group's business, financial condition and results of operations.

Risks related to Changes in the Manhattan residential Condo Market

The Group has a relatively high exposure to 90 Morton Street, a Manhattan development project, and 720 West End Avenue, a Manhattan investment property, if potentially will be developed as described above, but whose value is correlated to the Manhattan condo market prices. The values and potential profits from both developments may drop in case of a decrease in the demand and / or sale prices of Manhattan residential condo market. One of the potential causes for such future decreases may be a decline in the availably of retail acquisition mortgages and / or an increase in the interest rates on such mortgages. As a result, the values of the two projects is also dependent upon the term of mortgages.

Risks relating to the Group's operations in Russia

Political developments, including the range of sanctions and their extension, volatility in the global energy markets and the considerable depreciation of the Russian Rouble had a significant negative affect on the Russian economy over the last year. Russia's involvement in political and military conflicts in the Middle East, Eastern Europe and potentially Northern Korea adds to the instability in the region. Overall, the economic situation in Russia is showing signs of stability and halt in the deterioration, but continues to be volatile and events can still develop in various adverse directions and magnitudes. The geopolitical environment risk relating to Russia seems to have increased with recent heightened tension in the Middle East and North Korea situations, and more combative rhetoric with the new US administration. If these were to materialise, the Russian economy could be dragged into a prolonged recession or stagnation with a significant negative effect on the business of the Group. The deterioration of economic situation in Russia could be sharp and quick with further negative consequences on general macroeconomic conditions and the willingness of international tenants to operate in Russia and/or to enter into leases, particularly US denominated leases.

The Group may be subject to various risks relating to the imposition of sanctions by various regimes on Russia. Such sanctions currently include, among others, the imposition of visa bans, the blocking of property and interests in property, trade and investment restrictions and other sanctions including sectoral sanctions against state owned banks and capital raises in the EU and the US.

The economic deterioration in Russia impacted the overall operations of our Russian assets during the period and resulted in their reduction of valuation of our assets.

The Group is operating with a hands-on approach in Russia with its local team. The Group's management is closely monitoring developments at macro level in Russia and at micro level in its assets. The local team in Russia continue to work closely on the ground with tenants in Group's properties. In light of the overall economic situation, necessary adjustments are continuing to be made with tenants.

1.9.4 Key financial risks – Interest rates and currency risks

The Company's key financial risks and risk factors relating to the financial position of the Group regarding the interest rates and currency risks can be summarised as follows:

The Group may be subject to interest rate risk

To the extent that the Group incurs floating rate indebtedness, changes in interest rates may increase its cost of borrowing, impacting on its profitability and having an adverse effect on the Group's free cash flow, property valuation and the Group's ability to pay interest and principal (as the case may be) under the bonds issued by the Group and other loans.

Currently the Group undertakes various hedging arrangements, including interest rate swaps and caps, but it does not fully hedge against interest rate fluctuations. In the case of interest rate swap arrangements, a reduction of the relevant market interest rates would cause the market value of the swap contract to become negative, with a corresponding negative effect of the Group's net value.

As mentioned above in 1.9.2, the negative impact of rising interest rate is not limited to direct increased borrowing cost. There is also a potential correlation between rising rates and property values – in particular income producing assets. Thus, an increase in rates may reduce the values of the Group's property portfolio in Germany and the US.

For further details regarding the impact on Group's profitability from changes on the interest rates, please refer to Note 28 in the explanatory notes to the consolidated financial statements.

The Group is exposed to changes in foreign currency exchange rates

The Group's reporting currency is the Euro but a number of the Group's subsidiaries and affiliates operate in jurisdictions outside the Eurozone. In many of the Group's properties and developments, particularly in the US, Russia and India, the entire cash flow of the project is denominated in non-Euro currencies, including purchase of plot or property, all the investment, development and operating costs, financing and revenues. The exchange rates between these currencies and the Euro may fluctuate significantly. Weakening of one or more of these non-Euro currencies against the Euro, and in particular the US dollar, may have a negative impact on the financial position of the Group and its results of operations.

The Group seeks to reduce these risks by matching, in each project, the currency denomination of its principal liabilities (financing and construction) and its principal sources of revenue (sale proceeds and rentals). Where such matching is not possible, the exposure of the Group to changes in currency exchange rates is even higher, and may adversely affect further the Group's profits and cash flows. In some cases, the Group may succeed in matching the currency in lease agreements to the currencies of the loans (for example, both may be in US dollars for a Russian retail project), but the income of the tenant would still be in local currency (Russian rouble in that example). In such cases, a weakening of the local currency, while legally not affecting the tenant's obligation to pay in US dollars, would reduce his profitability and weaken his ability to pay rent, thus creating for the Group an additional, indirect, exposure to changes in the local exchange rates. This phenomenon occurred most recently in Russia, whereby the ability to pay rent of tenants with leases denominated in US dollars have been severely compromised by the strong devaluation in the Russian rouble / US dollar rate of exchange, creating a situation where BCRE Russia – as most other landlords – had no choice but to reduce the required payment to adjust to the market reality. There is also a risk due to a US dollar denominated loan and income which is inherently linked to the Rouble: if the Rouble weakens, the equivalent value of the income in US dollar terms is reduced, but the obligation to repay the principal remains constant. Additionally, the loan coverage ratio (the rent divided by the loan) is reduced.

For further details regarding the impact on Group's profitability from changes in the exchange rates, please refer to Note 28 in the explanatory notes to the consolidated financial statements.

Risks relating to the Group's borrowings

The Group's borrowings and any outstanding bonds issued by the Company could have a significant impact on the Group's business, financial condition and/or results of operations. Until December 2019, approximately €86 million will be redeemed under the Series A Notes, Series B Notes and Series C Notes.

The Group's existing bank borrowings could have a significant impact on the Group's business, financial condition and/or results of operations. The ability of the Group to operate its business largely depends on being able to raise funds. There can be no assurance that the Group will be able to find lenders who are willing to lend on similar terms to those which apply to existing financing arrangements, or at all, or that existing financing arrangements will be able to be refinanced on similar terms, or at all, upon maturity. The Group operates at a certain level of leverage which it assesses to be suitable to its needs. An increase in the leverage could cause the risk level of the Group's business to increase.

However, the Group maintains relationships with a wide range of both banking and non-banking institutions/lenders, in each of its markets. Long-term relationships established in our main markets i.e. the US, Germany and Russia, assists the Group to achieve financing for its assets. The Group's assets, especially in BCRE Germany, are leveraged at an appropriate LTV (loan to value) levels and with sufficient coverage ratios, and hence on maturity are attractive for refinance.

For further details on the bonds issued by the Company, please refer to Note 18 in the explanatory notes to the consolidated financial statements.

1.9.5 Key– Financial reporting and Compliance risks

The Company's key financial reporting and compliance risks relating to taxation and regulation compliance risks of the Group can be summarised as follows:

Risks relating to the Group's Financial Reporting

The Group operates across many financial jurisdictions and ensuring that all financial departments within the

Group are reporting based on the same financial policies and delivering the same quality of reporting with trained, experienced finance staff is very important. The consolidated financial reports of the Group are being prepared in accordance with IFRS as adopted by the European Union (IFRS as adopted by the EU). A material misrepresentation of the Group's financial performance and reports may cause restatements on the financial reports which can have severe impact on the Group's reputation.

Some important risks which are associated with the preparation of the financial reports of the Group are the revenue recognition (revenues may be subject to improper recognition, inflating or misappropriating), the measurement of the fair value of investment property and investment property under construction and the meeting of the loan covenants.

Maintaining a sound financial control system over the financial reporting, setting up clear accounting policies within the Group and hiring professional finance staff can assist to reduce the risk that the financial reporting does not contain any errors of material importance. In addition, the risk that the properties in the Group's portfolio are incorrectly valued is mitigated by executing all property valuations by internationally reputed external appraisers. All the properties of the Group are being appraised at least once a year.

Risks relating to regulation and taxation

The Group currently operates in several highly regulated markets. A variety of laws and regulations of local, regional, national and EU authorities, including planning, zoning, environmental, health and safety, tax and other laws and regulations must be complied with by the Group. If the Group fails to comply with these laws and regulations, it may have to pay penalties or private damage awards. In addition, changes in existing laws or regulations, or their interpretation or enforcement, could require the Group to incur additional costs in complying with those laws, alter its investment strategy, operations or accounting and reporting systems, leading to additional costs or loss of revenue, which could materially adversely affect the Group's business, results of operations and financial condition.

The Group and its subsidiaries conduct its business and structure their respective property investments in each relevant country in a manner which, based on professional advice, complies with the regulations and seeks to optimise their respective tax position in those countries.

Please note that the risks that the Company may incur are not limited to the risks as set forth in the Risk Management section. For further details, please refer to the Company's bonds prospectus dated 3 March 2016 and the Company's listing prospectus dated 21 May 2014 as available on the Company's website at www.brack-capital.com.

1.9.6 Risk and Control Framework

The set-up and functioning of the related internal risk management and control systems are periodically evaluated and discussed with the Risk Management Committee, Audit Committee and the Board. The Group's risk management framework is transparent capturing the main risks which are relevant to the Group's business. Methodologies used in the Group's risk management framework are continuously assessed.

The comprehensive risk and risk framework is divided into three risk areas: business, financial and legal and regulatory risks. The framework identifies the probability that a risk occurs, the impact and the mitigated actions to be taken,

During 2016, a risk management committee was established by the Board as a committee of the Board with the authority, powers and duties as set out in its terms of reference. The purpose of this committee is to assist the Board in the discharge of its statutory and fiduciary responsibilities of governance, ethics, integrity and risk management. The committee regularly report to the Board and provide assessment of the existing and potential risks, along with the effectiveness of the risk management systems and internal controls.

Among other, the committee has the following responsibilities:

1. Assisting the Board in formulating a strategic approach for risk management across the Group;
2. Ensuring that the appropriate tools and processes are in place to identify, asses and manage various risks from strategic and operational perspective;
3. Ensuring that the appropriate procedures are in place to monitor and review the effectiveness and adequacy of the implementation of risk management procedures;
4. Review and formulate recommendations to the Board on risks and risk management; and
5. Consider and recommend to the Board on Group's risk appetite

The risk management committee created a risk matrix and a control process of continuous updating and monitoring in order to ensure that all major risks are being identified and dealt with on time.

The committee shall be assisted in its work by working subcommittees which are a business risks subcommittee, a financial risks subcommittee and a legal and regulatory subcommittee.

1.10 STATEMENTS

1.10.1 Going concern

The Board has reviewed the current and projected financial position of the Group, making reasonable assumptions about future performance. The Board has a reasonable expectation that the Company and the Group have adequate resources to continue as in operational existence for the foreseeable future. This has led the Board to conclude that it is appropriate to prepare the 2016 financial statements on a going concern basis.

As in previous years, the company bases its assessment, among others, on the current cash balances, including marketable securities, and its available assets as well as considering cash from future operations and transactions. The repayments of the obligations of the Group are likely to be funded by a combination of one or more of the following, existing cash balances, including marketable securities, its ongoing development activity and operations, cash generated from the repayment of certain shareholder's loans by some of the Group's associates/joint ventures, cash generated through sale of certain assets in accordance with the Group's strategy on developed and stabilized projects (like IHG Orchard and Bowery assets held for sale at year end 2016), raising bonds and loans or equity transactions within the existing limits, partial refinancing of existing obligations, dividend distributions from associates/joint ventures. The Board regularly reviews and discusses the cash flow forecast and funding. However, although these forecasts have been made with due care, there is always an inherent risk that results will not materialize as forecasted and reality may differ, taking into consideration the risks identified as described in detail in Section

Viability statement

In addition to the going concern assessment, the Board has considered the longer term viability of its business. Provision C2.2 of the 2014 Code version of the Corporate Governance requires that the Board assess the prospects of the Group over an appropriate period of time selected by the Board. The Board has considered whether the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period from approval of this annual report, taking into account the Group's current position, business plan and budgets relevant to the Group's projects ('Business Plan'') and the main risks stated in section the risk management in Section 1.9 above.

The assessment, which reflects the Group's strategy, Business Plan and associated main risks of the various business units across the Group, is underpinned by a detailed financial model which is based on a variety of assumptions about the key drivers of profit and cash flow. The financial model has been subject to sensitivity testing, which involves flexing a number of the main assumptions underlying the Business Plan and evaluation of the potential impact of the Group's main risks. Against these stress scenarios, the potential mitigation actions, which are expected to be available to the Group over the relevant timeframe, have also been considered. The sensitivity testing described above allows testing of both the cash flow and balance sheet outlook with respect to the Company's solvency, financial covenants and general performance based on a range of scenarios.

On this basis, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they mature over the three-year period from approval of this annual report.

1.10.2 Directors' statement

The Directors, consisting of Harin Thaker (non-executive), Daniel Aalsvel (non-executive), Michiel Olland (executive) and Luca Tomesani Melotti (executive), declare that to the best of their knowledge the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Furthermore, in view of all the above and with reference to the EU Transparency Directive (2004/109/EC), as amended by Directive (2013/50/EU), and section 5:25c paragraph 2 under c of the Dutch Financial Supervision Act (Wet op het financieel toezicht), the Directors confirm that to the best of their knowledge:

(a) the Consolidated financial statements for the year ended 31 December 2016 give a true and fair view of the assets and liabilities, the financial position and profit or loss of BCRE and the undertakings included in the consolidation taken as a whole;

(b) the Company financial statements for the year ended 31 December 2016 give a true and fair view of the assets and liabilities, the financial position and profit or loss of BCRE;

(c) the additional management information report provided in the annual report gives a true and fair view of the situation on the balance sheet date and the state of affairs at BCRE during the financial year 2016 and the undertakings included in the consolidation taken as a whole;

(d) the principal risks to which BCRE is exposed are described in the annual report. For a description of these risks, see Section 1.9 above; and

(e) the subsequent events are described in the notes 32 and 34 in the consolidated and company financial statements for the year ended 31 December 2016 respectively.

Shareholder enquiries

For information about the management of shareholdings please contact:

BCRE – Brack Capital Real Estate Investments N.V.
Barbara Strozzilaan 201
1083 HN Amsterdam
The Netherlands
Tel. 31 20 514 1000
Fax. 31 20 514 1009

Investor relations enquiries

Irina Scharow
Investor Relations Officer
investor.relations@brack-capital.com

Website

www.brack-capital.com

Annual reports, half year reports and shared information are all available on our website.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December *) 2016	31 December 2015
		Euro in thousand	
ASSETS:			
<u>Non-current assets:</u>			
Investment property	5	389,606	1,618,132
Investments and loans to associates and joint ventures	7	197,374	146,231
Available for sale financial assets	4	8,795	-
Property, plant and equipment, net	10	13,043	17,191
Inventory of land and inventory of apartments under construction	9b	-	25,591
Other investments and loans	11a	24,319	27,673
Restricted bank accounts and deposits	11c	1,853	4,757
Deferred tax assets	12d	1,559	9,240
Total non-current assets		636,549	1,848,815
<u>Current assets:</u>			
Inventory of land, inventory of apartments under construction and other inventory	9a	176,500	69,326
Trade and other receivables	14	20,819	26,131
Other investments and loans	11b	20,166	50,860
Restricted bank accounts and deposits	11c	2,296	11,315
Financial assets at fair value though profit or loss	13	2,686	2,090
Cash and cash equivalents	15	21,853	71,590
Total current assets		244,320	231,312
Assets classified as held for sale	7a(4)	66,129	6,197
Total assets		946,998	2,086,324

	Note	*) 2016	2015
		31 December	
		Euro in thousand	
EQUITY:			
Attributable to the equity holders of the Company:			
Share capital and premium	16	142,210	149,020
Convertible loans	16	31,084	16,575
Other reserves		(58,998)	(68,491)
Retained earnings		139,798	143,547
		254,094	240,651
Non-controlling interests	6	94,445	458,049
Total equity		348,539	698,700
LIABILITIES:			
Non-current liabilities:			
Derivative financial instruments and other liabilities measured at fair value	19	8,947	8,763
Interest-bearing loans and other borrowings	18	343,096	978,415
Other non-current liabilities	20	1,482	4,781
Deferred tax liabilities	12d	27,721	79,658
Total non-current liabilities		381,246	1,071,617
Current liabilities:			
Tax provision		1,266	301
Trade and other payables	21	14,168	35,597
Interest-bearing loans and other borrowings	18	200,457	243,797
Advances from buyers	9c	1,322	35,919
Derivative financial instruments and other liabilities measured at fair value	19	-	393
Total current liabilities		217,213	316,007
Total liabilities		598,459	1,387,624
Total equity and liabilities		946,998	2,086,324

*) With respect to BCP deconsolidation, see note 4.

The accompanying notes are an integral part of the consolidated financial statements.

28 April 2017			
Date of approval of the consolidated financial statements	Ariel Podrojski CEO	Harin Thaker Chairman of Board	Nansia Koutsou CFO

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2016	2015
		Euro in thousand (except for per share data)	
Gross rental income		11,221	8,979
Service charge, management and other income	22	8,432	5,982
Property operating and other expenses	23	(18,679)	(16,225)
Rental and management income, net		974	(1,264)
Proceeds from sale of residential units		1,867	4,291
Cost of sales of residential units		(2,552)	(4,232)
Gross profit/(loss) from sale of residential units		(685)	59
Interest and other related income from lending business		1,625	2,684
Costs related to lending business		(293)	(471)
Gross profit from lending business		1,332	2,213
Gross profit before impairment of inventory and depreciation of property, plant and equipment		1,621	1,008
Impairment of inventory and depreciation of property, plant and equipment		(4,822)	(203)
Total gross profit/(loss)		(3,201)	805
Revaluation of investment property, net	5	(38,046)	98,980
Administrative expenses	24	(6,119)	(5,548)
General and administrative expenses relating to inventory of buildings under construction and investment property	24	(2,547)	(1,490)
Other income/(expenses), net	27	1,718	(9,995)
Fair value loss of property, plant and equipment	10	(5,747)	(5,670)
Share based payments	17	(1,643)	(326)
Share of loss of associates and joint ventures	7	(46,609)	(103,854)
Operating loss		(102,194)	(27,098)
Financial income	25	6,106	3,967
Financial expenses	26	(31,555)	(19,569)
Exchange rate differences, net		20,008	(34,320)
Financial expenses, net		(5,441)	(49,922)
Loss before tax		(107,635)	(77,020)
Tax benefit/(expense)	12b	1,208	(18,501)
Loss from continuing operations		(106,427)	(95,521)
Profit from discontinued operations, net	4c	109,474	77,492
Net profit/(loss)		3,047	(18,029)
Profit/(loss) for the year attributable to:			
Equity holders of the Company		(3,749)	(27,675)
Non-controlling interests		6,796	9,646
		3,047	(18,029)
Profits/(losses) per share attributable to equity holders of the Company	29		
Basic net profit/(loss):			
Loss from continuing operations		(0.45)	(0.31)
Profit from discontinued operations		0.43	0.14
Total loss		(0.02)	(0.17)
Diluted net profit/(loss):			
Loss from continuing operations		(0.45)	(0.35)

Profit from discontinued operations	0.43	0.14
Total loss	(0.02)	(0.21)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2016	2015
	Note	Euro in thousand	
Profit/(loss) for the year		3,047	(18,029)
Other comprehensive income/(loss):			
Items to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations, net		4,011	9,230
Share of other comprehensive income/(loss) of associates and joint ventures	7	14,122	(8,639)
Loss on available for sale financial assets		(239)	-
Other comprehensive income, net of tax, not to be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income of associates and joint ventures	7	2,407	23,479
Total other comprehensive income		20,301	24,070
Total comprehensive income for the year		23,348	6,041
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		6,180	(24,870)
Non-controlling interests		17,168	30,911
		23,348	6,041

Items in the consolidated statement of comprehensive income are disclosed net of tax. The income tax relation to each component of other comprehensive income is disclosed in Note 12.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to equity holders of the Company									
	Share capital and premium	Convertible loans	Foreign currency translation reserve	Share-based payment reserve	Reserves from transactions with non-controlling interests	Revaluation and fair value reserve	Retained earnings	Total	Non-controlling Interests	Total equity
	Euro in thousand									
Balance as at 1 January 2015	149,020	16,575	(61,239)	2,830	(11,061)	-	171,222	267,347	437,020	704,367
Profit/(loss) for the year	-	-	-	-	-	-	(27,675)	(27,675)	9,646	(18,029)
Other comprehensive income/(loss)	-	-	(2,590)	-	-	5,395	-	2,805	21,265	24,070
Total comprehensive income/(loss)	-	-	(2,590)	-	-	5,395	(27,675)	(24,870)	30,911	6,041
Share based payments	-	-	-	326	-	-	-	326	1,525	1,851
Transactions with non-controlling interests, net (1)	-	-	-	-	(2,152)	-	-	(2,152)	1,432	(720)
Distributions to non-controlling interests, net	-	-	-	-	-	-	-	-	(12,839)	(12,839)
Balance as at 31 December 2015	149,020	16,575	(63,829)	3,156	(13,213)	5,395	143,547	240,651	458,049	698,700
Profit/(loss) for the year	-	-	-	-	-	-	(3,749)	(3,749)	6,796	3,047
Other comprehensive income	-	-	9,643	-	-	286	-	9,929	10,372	20,301
Total comprehensive income/(loss)	-	-	9,643	-	-	286	(3,749)	6,180	17,168	23,348
Share based payments	-	-	-	15	-	-	-	15	2,652	2,667
Issue of convertible bonds (1)	-	14,509	-	-	-	-	-	14,509	-	14,509
Share buyback (1)	(1,962)	-	- -	-	-	-	-	(1,962)	-	(1,962)
Capital reduction (1)	(4,848)	-	-	-	-	-	-	(4,848)	-	(4,848)
Transactions with non-controlling interests, net (1)	-	-	-	-	(451)	-	-	(451)	(9,678)	(10,129)
Distributions to non-controlling interests, net	-	-	-	-	-	-	-	-	(18,121)	(18,121)
Deconsolidation of BCP (2)	-	-	-	-	-	-	-	-	(355,625)	(355,625)
Balance as at 31 December 2016	142,210	31,084	(54,186)	3,171	(13,664)	5,681	139,798	254,094	94,445	348,539

(1) See Note 16.

(2) See Notes 4 and 6.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2016	2015
		Euro in thousand	
Cash flows from operating activities:			
Net profit/(loss) for the year		3,047	(18,029)
Adjustments for:			
Depreciation	10	1,100	203
Impairment of inventory		3,722	-
Profit from discontinued operations	4	(109,474)	(77,492)
Revaluation of investment property, net		38,046	(98,980)
Share of loss of associates and joint ventures	7	46,609	103,854
Tax (benefit)/ expense	12	(1,208)	18,501
Share based payments	17	1,643	326
Other income		(2,734)	(58)
Interest from lending business		(1,423)	(2,118)
Fair value loss of property, plant and equipment	10	5,747	5,670
Financial expenses, net		5,441	49,922
Cash flow used in operating profit before changes in working capital and provisions		(9,484)	(18,201)
Increase in advances from buyers		1,090	232
(Increase)/decrease in inventories of apartments under construction		(5,459)	4,182
Increase in trade and other receivables		(5,683)	(1,383)
Increase in trade and other payables		1,657	8,229
		(8,395)	11,260
Cash flows used in operating activities from continued operations		(17,879)	(6,941)
Tax paid		(132)	(864)
Cash flows provided by operating activities from discontinued operations	4	54,544	80,048
Total cash flows provided by operating activities		36,533	72,243
Cash flows from investing activities:			
Acquisition of newly consolidated subsidiaries and obtaining control in companies previously accounted for using equity method, net (a)		-	(3,700)
Additions to investment and loans to associates and jointly controlled entities		(7,797)	(10,915)
Receipts from investment and loans to associates and jointly controlled entities		10,180	1,261
Additions to other investments		(820)	(2,270)
Receipts from other investments		10,983	3,393
Additions to property, plant and equipment		(1,210)	(3,630)
Acquisitions of investment property		-	(106,178)
Additions to investment property		(4,961)	(25,679)
Changes in short-term and long-term deposits, net		3,145	10,299
Interest received		1,423	2,118
Proceeds from disposal of marketable securities		-	3,424
Deconsolidation of BCP (b)		(36,917)	-
Proceeds from disposal of assets held for sale		6,063	16,061
Receipts from loans from related parties		4,509	5,805
Loans granted to related parties		(965)	(2,141)
Cash flows used in investing activities from continued operations		(16,367)	(112,152)
Cash flows used in investing activities from discontinued operations	4	(58,980)	(45,246)
Total cash flows used in investing activities		(75,347)	(157,398)

	Note	Year ended 31 December 2016	2015
		Euro in thousand	
Cash flows from financing activities:			
Payment in relation to capital reduction	16	(4,848)	(4,821)
Share buyback	16	(1,962)	-
Receipt of loans		98,938	170,910
Issue of convertible bonds	16	13,609	-
Issue of debentures		24,315	3,288
Repayment of long-term loans and debentures		(112,576)	(28,983)
Interest paid		(31,181)	(24,270)
Contributions from non-controlling interests, net		-	6,152
Purchase of rights from non-controlling interests of subsidiaries		(1,739)	(3,831)
Repayment of other non-current liabilities		(150)	(7,882)
Distributions to non-controlling interests		(13,070)	(14,205)
Cash flows (used in)/provided by financing activities from continued operations		(28,664)	96,358
Cash flows provided by/(used in) financing activities from discontinued operations	4	17,183	(39,187)
Total cash flows (used in)/provided by financing activities		(11,481)	57,171
Decrease in cash and cash equivalents		(50,295)	(27,984)
Foreign exchange differences, net		558	3,215
Cash and cash equivalents at the beginning of the year		71,590	96,359
Cash and cash equivalents at the end of the year	15	21,853	71,590

The accompanying notes are an integral part of the consolidated financial statements.

		Year ended 31 December	
		2016	2015
		Euro in thousand	
(a)	Acquisition of newly consolidated subsidiaries and obtaining control in companies previously accounted for using equity method:		
	Assets and liabilities of newly consolidated subsidiaries on the purchase date:		
	Working capital (excluding cash and cash equivalents), net	-	3,251
	Investment property	-	(12,198)
	Investment in associate	-	1,117
	Interest bearing loans and borrowings	-	2,930
	Loan receivable netted off with consideration	-	1,200
		-	(3,700)
(b)	Deconsolidation of BCP (Note 4):		
	Working capital (excluding cash and cash equivalents), net	(17,591)	-
	Non-current assets	1,197,359	-
	Non-current liabilities	(751,048)	-
	Non-controlling interests	(355,625)	-
	Investment in associate	(151,348)	-
	Available-for-sale financial assets	(9,194)	-
	Gain on disposal of part of holding in BCP	6,739	-
	Gain from loss of control	43,791	-
		(36,917)	-
(c)	Material non-cash transactions:		
	Issue of convertible bonds to a related party	900	-

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1:- GENERAL

a. The Company is a public limited company listed on the London Stock Exchange, incorporated and domiciled in the Netherlands. The address of its registered office is 201 Barbara Strozzilaan, 1083HN, Amsterdam, the Netherlands.

The consolidated financial statements of the Company for the year ended 31 December 2016 comprise the Company and its subsidiaries and the Group's interest in associates and joint arrangements which are accounted for using the equity method. The significant investees of the Group are listed below:

			Ownership interest	
		Country of	31 December	
Significant investees	**Investee**	**incorporation**	**2016**	**2015**
Brack Capital Properties N.V.	Associate	The Netherlands	28.74%	*) 34.76%
Brack Capital First B.V.	Subsidiary	The Netherlands	100%	100%
BCRE Russian Properties Ltd	Subsidiary	Cyprus	85.07%	85.07%
Brack Capital USA B.V.	Subsidiary	The Netherlands	100%	100%
BCRE India B.V.	Subsidiary	The Netherlands	100%	100%

*) Subsidiary in the consolidated financial statements for the year ended 31 December 2015.

The Group is an international development and investment group, interested in, develops and operates an international portfolio of real estate assets predominantly located in the US, Germany and Russia.

During the year, as a result of part sale of holding in BCP, the Group had lost the control over BCP. For further information, see note 4.

b. Definitions:

In these consolidated financial statements:

The Company	- BCRE - Brack Capital Real Estate Investments N.V.
The Group	- The Company and its investees.
Subsidiaries	- Companies that are controlled by the Group (as defined in IFRS 10) and whose accounts are consolidated with those of the Company.
BCP	- Brack Capital Properties N.V. An associate of the Company (former subsidiary of the Company).

Entities under joint control	-	Companies owned by various entities that have a contractual arrangement for joint control and are accounted for using the equity method.
Associates	-	Companies over which the Group has significant influence and which are accounted for using the equity method.
Investees	-	Subsidiaries, associates and entities under joint control.
The parent company	-	Brack Capital Investments Ltd. A company incorporated and domiciled in Israel.
Euro	-	€
United States dollars	-	$
United Kingdom pound	-	£
New Israel Shekels	-	NIS

c. The statutory financial statements, comprising the consolidated financial statements and the Company financial statements, were authorized in accordance with a resolution of the Board of Directors on 28 April 2017.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (IFRS as adopted by the EU) and Part 9 of Book 2 of the Netherlands Civil Code.

b. Going concern:

The Board has reviewed the current and projected financial position of the Group, making reasonable assumptions about future performance. The Board has a reasonable expectation that the Company and the Group have adequate resources to continue as in operational existence for the foreseeable future. This has led the Board to conclude that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2016 on a going concern basis. As in previous years, the Company bases its assessment, among others, on the current cash balances, including marketable securities, and its available assets as well as considering cash from future operations and transactions. See also Note 28.

c. Measurement basis:

The consolidated financial statements have been prepared on a historical cost basis, with the exception of financial instruments (including derivative financial instruments) measured at fair value through profit or loss, available for sale financial assets, investment property and property, plant and equipment measured at fair value. The Company has elected to present the consolidated income statement using the function of expense method.

d. Consistent accounting policies:

The following accounting policies have been applied consistently in the consolidated financial statements for all periods presented.

e. Significant accounting judgments, estimates and assumptions:

1. Estimates and assumptions:

The preparation of the Group's consolidated financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate. The key assumptions made in the consolidated financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the consolidated financial statements are discussed below.

- Investment property and property, plant and equipment:

  Investment property (which also includes investment property under development that can be reliably measured) and property, plant and equipment (which are measured using revaluation model) are presented at fair value at the reporting date. Changes in its fair value are recognized in profit or loss and revaluation reserve, respectively.

  Fair value is determined generally by external independent valuation specialists using valuation techniques and assumptions as to estimates of projected future cash flows from the property and estimates of the suitable discount rate for these cash flows. When possible, fair value is determined based on recent real estate transactions with similar characteristics and location of the valued property.

  In determining the fair value of investment property, valuation specialists and the Group's Management are required to use certain assumptions in order to estimate the future cash flows from the properties, the required yield rates on the Group's properties, the future rental rates, occupancy rates, lease renewals, the probability of leasing vacant spaces, property operating expenses, the financial strength of tenants and the implications of any investments for future development. Any change in these assumptions would be affecting the fair value of investment property. See also Note 5.

- Determining the fair value of an unquoted financial asset and financial liability:

  The fair value of unquoted financial assets and liabilities classified as Level 3 is determined using valuation techniques including projected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. The projected future cash flows and discount rates are subject to uncertainty and include consideration of inputs such as liquidity risk, credit risk and volatility. See also Note 28.

2. Judgments:

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

- Recognizing revenue from management services on a gross or net basis:

  In cases where the Group acts as an agent, without bearing any of the risks and rewards derived from the transaction, revenue is presented on a net basis. In contrast, if the Group acts as the principal and bears the risks and rewards derived from the transaction, revenue is presented on a gross basis. Management and consultancy fee are recognized on a gross basis since the Group is acting as the principal. Service charge from tenants is recognized either on a gross or a net basis depending on whether the Group is acting as a principal or as an agent, respectively.

- Acquisition of subsidiaries that are not business combinations:

  According to IFRS 3 "Business combinations" at the time of acquisition of subsidiaries and activities, the Group considers whether the acquisition represents a business combination pursuant to IFRS 3. Among other things, the number of assets acquired, the nature of processes involved and whether the management company has been acquired are considered to determine if an acquisition represents a business combination.

- Classification of properties as inventory, property, plant and equipment or investment property:

  The Group evaluates whether an asset or property should be classified as inventory based on IAS 2, property, plant and equipment based on IAS 16 or as investment property based on IAS 40. In particular, an asset is accounted for as an investment property when its being held to earn rentals or for capital appreciation or both.

- De facto control in investees:

  Management uses its judgement to consider whether the Group exercises de facto control in an investee. Among other things, Management considers the size of the Group's holding of voting rights, the size of the holdings of the other shareholders and the number of votes at shareholders' meetings. See also Note 4.

f. Consolidated financial statements:

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of its subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies of the Group.

Specifically, the Group controls an investee if and only if the Group has a) power over the investee, b) exposure, or rights, to variable returns from its involvement with the investee, and c) the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee. In other cases, where the Group exercises de facto control over an investee, then the financial information of the investee is fully consolidated in the consolidated financial statements of the Group.

Profit or loss and each component of other comprehensive income are allocated to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group were eliminated in full on consolidation.

g. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The functional currency is separately determined for each Group's entity and is used to measure its financial position and its operating results. The functional currency of the Company is the Euro. In addition, the consolidated financial statements are presented in Euro. All values are rounded to the nearest thousand (€000), except when otherwise indicated.

When the functional currency of an entity within the Group differs from the Group's presentation currency that entity represents a foreign operation whose financial statements are translated to the Group's presentation currency so that they can be included in the consolidated financial statements.

Assets and liabilities are translated at the closing rate at the end of each reporting period. Profit and loss items are translated at average exchange rates for all the relevant periods. All resulting translation differences are recognized as a separate component of other comprehensive income.

Upon the (partial) disposal of a subsidiary, which disposal results in the loss of control of the subsidiary, the cumulative gain/(loss) recognized in other comprehensive income is transferred to profit or loss, whereas upon the partial disposal of a subsidiary that is a foreign operation which disposal results in the retention of control, the relative portion of the cumulative amount is reattributed to non-controlling interests.

Intergroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in that foreign operation and are accounted for as part of the investment.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currencies are recorded on initial recognition at the exchange rate on the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currencies are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or carried to equity in hedging transactions, are recognized in profit or loss.

3. Index-linked monetary items:

The Group has debentures that are linked to the Israeli Consumer Price Index ("Israeli CPI"). Monetary assets and liabilities linked to the changes in the Israeli CPI are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement.

h. Interest in joint arrangements and associates:

Under IFRS 11 the Group classifies its joint arrangements as joint ventures based on the contractual rights and obligations. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group does not have an interest in a joint operation.

The Group’s investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group’s share of net assets of the associate or joint venture since the acquisition date. Unrealized gains and losses resulting from transactions between the Group and associates or joint ventures are eliminated to the extent of the interest in the associates and joint ventures.

Certain investees provide for profits interests in excess of the investor’s ownership. The Company has adopted the hypothetical liquidation approach in determining the allocation of earnings. The investor’s share of the investee’s earnings is calculated assuming that the investee has recognized and/or distributed the assets based on their book value, taking into consideration other distributions and investments made. This approach, effectively takes into consideration the waterfall mechanism set in the arrangement between the investors in the investee.

The financial statements of associates and joint ventures are prepared for the same reporting period with the Group. Accounting policies have been changed were necessary to ensure consistency with the policies adopted by the Group. After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investments in associates and joint ventures. At each reporting date, the Group determines whether there is objective evidence that these investments are impaired. See also h.

Losses of an associate or a joint venture in amounts which exceed its equity are recognized by the Group to the extent of its investment in the associate or the joint venture plus any losses that the Group may incur as a result of a guarantee or other financial support provided in respect of the associate or of the joint venture. The equity method is applied until the loss of significant influence in the associate or loss of joint control in the joint venture or upon classification as held-for-sale.

i. Impairment of non-financial assets:

The Group evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

The following criteria are applied in assessing impairment of investment in associates or joint ventures:

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the investment in associates or joint ventures. The Group determines at each reporting date whether there is objective evidence that the carrying amount of the investment in the associate or the joint venture is impaired. The test of impairment is carried out with reference to the entire investment, including the goodwill attributed to the associate or the joint venture.

j. Fair value measurement:

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.

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 the asset to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of 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.

k. Borrowing costs in respect of qualifying assets:

The Group capitalizes borrowing costs that are attributable to the acquisition, construction or production of qualifying assets.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, comprising of inventories and investment property that require a substantial period of time to bring it to a saleable condition or for its intended use.

The capitalization of borrowing costs commences when expenditures for the asset are being incurred, borrowing costs are being incurred and the activities to prepare the asset are in progress and ceases when substantially all the activities to prepare the qualifying asset for its intended use or sale are completed.

The amount of borrowing costs capitalized in the reported period includes specific borrowing costs and general borrowing costs based on a weighted capitalization rate.

l. Inventories of buildings and apartments for sale:

Cost of inventories of buildings and apartments for sale comprises identifiable direct costs of land such as taxes, fees and duties and construction costs. The Group also capitalizes borrowing costs as part of the cost of inventories of buildings and apartments for sale from the period in which the Group commenced development of the land. Inventories of buildings and apartments for sale are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated selling costs.

m. The operating cycle:

The Group's normal operating cycle is one year. With respect to construction work the operating cycle can last between two and three years. Accordingly, the current assets and current liabilities include items that are held and are expected to be realized by the end of the Group's normal operating cycle. If the operating cycle exceeds one year, the assets and liabilities attributed to this activity are classified in the consolidated statement of financial position as current assets and liabilities based on the operating cycle.

n. Investment property:

Investment property is measured initially at cost, including costs directly attributable to the acquisition of the property. After initial recognition, investment property is measured at fair value which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair value of investment property are included in profit or loss when they arise. Investment property is not systematically depreciated. The fair value model is also applied to property under construction for future use as investment property when fair value can be reliably measured.

Fair value is determined generally by external independent valuation specialists using economic valuations that involve valuation techniques and assumptions as to estimates of projected future cash flows from the property and estimates of the suitable discount rate for these cash flows. Investment property under development also requires an estimate of construction costs. If applicable, fair value is determined based on recent real estate transactions with similar characteristics and location of the valued property.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to inventory, the deemed cost for subsequent accounting is the fair value at the date of the change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of the change in use. Investment property is derecognized on disposal or when the investment property ceases to be used and no future economic benefits are expected from its disposal.

o. Property, plant and equipment:

Property, plant and equipment comprise mainly of operating hotels and owner occupied commercial centers which are measured using the revaluation model. Other property, plant and equipment items such as machinery and equipment are measured at cost less depreciation and impairment. Depreciation is calculated on a straight-line basis over the useful life of the assets, mainly assessed as 12.5 years, at annual rates.

A revaluation of a revalued asset is recognized directly in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. Any additional reduction, if any, is recognized in profit or loss. If an asset’s carrying amount is increased as a result of the revaluation, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. Any subsequent increase is recognized in the revaluation reserve.

p. Financial instruments:

1. Financial assets:

Financial assets within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

a) Financial assets at fair value through profit or loss:

The Group has financial assets at fair value through profit or loss comprising of financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative, with the non-derivative component representing the host contract.

b) Loans and receivables:

The Group has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured based on their terms at amortized cost using the effective interest method.

c) Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are initially recognized and subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognized in other comprehensive income. When securities classified as available-for-sale financial assets are sold or impaired the accumulated fair value adjustments are included in the consolidated income statement.

2. Impairment of financial assets:

The Group assesses, at the end of each reporting period, whether there is any objective evidence of impairment of a financial asset or a group of financial assets as follows:

Financial assets carried at amortized cost:

There is objective evidence of impairment of debt instruments and loans and receivables carried at amortized cost as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows.

Assets classified as available-for-sale:

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognized in the consolidated income statement, is removed from equity and recognized in the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial assets previously recognized in the consolidated income statement, is removed from equity and recognized in the consolidated income statement.

3. Financial liabilities:

a) Financial liabilities measured at amortized cost:

Interest-bearing loans and borrowings are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured based on their terms at amortized cost using the effective interest method.

b) Financial liabilities at fair value through profit or loss:

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

4. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business.

5. Derecognition of financial instruments:

a) Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party.

b) Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged, cancelled or expired. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services, or is legally released from the liability. When 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 a recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated income statement.

q. Trade and other receivables:

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. An impairment loss is recorded when collection of the amount is no longer probable.

r. Cash and short-term deposits:

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

s. Provisions:

A provision in accordance with IAS 37 is recognized when the Group 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.

t. Revenue recognition:

The specific criteria for revenue recognition for the following types of revenues are:

Revenues from the sale of residential units:

Revenues from the sale of residential units are recognized when the principal risks and rewards of ownership have passed to the buyer. Revenues are recognized when significant uncertainties regarding the collection of the consideration no longer exist, the related costs are known and there is no continuing managerial involvement with the residential unit delivered. These criteria are usually met when construction has effectively been completed, the residential unit has been delivered to the buyer and the buyer has paid the entire consideration for the unit.

Rental income from operating lease:

Rental income is recognized on a straight-line basis over the lease term. Increases in rent over the term of the contract are recognized as income on a straight-line basis over the lease period. The aggregate cost of lease incentives granted is recognized as a reduction of rental income on a straight-line basis over the lease term.

Interest income:

Interest income on financial assets is recognized as it accrues using the effective interest method.

Reporting revenues using gross basis or net basis:

In cases where the Group acts as an agent without being exposed to the risks and rewards associated with the transaction, revenues are presented on a net basis. However, in cases where the Group operates as a principal supplier and is exposed to the risks and rewards associated with the transaction, its revenues are presented on a gross basis. Service revenues include, inter alia, real-estate tax, water supply, cleaning, electricity, heating.

u. Non-current assets or disposal groups held for sale and discontinued operations:

Non-currents assets or disposal groups are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets must be available for immediate sale in their present condition, the Group must be committed to sell, there must be a program to locate a buyer and it is highly probable that a sale will be completed within one year from the date of classification. From the date of such initial classification, these assets are no longer depreciated and are presented separately as current assets at the lower of their carrying amount and fair value less costs of disposal. Other comprehensive income in respect of an asset or a group of non-current assets that are classified as held for sale is presented separately in equity. An entity that is committed to a sale plan involving loss of control of a subsidiary classifies all the assets and liabilities of that subsidiary as held for sale when the criteria set in the standard are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

A discontinued operation is a component of the Group that either has been disposed of or is classified as held for sale. The operating results relating to the discontinued operation are presented separately in the consolidated income statement, net of the tax effect.

v. Leases:

The basis for classifying leases as finance or operating depend on the substance of the agreements. Classification is made at the inception of the lease in accordance with the following principles as set out in IAS 17.

The Group as lessee:

Finance leases:

Finance leases transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset. At the commencement of the lease term, the leased assets are measured at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

Operating leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group as lessor:

Operating leases:

Lease agreements where the Group does not transfer substantially all the risks and benefits incidental to ownership of the leased asset are classified as operating leases. Rental income is recognized in the consolidated income statement on a straight-line basis over the lease term.

w. Business combinations:

Business combinations are accounted for using the acquisition method. Under this method, the identifiable assets and liabilities of the acquired business are recognized at fair value on the acquisition date. The cost of the acquisition is the aggregate fair value of the assets transferred, the liabilities incurred and the equity interests issued by the acquirer on the date of acquisition.

In respect of business combinations, non-controlling interests are measured at fair value on the acquisition date or at the proportionate share of the non-controlling interests in the acquiree's net identifiable assets. For business combinations, direct acquisition costs are recognized as an expense in the consolidated income statement.

Acquisitions of subsidiaries that are not business combinations:

Upon the acquisition of subsidiaries and activities that do not constitute a business, the consideration paid is allocated among the acquiree’s identifiable assets and liabilities based on their relative fair values on the acquisition date and without attributing any amount to goodwill or to deferred taxes. The non-controlling interests, if any, participate at their relative share of the fair value of the net identifiable assets on the acquisition date.

x. Taxes on income:

Taxes on income in the consolidated income statement comprise current and deferred taxes. Current or deferred taxes are recognized in profit or loss, except to the extent that the tax arises from items which are recognized directly in other comprehensive income or in equity.

1. Current taxes:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

2. Deferred taxes:

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related tax asset is realized or the liability is settled.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

y. Share based payment transactions:

The Group's employees and other service providers are entitled to remuneration in the form of equity-settled share-based payment transactions.

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at the grant date. The fair value is determined using a standard option pricing model.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period in which the performance and/or service conditions are to be satisfied and ending on the date on which the relevant employees become fully entitled to the award. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

z. Earnings per share:

Earnings per share are calculated by dividing the net profit/(loss) attributable to equity holders of the Company by the weighted number of ordinary shares outstanding during the period. Basic earnings/(losses) per share only include shares which were actually outstanding during the period. Potential ordinary shares are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases the loss per share from continuing operations.

aa. Convertible loans:

Convertible loans issued by the Company are classified as equity if there is no contractual obligation for the Company to deliver cash or any other financial asset under the terms of the loans.

ab. Disclosure of main new standards in the period prior to their adoption:

1. IFRS 15 "Revenue from Contracts with Customers":

IFRS 15 ("the new Standard") was issued by the IASB in May 2014.

The new Standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", IFRIC 13 "Customer Loyalty Programs", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC-31 "Revenue - Barter Transactions Involving Advertising Services".

The new Standard introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: Identify the contract with a customer, including reference to contract combination and accounting for contract modifications.

Step 2: Identify the separate performance obligations in the contract.

Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: Allocate the transaction price to the separate performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

Step 5: Recognize revenue when a performance obligation is satisfied, either at a point in time or over time.

The new Standard is to be applied retrospectively for annual periods beginning on 1 January 2018. Early adoption is permitted. At this stage, the Group does not intend to adopt IFRS 15 early.

The new Standard allows the option of modified retrospective adoption with certain reliefs according to which the new Standard will be applied to existing contracts from the initial period of adoption and thereafter with no restatement of comparative data. Under this option, the Group will recognize the cumulative effect of the initial adoption of the new Standard as an adjustment to the opening balance of retained earnings (or another component of equity, as applicable) as of the date of initial application. Alternatively, the new Standard permits full retrospective adoption with certain reliefs. At this stage, the Group is evaluating the different options for adoption of the new Standard.

The Group has performed an initial high-level impact assessment for IFRS 15. The observations listed below result from that initial high-level assessment. These observations will be followed by a more in-depth analysis during 2017. IFRS 15 will only be applicable to revenues from the sale of residential units. The other revenues streams rental income and interest and other income from lending activities are not within the scope of IFRS 15.

Revenue from the sale of residential units:

The Group is engaged in the development, construction and sale of residential units. The Group currently recognizes revenue from the sale of residential units when the unit is delivered to the customer. According to the new Standard, on the date of inception of the contract with the customer, the Group identifies the residential unit as a performance obligation. Based on an initial high-level assessment of the Group's contracts with its customers and based on the provisions of applicable laws and regulations, the Group preliminary assessed that its contracts with customers do not create an asset with an alternative use to the Group, and that it has an enforceable right to payment for the performance completed to date.

Accordingly, based on this initial high-level assessment and pursuant to the new Standard, the Group intends to recognize revenue from these contracts over time based on the progress of the performance. As a result, following the adoption of the new Standard, the Group expects there will be a significant change in the timing of recognition of revenue from the sale of residential units as the Group will recognize this revenue in earlier periods than under the current accounting treatment.

Based on the initial assessment, the Group is also considering, among others, the following issues regarding revenue from the sale of residential units:

a) The unit of measurement - The Group is required to determine the unit of measurement for the purpose of revenue recognition. At this stage, the Group estimates that the unit of measurement will be the residential unit that is being sold pursuant to the contract with the customer.

b) Determining the transaction price - The Group is required to determine the transaction price separately for each contract with a customer. In exercising this judgment, the Group assesses the effect of variable consideration in the contract, including discounts, penalties, modifications, claims, the existence of a significant financing component in the contract and any non-cash consideration. Based on the initial assessment, in determining the effect of the variable consideration, the Group expects to use the "most likely amount" method described in the new Standard. Pursuant to this method, the amount of the consideration is determined based on the single most likely amount in the range of possible consideration amounts in the contract. The Group will include an amount of variable consideration only when it is highly probable that a significant reversal of the cumulative revenue recognized will not occur and when the uncertainty involving the variable consideration is subsequently resolved.

c) Measuring progress - In order to measure the progress of performance, the Group expects to adopt an input method based on costs incurred without taking into account costs that do not reflect progress such as the cost of land, levies and financing. Based on the initial assessment, the Group believes that the input method, according to which revenue is recognized based on the costs incurred in order to satisfy the performance obligations, will best reflect the actual revenue generated. In applying the input method, the Group will be required to estimate the costs necessary to complete the project in order to determine the amount of the revenue to be recognized.

These estimates include the direct and indirect costs that are specifically attributable to the contract performance, which costs are allocated based on a reasonable method. Generally, an individual residential unit cannot be delivered before the construction of the entire building is completed.

Accordingly, the Group intends to measure progress of performance, according to which revenue will be recognized for each specific sales contract, based on the progress of the entire building.

d) The existence of a significant financing component in the contract - In order to evaluate whether a significant financing component exists in the contract, based on the initial assessment, the Group expects to choose the practical expedient in the new Standard according to which the consideration is not adjusted for the effects of a financing component if at the contract's inception it is expected that the period between the date of receipt of the consideration and the date of revenue recognition will not exceed one year. If long-term advances (exceeding one year) are received, the Group intends to accrue interest on the advances over the expected contract period when the contract has a significant financing component, as defined in the new Standard. When the advances are recognized in revenue, the Group includes the accrued interest as part of revenue from the sale of the unit.

e) Warranty - In its contracts with customers, the Group provides its customers a warranty in accordance with applicable laws and customary practice in this sector. Based on the initial assessment, the warranty is provided to guarantee the quality of the work performed and is not an additional service rendered to the customer. Accordingly, the Group intends to recognize in its consolidated financial statements a provision for warranty pursuant to the provisions of IAS 37, which is identical to the current accounting treatment.

f) Onerous contracts - A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group from the contract. The provision is measured at the lower of the present value of the anticipated cost of exiting from the contract and the present value of the net anticipated cost of fulfilling it. The Group will regularly evaluate the need to record a provision for onerous contracts pursuant to the provisions of IAS 37 that apply to all contracts in which revenue is recognized in accordance with IFRS 15.

Disclosure and presentation:

The new Standard introduces more detailed and extensive disclosure and presentation requirements compared to existing standards. The Group has begun evaluating the need for adjustments to its systems, internal control, policies and procedures that will be necessary in order to gather the information underlying the disclosures.

2. IFRS 9 "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9 "Financial Instruments" ("IFRS 9"), which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

The Group has performed an initial high-level impact assessment for IFRS 9. The observations listed below result from that initial high-level assessment. These observations will be followed by a more in-depth analysis during 2017.

(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on 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. Quoted equity shares currently held as available-for-sale with gains and losses recorded in OCI will be measured at fair value through profit or loss instead, which will increase volatility in recorded profit or loss. The AFS reserve currently presented as accumulated OCI will be reclassified to opening retained earnings. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Group expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Group were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

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 Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group expects a significant impact on its equity due to the unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

(c) Hedge accounting

As the Group does not apply hedge accounting, the Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 9 also prescribes new hedge accounting requirements and it is to be applied for annual periods beginning on 1 January 2018. Early adoption is permitted.

Based on the initial high-level assessment, the Group believes that the new Standard will not have a material impact on the consolidated financial statements.

3. IFRS 16 "Leases":

In January 2016, the IASB issued IFRS 16 "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

According to the new Standard:

- Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17 "Leases".

- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expense separately.

- Variable lease payments that are not dependent on changes in the Consumer Price Index or interest rates, but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.

- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted provided that IFRS 15 "Revenue from Contracts with Customers", is applied concurrently. Based on an initial high-level assessment been made during the financial year ended 31 December 2016 and which will be followed by a more in-depth analysis, the Group believes that the new Standard will not have a material impact on the consolidated financial statements.

4. Amendments to IAS 40 "Investment Property" - Transfers of Investment Property:

In December 2016, the IASB issued amendments to IAS 40 "Investment Property" ("Amendments"). The Amendments provide guidance and clarifications on the application of the provisions of IAS 40 regarding transfers to or from investment property. The Amendments clarify that a change in management's intention, in and of itself, does not evidence a change in use. The Amendments are to be applied retrospectively in the financial statements for annual periods beginning on 1 January 2018. Early application is permitted. The Amendments allow application using a partial retrospective basis, according to which the Amendments are to be applied to transfers that occurred in the period of initial application with no restatement of comparative data. In this situation, the adjustments to the carrying amounts of the assets as of the date of initial application of the Amendments will be recorded directly in equity.

Management has evaluated the possible effects of the Amendments and expects that there will be no impact on the consolidated financial statement following the application of these Amendments.

ac. New standards, amendments and interpretations applicable for annual periods beginning on 1 January 2016:

There have been no new standards and amendments to standards and interpretations, effective for annual periods beginning after 1 January 2016, which had a material effect to these consolidated financial statements.

NOTE 3: SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on its geographical segments, as follows:

- Germany
- Russia
- USA
- Other segments

In the consolidated financial statements for the year ended 31 December 2015, the Group disclosed additional information for segments based on business units in order to reflect the change made during 2015 in relation to the composition of the Group’s reportable segments from business units to geographical. No such additional information was considered necessary to be provided for the year ended 31 December 2016.

In previous years the financial position and performance of BCP were consolidated with those of the Group. Due to the loss of control over BCP, as discussed in note 4, the financial position and performance of BCP following the deconsolidation, were presented using the equity method. For better comparability, the financial performance of BCP for the year ended 31 December 2015 and its financial position as of 31 December 2015 have been also presented on an equity basis.

No operating segments have been aggregated to form the above reportable operating segments.

The Management and the Board of Directors monitor the operating results of the Group's business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on gross profit including revaluation of investment properties and share of profit/(loss) of associates and joint ventures. Also, the Group financing (including finance costs and finance income), investments, receivables, payables, cash and cash equivalents and income taxes are managed on a Group basis and are not allocated to operating segments.

Year ended 31 December 2016	**Germany**	**Russia**	**USA**	**Others**	**Total**
	Euro in thousand				
Gross rental income	-	7,159	4,062	-	11,221
Service charge, management and other income	-	7,175	1,257	-	8,432
Property operating and other expenses	-	(10,284)	(6,815)	(1,580)	(18,679)
Rental and management income, net	-	4,050	(1,496)	(1,580)	974
Proceeds from sale of residential units	-	1,867	-	-	1,867
Cost of sales of residential units	-	(2,552)	-	-	(2,552)
Gross loss from sale of residential units	-	(685)	-	-	(685)
Interest and other related income from lending business	-	-	1,625	-	1,625
Costs related to lending business	-	-	(293)	-	(293)
Gross profit from lending business	-	-	1,332	-	1,332
Gross profit/(loss) before impairment of inventory and depreciation of property, plant and equipment	-	3,365	(164)	(1,580)	1,621
Impairment of inventory and depreciation of property, plant and equipment	-	(4,822)	-	-	(4,822)
Gross loss	-	(1,457)	(164)	(1,580)	(3,201)
Revaluation of investment property, net	-	(51,642)	15,203	(1,607)	(38,046)
Share of profit/(loss) of associates and joint ventures	6,898	(46,685)	(1,754)	(5,068)	(46,609)
Segment results	6,898	(99,784)	13,285	(8,255)	(87,856)
Administrative and other expenses, net					(14,338)
Financial expenses, net					(5,441)
Income tax benefit					1,208
Profit from discontinued operations, net	109,474	-	-	-	109,474
Profit for the year					3,047

Year ended 31 December 2015	**Germany**	**Russia**	**USA**	**Others**	**Total**
	Euro in thousand				
Gross rental income	-	5,616	3,363	-	8,979
Service charge, management and other income	-	2,047	2,997	938	5,982
Property operating and other expenses	-	(4,860)	(9,032)	(2,333)	(16,225)
Rental and management income, net	-	2,803	(2,672)	(1,395)	(1,264)
Proceeds from sale of residential units	-	4,291	-	-	4,291
Cost of sales of residential units	-	(4,232)	-	-	(4,232)
Gross profit from sale of residential units	-	59	-	-	59
Interest and other related income from lending business	-	-	2,684	-	2,684
Costs related to lending business	-	-	(471)	-	(471)
Gross profit from lending business	-	-	2,213		2,213
Gross profit before impairment of inventory and depreciation of property, plant and equipment	-	2,862	(459)	(1,395)	1,008
Impairment of inventory and depreciation of property, plant and equipment	-	(203)	-	-	(203)
Gross profit/(loss)	-	2,659	(459)	(1,395)	805
Revaluation of investment property, net	-	2,317	95,219	1,444	98,980
Share of profit/(loss) of associates and joint ventures	77,492	(98,782)	(303)	(4,769)	(26,362)
Segment results	77,492	(93,806)	94,457	(4,720)	73,423
Administrative and other expenses, net					(23,029)
Financial expenses, net					(49,922)
Income tax expense					(18,501)

Loss for the year	(18,029)

As of 31 December 2016	Germany	Russia	USA	Others	Total
	Euro in thousand				
Segment assets	169,100	151,442	516,516	24,620	861,678
Unallocated assets:					
Other investments and loans (*)					34,254
Restricted bank accounts and deposits					4,149
Deferred tax assets					1,559
Trade and other receivables					20,819
Financial assets at fair value though profit or loss					2,686
Cash and cash equivalents					21,853
Total assets as per the consolidated statement of financial position					946,998
Segment liabilities	-	120,281	272,245	8,155	400,681
Unallocated liabilities:					
Interest-bearing loans and other borrowings (**)					153,141
Other non-current liabilities					1,482
Deferred tax liabilities					27,721
Tax provision					1,266
Trade and other payables					14,168
Total liabilities as per the consolidated statement of financial position					598,459

(*) An amount of €10,231 thousand has been allocated to USA segment.
(**) An amount of €390,412 thousand has been allocated to Russia, USA and other segments.

As of 31 December 2015	Germany	Russia	USA	Others	Total
	Euro in thousand				
Segment assets	195,717	218,474	477,409	34,074	925,674
Unallocated assets:					
Other investments and loans					51,639
Restricted bank accounts and deposits					7,294
Deferred tax assets					655
Trade and other receivables					16,971
Financial assets at fair value though profit or loss					2,090
Cash and cash equivalents					15,770
Total assets as per the consolidated statement of financial position (***)					1,020,093
Segment liabilities	-	105,008	235,149	14,753	354,910
Unallocated liabilities:					
Interest-bearing loans and other borrowings					160,144
Other non-current liabilities					1,632
Deferred tax liabilities					28,146
Tax provision					301
Trade and other payables					15,523
Total liabilities as per the consolidated statement of financial position (***)					560,656

(***) In accordance with the requirements of IFRS 8 and following the deconsolidation of BCP during the year ended 31 December 2016 (see Note 4), the Germany segment has been reported using the equity method of accounting.

NOTE 4:- DISCONTINUED OPERATIONS

a. Loss of control in BCP:

Until 28 September 2016, the Group directly held 34.76% of the issued share capital of

BCP. The Group, until that date, had determined that it had de facto control of BCP due to the size of voting rights held by the Group (including agreements or arrangements with other shareholders), the size of the holdings of the other shareholders and the number of votes at shareholder’s meetings of BCP.

On 28 September 2016, the Group sold part of its holding in BCP for a total consideration of approximately €31.7 million (net of expenses) and as a result recorded a gain in the consolidated income statement of €6.7 million showed within “"Profit from discontinued operations, net". The Group’s holding rights reduced to 28.31% following this transaction.

Following and taking into consideration the new size of the Group's holding in the voting rights of BCP, relative to the size and dispersion of the holdings of the other shareholders of BCP and the uncertainty on whether the rights being held by the controlling shareholder can further enable the Group to exercise the majority of the voting power that participates in the shareholder's meetings of BCP, the Group concluded that from 28 September 2016 onwards, the de facto control over BCP was lost. Thus, from this date onwards, the Group has accounted for its investment in BCP using the equity method of accounting. It should be noted that to the best knowledge of the Group, the deconsolidation of BCP is not expected to have an effect on the classification of the controlling shareholders of BCP, in accordance with the applicable Israeli securities law, 1968.

As a result of the loss of control over BCP, and based on the related requirements of IFRS 10, the Group had derecognized the entire 34.76% investment in BCP and remeasured the remaining stake initially at fair value on the date when control was lost. The fair value was based on the share price of the BCP share, listed on the Tel Aviv Stock Exchange (“TASE”) on that date. As a result, the Group recognized a gain of €43.8 million in its consolidated financial statement, included in the consolidated income statement within "Profit from discontinued operations, net". The gain is exempt from corporation tax.

As described above and in accordance with the requirements of IFRS 10, the Group had recognized and measured its remaining 28.31% investment in BCP at fair value on the date when control was lost and has prepared a provisional purchase price allocation, as described below. Also in the consolidated financial statements, the Group recorded its direct holding in a BCP’s subsidiary as “Available-for-sale financial assets” measured at fair value resulting in a gain of €1.7 million.

Based on the requirements of IFRS 5, the results of BCP prior to loss of control in the total amount of €58.9 million were presented in the consolidated income statement within “Profit from discontinued operations, net". BCRE’s share of the results of BCP after the deconsolidation is recorded as part of the results from associates and joint ventures (and part of result from continuing operations), as shown in note 7a.

Following the above, the Group accounted for the retained investment in BCP using the equity method as defined in IAS 28. The provisional fair values of the identifiable assets and liabilities of BCP at the deconsolidation date were as follows:

	Fair Value
	Euro in thousand
Assets:	

Non-current assets:	
Investment property	1,153,722
Investments and loans to associates and joint ventures	8,318
Property, plant and equipment, net	558
Inventory of land, inventory of apartments under construction and other inventory (1)	49,358
Other investments and loans	1,035
Restricted bank accounts and deposits	1,742
Deferred tax assets	5,513

	Fair Value
	Euro in thousand
Current assets:	
Inventory of land, inventory of apartments under construction and other inventory (1)	82,680
Trade and other receivables	4,954
Other investments and loans	1,157
Restricted bank accounts and deposits	11,508
Cash and cash equivalents	68,567
Assets classified as held for sale	61,830
Total assets	1,450,942
Liabilities:	
Non-current liabilities:	
Derivative financial instruments and other liabilities measured at fair value	580
Interest-bearing loans and other borrowings (1)	716,436
Other non-current liabilities	3,148
Deferred tax liabilities	69,199
Current liabilities:	
Trade and other payables	12,906
Interest-bearing loans and other borrowings	32,860
Advances from buyers	54,747
Derivative financial instruments and other liabilities measured at fair value	739
Liabilities directly associated with assets classified as held for sale	54,056
Total liabilities	944,671
Non-controlling interests on BCP level	112,321
Equity attributable to equity holders of parent	393,950
Company's share	116,558
Market value of retained investment (2)	151,348
Implied goodwill	34,790

(1) The major differences between the carrying value of BCP's assets and liabilities and its fair value as of 30 September 2016 (*) are as follows:

a) Fair value gains in relation to inventory of land, inventory of apartments under construction and other inventory amounting to €39,507 thousand due to adjustments made to reflect the fair value of inventory according to its projected future cash flows discounted at an appropriate discount rate over the related time period.

b) Fair value losses in relation to debentures amounting to €30,064 thousand due to adjustments made to account for these debentures at its market value based on market price as per TASE on the date of the deconsolidation.

(2) The market value of the retained investment in BCP was calculated based on the share price of BCP as per TASE on the date of deconsolidation.

b. Below is data of the operating results attributed to the discontinued operation:

	Period from 1 January 2016 to 30 September 2016 (*)	**Year ended 31 December 2015**
	Euro in thousand	
Gross rental income	53,576	66,415
Net income from property management and other	797	2,205
Gain from sale of residential units, net	4,366	13,735
Property operating expenses, net	(6,708)	(8,105)
General and administrative expenses	(11,188)	(13,131)
Share based payments	(1,024)	(1,525)
Revaluation of investment property, net	56,941	44,256
Financial expenses, net	(20,435)	(11,633)
Profit before tax	76,325	92,217
Tax expense	(17,381)	(14,725)
Profit for the period/year	58,944	77,492
Total comprehensive income	58,944	77,492
Attributable to non-controlling interests on Group's level	41,099	55,393
Dividends and distributions paid to non – controlling interests	2,647	4,785

(*) For the deconsolidation of BCP, the related disclosures and the relevant calculations, Management has used the latest available financial information of BCP which was dated as of 30 September 2016 since it considers that this financial information is approximately the same with that on the date of deconsolidation.

c. Analysis of Profit from discontinued operations as per the consolidated income statement for the year ended 31 December 2016:

	Year ended 31 December 2016
	Euro in thousand
Profit for the period of BCP until deconsolidation date (1)	58,944
Gain from loss of control due to re-measurement of remaining investment in BCP at fair value (2)	43,791

Gain on disposal of part of holding in BCP (6.45% shareholding disposal) (3)	6,739
Total profit from discontinued operations, net	109,474

(1) According to IFRS 5, the profit of BCP from 1 January 2016 up until 28 September 2016, has been included within "Profit from discontinued operations, net" despite the fact that the Group retained a holding of 28.74% in BCP. Specifically, the BCP's profit for this period is attributable to equity holders of BCP at the amount of €51.6 million and to non-controlling interests of BCP at the amount of €7.3 million. Out of the €51.6 million, attributable to equity holders of BCP for the period from 1 January 2016 to 28 September 2016, an amount of €14.8 million (being the 28.74% BCRE's share in BCP for the period up until 28 September 2016) relates to Group's share in BCP which has been retained and going forward will be accounted within "Share in the results of associates and joint ventures" in the consolidated income statement.

(2) The gain from loss of control in BCP due to re-measurement of remaining investment in BCP at fair value has been calculated based on the share price of the BCP share, listed on the TASE on the date control was lost. Specifically, the remaining holding of BCRE (1,872,048 shares of BCP) has been multiplied by the share price (NIS330.9 per share) on that date and then it was compared with the net assets value of the BCRE's holding retained to calculate this gain.

(3) The gain on disposal of part of holding in BCP has been calculated by deducting the net proceeds received from the disposal which amounted to €31.7 million (net of expenses) and the net assets value of the related holding sold as of that date as per the table below:

	28 September 2016
	Euro in thousand
Gross proceeds received	32,372
Less: expenses incurred on disposal	(625)
Less: net assets value of the holding disposed	(25,008)
Gain on disposal of part holding in BCP	6,739

The profit of BCP for the year ended 31 December 2015 amounted to €77,492 thousand.

d. Below is data of the net cash flows provided by/(used in) the discontinued operation:

	Period from 1 January 2016 to 30 September 2016	**Year ended 31 December 2015**
	Euro in thousand	
Operating activities	54,544	80,048
Investing activities	(58,980)	(45,246)
Financing activities	17,183	(39,187)
Net increase/(decrease) in cash and cash equivalents	12,747	(4,385)

NOTE 5:- INVESTMENT PROPERTY

a. Movement:

	31 December	
	2016	**2015**
	Euro in thousand	
Balance at the beginning of the year	1,618,132	1,293,358
Initial consolidation of newly consolidated subsidiaries and	75,481	146,636

acquisitions of investment property (1) – (5)		
Additions	22,736	60,437
Revaluation of investment property, net	19,710	146,228
Foreign exchange differences	31,982	(4,433)
Sale of investment property (6)	(10,963)	(153)
Classified as held for sale in BCP	(61,479)	-
Reclassified to property, plant and equipment (see Note 10(2))	-	(17,377)
Reclassified to inventory (7)	(152,271)	(367)
Reclassified as held for sale (8)	-	(6,197)
Deconsolidation of BCP (9)	(1,153,722)	-
Balance at the end of the year	389,606	1,618,132

Location:		
Germany (9)	-	1,081,281
Russia	110,930	137,827
USA	268,176	387,513
Italy	10,500	11,511
	389,606	1,618,132

(1) In accordance with the Group's related accounting policies and the requirements of IFRS 3, as explained in Note 2w, all acquisitions made during the years ended 31 December 2016 and 31 December 2015 were considered as asset acquisitions and not as business combinations.

(2) During 2016, BCP through indirect subsidiaries acquire residential, commercial and office units in Germany for a total consideration of €75.5 million (2015: €25 million).

(3) On 7 April 2015, an indirect subsidiary of the Company in USA has acquired a new rented multifamily residential property ("Century Lakes") in Cincinnati, Ohio comprising of 224 residential units, for a total consideration, including related transaction costs, of $15.7 million (€14.1 million). For the financing of the purchase see Note 18(9).

(4) On 16 October 2015, an indirect subsidiary of the Company in USA closed a transaction entered into during 2013 to acquire a significant leased residential building with a gross internal area of approximately 240,000 square feet in the Upper West Side of Manhattan, New York for a total consideration of $109.3 million (€95.3 million) (including related transaction costs), after obtaining the approval of the state supreme court for the transaction. For the financing of the purchase see Note 18(11).

(5) On 12 November 2015, an indirect subsidiary of the Company signed an agreement with a third party to acquire its entire share capital (80%) of a former associate company held by the Company for a total consideration of €5 million. The associate company owns a property located in Italy having a fair value of €12.2 million on the date of the acquisition.

(6) During 2016, BCP through indirect subsidiaries sold residential, commercial and office units in Germany for a total consideration of €11 million (2015: €0.2 million).

(7) During the year and following the decision of management to proceed with the construction, the approval of the offering plan by the Attorney General and the commencement of construction work on the property located at 90 Morton Street, Manhattan, New York, the property, which was previously classified as investment property has been reclassified to inventory in accordance with the requirements of IAS 40 due to management decision to develop the property, the start of the construction work

and the beginning of intensive marketing activities. The fair value of the property at the time of transfer amounted to $169.1 million (€152.2 million).

(8) On 8 January 2016, an indirect subsidiary of the Group in UK signed a contract for the sale of the Fountain Court, a property located in Manchester, for a total consideration of £4.7 million (€6.2 million). The property was classified as held for sale in the consolidated statement of financial position as of 31 December 2015.

(9) Refer to Note 4 with respect to deconsolidation of BCP.

b. The two multifamily projects in the USA consist of income generating residential real estate with lease agreements shorter than one year. As of 31 December 2016, the Group's residential lease agreements represent annual revenues of approximately €4.1 million (2015: approximately €3.4 million).

In addition, the Group owns through its subsidiaries in Russia, income generating commercial real estate consisting of assets leased to third parties. The future minimum revenue from existing tenants in the income generating commercial real estate is as follows:

	31 December	
	2016	**2015**
	Euro in thousand	
First year	9,614	9,081
Second year to the fifth year	18,218	23,843
Sixth year and onwards	7,262	20,496
	35,094	53,420

c. Securities:

All the properties with the total carrying amount of €389.6 million are subject to registered pledges to secure bank loans (see also Note 18).

d. Reconciliation of fair value:

	Investment property			
	Germany			**Russia**
	Residential properties	**Commercial properties**	**Property for development**	**Commercial properties**
	Euro in thousand			
Balance as of 1 January 2016	458,682	521,561	101,038	137,827
Additions and acquisitions	76,648	10,682	618	52
Revaluation/(devaluation)	42,285	9,744	4,906	(51,642)
Sale of properties	(903)	(10,060)	-	-
Classified as held for sale in BCP	-	(61,479)	-	-
Deconsolidation of BCP	(576,712)	(470,448)	(106,562)	-
Foreign exchange differences	-	-	-	24,693
Balance as of 31 December 2016	-	-	-	110,930

	Investment property			
	USA		**Italy**	
	Residential properties	**Properties for capital appreciation *)**	**Property for development**	**Total**
	Euro in thousand			
Balance as of 1 January 2016	34,222	353,291	11,511	1,618,132

Additions and acquisitions	624	8,997	596	98,217
Revaluation/(devaluation)	3,604	12,420	(1,607)	19,710
Sale of properties	-	-	-	(10,963)
Classified as held for sale in BCP	-	-	-	(61,479)
Reclassifications	-	(152,271)	-	(152,271)
Deconsolidation of BCP	-	-	-	(1,153,722)
Foreign exchange differences	1,491	5,798	-	31,982
Balance as of 31 December 2016	39,941	228,235	10,500	389,606

	Investment property				
	Germany			**Russia**	
	Residential properties	**Commercial properties**	**Property for development**	**Commercial properties under construction**	**Commercial properties**
	Euro in thousand				
Balance as of 1 January 2015	411,594	500,958	78,033	120,611	39,571
Additions and acquisitions	37,660	7,180	2,119	17,664	474
Revaluation/(devaluation)	9,948	13,423	20,886	2,381	(65)
Reclassifications	(367)	-	-	(120,811)	103,434
Sale of properties	(153)	-	-	-	-
Foreign exchange differences	-	-	-	(19,845)	(5,587)
Balance as of 31 December 2015	458,682	521,561	101,038	-	137,827

	Investment property				
	UK	**USA**		**Italy**	
	Property for development	**Residential properties**	**Properties for capital appreciation *)**	**Property for development**	**Total**
	Euro in thousand				
Balance as of 1 January 2015	3,324	17,096	122,171	-	1,293,358
Additions and acquisitions	657	14,901	114,223	12,195	207,073
Revaluation/(devaluation)	2,128	-	98,211	(684)	146,228
Reclassifications	(6,197)	-	-	-	(23,941)
Sale of properties	-	-	-	-	(153)
Foreign exchange differences	88	2,225	18,686	-	(4,433)
Balance as of 31 December 2015	-	34,222	353,291	11,511	1,618,132

*) It is noted that no decision on the actual purpose of the development of these properties has been yet taken.

Description of valuation techniques used and key inputs used in the valuation of investment properties as of 31 December 2016 and 31 December 2015 are as follows:

	Valuation technique	**Significant unobservable inputs**	**2016**	**2015**
			Weighted average	
Russia				
Commercial properties	DCF	Estimated rental value per sq m per month (in €)	20.5	35.37
		Rent growth p.a. (%)	4.6	2.1
		Discount rate (%)	14.54	14.56
		Cap rate (%)	10.9	11.25
USA				
Residential properties	DCF	Estimated average net rental income per sq ft (in $)	10.98	11.33
		Cap rate (%)	6.64	6.75

Properties for capital appreciation *)	Residual method	Projected net sellout per sq ft (in $)	2,381	2,546
		Construction costs per sq ft (in $)	513	642
		Discount rate (%)	8	7

*) It is noted that no decision on the actual purpose of the development of these properties has been yet taken.

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy:

The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy of the portfolios of investment property are (a) the Estimated Rental Value ("ERV"), (b) the rental growth, (c) the discount rate and (d) the cap rate. Significant increases/(decreases) in the ERV (per sq m per annum) and the rental growth per annum in isolation would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the cap rate and discount rate in isolation would result in a significantly lower/(higher) fair value measurement. Generally, a change in the assumption made for the ERV (per sq m per annum) is accompanied by a similar change in the rental growth per annum, discount rate and cap rate.

Sensitivity analysis:

a) USA:

Regarding residential properties, any change in the capitalization rate of 25 points results to a fair value adjustment of $1.5 million (€1.4 million).

Regarding properties for capital appreciation, any change of $100 per sq ft in the projected net sellout per sq ft results to a fair value adjustment of $15 million (€14.3 million).

b) Russia:

Regarding commercial properties, any change in the capitalization rate of 25 points results to a fair value adjustment of $1.9 million (€1.8 million).

NOTE 6:- SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Financial information of subsidiaries that have material non-controlling interests is provided below:

a. Non-controlling interests of BCP:

Proportion of equity interest held by non-controlling interests:

Name	**Country of incorporation**	**31 December 2015**
Brack Capital Properties N.V.	The Netherlands	65.24%

	31 December 2015
	Euro in thousand
Accumulated balances of material non-controlling interests	327,172

	31 December 2015

	Euro in thousand
Profit allocated to material non-controlling interest	55,393

The Group consolidated the financial statements of BCP due to existence of de facto control as defined in IFRS 10 (see also note 2e) until 28 September 2016. From 28 September 2016 onwards, the Group has accounted for its investment in BCP using equity method. Refer to Note 4 with respect to the loss of de facto control and deconsolidation of BCP.

On 11 January 2016, the BCP's general meeting of shareholders approved to distribute capital to BCP's shareholders in the total amount of €6,041 thousand (an amount of €6,012 thousand was paid to the shareholders, net of treasury shares held by BCP) out of BCP's share premium reserve.

Until 28 September 2016, BCP distributed to its non-controlling interests an amount of €2,647 thousand. On 28 September 2016, the accumulated balance of non-controlling interests in BCP was €355,625 thousand.

In January 2016, BCP acquired 17% of the non-controlling interest holding in two of its joint ventures for a total consideration of €8.65 million. The summarized financial information of BCP is provided in Note 4.

b. Other non-controlling interests:

1. Non-controlling interests of BCRE 180 Orchard Brack LLC:

In addition, non-controlling interests in the total amount of €35.2 million as of 31 December 2016 (2015: €40.8 million), relate to a Group's investment in a project located in USA, representing a share of 77% for non-controlling interests. The project is being accounted for in the consolidated financial statements of the Group as an investment in joint venture. The non-controlling interests relate to holding companies of the joint venture which are consolidated.

The summarized financial information of BCRE 180 Orchard Brack LLC is provided below:

Summarized statement of comprehensive income:

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Property operating expenses, net	(453)	(529)
General and administrative expenses	(4)	(14)
Share of profit/(loss) of joint venture	6	(1,068)
Other expenses	(748)	(1,355)
Loss before tax	(1,199)	(2,966)
Tax expense	-	-
Loss for the year	(1,199)	(2,966)
Other comprehensive income	3,774	26,823
Total comprehensive income	2,575	23,857
Attributable to non-controlling interests on Group's level	1,774	21,769

Distributions paid to non-controlling interests	7,297	12,920

Summarized statement of financial position:

	31 December	
	2016	2015
	Euro in thousand	
Cash and cash equivalents	66	24
Other current assets	9	1,235
Investment in joint venture	48,882	53,083
Other non-current assets	2,187	3,452
Current liabilities	(156)	(88)
Total equity	50,988	57,706
Attributable to (on Group's level):		
Equity holders of parent	15,761	16,956
Non-controlling interests	35,227	40,750

2. Non-controlling interests of BCRE 627 Greenwich Third LLC:

Also, non-controlling interests in the total amount of €25.6 million as of 31 December 2016 (2015: €24.9 million), relate to a Group's investment in a project located in USA, representing a share of 49% for non-controlling interests.

Summarized statement of comprehensive income:

	Year ended 31 December	
	2016	2015
	Euro in thousand	
Revaluation of investment property, net	-	(1,355)
Other (expenses)/income	(48)	49
Financial expenses, net	(690)	(32)
Loss before tax	(738)	(1,338)
Tax benefit	-	242
Loss for the year	(738)	(1,096)
Other comprehensive income	2,126	6,897
Total comprehensive income	1,388	5,801
Attributable to non-controlling interests on Group's level	685	2,694
Distributions paid to non-controlling interests	-	-

Summarized statement of financial position:

	31 December	
	2016	2015
	Euro in thousand	
Inventory	171,718	-
Cash and cash equivalents	186	881
Other current assets	2,928	2,024
Investment property	-	146,708
Other non-current assets	9,671	2,059
Interest-bearing loan and borrowings	(111,378)	(77,339)
Other current liabilities	(4,048)	(104)

	2016	2015
Non-current liabilities	(18,588)	(22,628)
Total equity	50,489	51,601
Attributable to (on Group's level):		
Equity holders of parent	24,897	26,694
Non-controlling interests	25,592	24,907

NOTE 7:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES

a. The Group has the following investments in associates and joint ventures:

Investments in associates and joint ventures located in	Share of profit/(loss) of associates and joint ventures Year ended 31 December		Investment in associates and joint ventures 31 December	
	2016	2015	2016	2015
	Euro in thousand			
Russia (c)	(49,744)	(103,513)	25,268	56,661
USA (3) and (4)	(1,754)	(303)	39	71,611
Italy	-	(59)	-	-
India (2)	(2,009)	21	11,761	12,954
Germany	-	-	-	5,005
BCP (b)	6,898	-	160,306	-
	(46,609)	(103,854)	197,374	146,231

(1) The carrying amount of investment in associates and joint ventures includes an amount of €16.5 million as at 31 December 2016 (2015: €34.9 million), which relates to loans provided to associates and an amount of €26.6 million as at 31 December 2016 (2015: €26.4 million) which relates to loans provided to joint ventures. See Note 31d.

(2) Investment of 20.92% in the associate BCRE India Fund (2015: 20.92%) which invests in real estate in India and USA (the "Fund"). With respect to the commitment made to invest in the Fund see also Note 30b(1). The Fund measures its investment in associates in its separate financial statements at fair value through profit or loss. The Company (through a wholly own subsidiary) and its shareholders are members of the Board of the general partners' of the Fund. All investment decisions are being made through majority of the Fund's investors. The Company accounts for its investment in the Fund using the equity method. One project located in India, is also being held (25%) directly through a Cypriot indirect subsidiary of the Company.

During the year ended 31 December 2016, the Fund closure has been extended by twenty-four months, up until March 2019, to provide for the time necessary for an orderly disposition of the fund's investments in India and the investments in the USA held through the BCRE India Fund

(3) During 2015, the construction of a hotel owned by an associate of the Company in the USA was completed. The associate has chosen the revaluation model to account for this hotel in accordance with the Group's accounting policy (see Note 2o). During 2016, the Group recognized a revaluation gain, net of deferred taxes, of €5.4 million (Group's share of €0.6 million) (2015: revaluation gain, net of deferred taxes of €47 million, Group's share of €5.4 million) which is recorded in "Revaluation and fair value reserve" in equity.

(4) As of 31 December 2016, the Group classified its investment in BCRE IHG 180 Orchard Holdings LLC, a joint venture of the Group in the USA with carrying amount of €45.4 million as of 31 December 2016 (including loans amounting to

€4.1 million) and its investment in OSIB-BCRE Bowery Street Holdings LLC, an associate company of the Group in the USA, with carrying amount of €20.7 million as of 31 December 2016 (including loans amounting to €13.5 million), as assets held for sale in a total amount of €66.1 million, as a result of the Group's intentions regarding these investments and actions undertaken in order to realize it.

b. Investment in BCP:

From 28 September 2016 onwards, the Group accounts for its investment in BCP using the equity method of accounting. See Note 4 with respect of the details of the loss of de facto control in BCP. As at 31 December 2016 and as at 31 December 2015, the Group held 28.74% and 34.76% respectively, of BCP's issued share capital and voting rights.

The movement in the investment in BCP for the period from 30 September 2016 to 31 December 2016 is as follows:

	Period from 30 September 2016 to 31 December 2016
	Euro in thousand
Balance at initial recognition (see Note 4)	151,348
Additional investment (1)	2,060
Share of profit for the period	6,898
Balance at the end of the year	160,306

(1) On 28 October 2016, a direct subsidiary of the Company acquired 26,813 shares from a sister company for the amount of €2,060 thousand (Note 31a(3)).

As at 31 December 2016, a subsidiary of the Company provided additional loans to subsidiaries of BCH in the amount of €9.2 million and which are classified in "Other investments and loans", secured by 108,113 shares of BCP (1.64% of the issued share capital of BCP as of 31 December 2016). For all these loans, as per the agreed terms, the subsidiary has the option to acquire the pledged shares of BCP instead of receiving the principal amount of the loan and accrued interest. On 16 February 2017, which was the maturity date for 2 of the loans amounting to €1.7 million, as of 31 December 2016, the Company decided to exercise its option and acquired 29,556 shares instead of receiving the principal and the accrued interest. See also Note 31c(1).

The fair value of the Group's investment in BCP as of 31 December 2016, based on BCP share price as per TASE, is approximately €162.5 million (2015: €131.5 million). As of 31 December 2016 the recoverable amount of the investment in BCP exceeds the carrying amount of the investment in the consolidated financial statements and as result no impairment was deemed necessary to be recorded as of that date. As per the relevant accounting policy in Note 2h, the Group needs to test the investment in associate or the joint venture, including goodwill, for impairment. A reduction in BCP share price as per TASE is an indication of impairment and Group needs to determine whether it is needed to recognize an impairment loss in the goodwill attributed to the BCP investment.

The summarized financial information of BCP is provided below. This information is based on amounts as presented in the consolidated financial statements of BCP.

Summarized statement of financial position:

	31 December 2016
	Euro in thousand
Cash and cash equivalents	89,278
Inventory	65,478
Other current assets	15,854
Current assets	170,610
Investment property	1,191,882
Inventory	27,266
Other current assets	17,180
Non-current assets	1,236,368
Interest bearing loans and borrowings	(40,914)
Other current liabilities	(42,799)
Current liabilities	(83,713)
Interest bearing loans and borrowings	(726,483)
Other non-current liabilities	(75,841)
Non-current liabilities	(802,324)
Total equity	520,941
Attributable to (on BCP's level):	
Equity holders of parent	420,051
Non-controlling interests	100,890
Attributable to (on Group's level):	
Equity holders of parent	125,516
Non-controlling interests	395,425

Reconciliation of Group's share in total equity to carrying amount of investment as at 31 December 2016:

	31 December 2016
	Euro in thousand
Group's share in total equity of BCP	125,516
Implied goodwill	34,790
Total investment in BCP	160,306

Below is data of the operating results:

	Period from 30 September 2016 to 31 December 2016
	Euro in thousand
Gross rental income	18,535
Net loss from property management and other	(322)
Gain from sale of residential units, net	11,032
Property operating expenses, net	(2,095)
General and administrative expenses	(4,050)
Share based payments	(203)
Revaluation of investment property, net	23,518
Financial expenses, net	(7,448)
Profit before tax	38,967
Tax expense	(9,205)
Profit for the period from continued operations	29,762
Profit for the period from discontinued operations	-
Profit for the period	29,762
Total comprehensive income	29,762

Attributable to:	
Equity holders of parent	24,629
Non-controlling interests	5,133
Total comprehensive income	29,762
Group' share of total comprehensive income	7,000 (*)
Dividends paid during the period	-

(*) Group's share of total comprehensive income of BCP as recognized in the consolidated income statement does not include the loss of €102 thousand in relation to the adjustment for the fair value of items recognized upon deconsolidation of BCP based on the provisional purchase price allocation performed.

c. Interest in a joint venture:

Part of the investment in associates and joint ventures located in Russia relates to the following:

The Group has effective share in Siletia Fund LLP ("joint venture") of approximately 38% (2015: approximately 38%), a jointly controlled entity which holds together with its partners a project company in Kazan, Republic of Tatarstan, Russia. The Group's interest in the joint venture is accounted for using the equity method.

During the first half of 2012, the joint venture has been chosen to develop and operate a large, modern, multi-phase wholesale market complex in Kazan (including 5 pavilions and other auxiliary commercial areas), designated by the Republic of Tatarstan and the City of Kazan to replace several markets that are being closed and evacuated within the city. Accordingly, a 49-year leasehold for a total of approximately 200 hectares, with right to buy the freehold was secured by the joint venture. The total consideration paid by the joint venture was approximately €19.8 million ($25 million).

The Group's value of the investment in the project amounted to €23 million (including loans given to joint venture in the amount of €25 million) and €54 million (including loans given to joint venture in the amount of €19 million) as of 31 December 2016 and 31 December 2015, respectively. After deducting the non-controlling interest, the Group's effective share in the project amounted to €17 million and €34 million as of 31 December 2016 and 31 December 2015, respectively.

The land plot and the constructed pavilions are being revaluated based on external valuation received by the Group for pavilions 1, 2 and 3. The fair value was determined based on discounted estimated future revenues expected from the completed project, using yields in line with relevant significant risks, including rental risk. These are higher than current yields for similar investment property. For the land of pavilions 4 and 5 the sales comparable method was used to determine the fair value of this land. In computing the fair value, the valuators used a discount rate within the range of 20-24% (2015: 20% - 24%) and a capitalization rate on reversion of 17% (2015: 17%). During the year ended 31 December 2016, the joint venture has recorded a revaluation loss of €98 million (2015: revaluation loss €170 million) mainly due to the decrease in rental income levels due to discounts provided to current tenant and the due to the effect of the current economic situation in Russia and on the ability to develop the other phases of the project.

On 30 December 2014, the Group acquired additional 10% in the joint venture, increasing its effective shareholding from 28% to 38% in return for the liability to fund the project with an estimated amount of $8.7 million (€7.2 million) over a period of the next two years. The amount contributed into the project since 30 December 2014 and up until 31 December 2016 was $8.1 million (€7.7 million). There was no liability recorded in the consolidated financial statements as of 31 December 2016 (2015: €4 million) regarding this matter (see Note 21). The liability was calculated based on the fair value of the obligation. The joint venture agreement has not changed as a result of this acquisition.

During 2015, the Russian economy experienced a deterioration resulted, inter alia, in the weakening of Russian Rouble in relation to the US dollar (which was set at a level of 72.88 as of 31 December 2015), mainly due to the decline in oil prices and the aggravation of the sanctions imposed by the West. During 2015, the Central Bank of Russia decreased the interbank interest rate from 17% to 11% as of December 2015. In the course of 2016, the Russian economy took another turn for the worse. The Russian economy continues to present a negative GDP growth, however, during the year ended 31 December 2016, the exchange rate of the Russian Rouble against the US dollar appreciated by approx. 17% to a level of 60.7 Russian Rouble to US dollar. The Central Bank of Russia gradually decreased the inter-banking interest to 10% (starting 24 March 2017 – 9.75%).

After the consolidated financial statements date, the Russian Rouble has strengthen against the US dollar and as at the date of approval of the consolidated financial statements the exchange rate between Russian Rouble and US dollar is 57.

The movement in the investment in the joint venture for the years ended 31 December 2016 and 2015 is as follows:

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Balance at the beginning of the year	54,230	154,132
Additional investment	5,138	10,252
Share of loss for the year	(43,199)	(101,949)
Share of other comprehensive income	7,299	(8,205)
Balance at the end of the year	23,468	54,230

Summarized financial information of the joint venture, based on its financial information, and reconciliation with the carrying amount of the investment in consolidated financial information are set out below:

	31 December	
	2016	**2015**
	Euro in thousand	
Cash and cash equivalents	109	117
Other current assets	776	2,977
Non-current assets	154,504	215,684
Current liabilities	39,930	32,312
Current financial liabilities	21,544	6,474
Non-current liabilities	11,734	18,046
Non-current financial liabilities	84,005	95,601
Non-controlling interests	27	6,830
Equity	(1,851)	59,515

Attributable to (on Group’s level):

Equity holders of parent	(1,179)	35,336
Non-controlling interests	(672)	24,179
	(1,851)	59,515

Reconciliation of Group’s share in total equity to carrying amount of investment as at 31 December 2016:

	31 December	
	2016	**2015**
	Euro in thousand	
Group's share in equity of the joint venture	-	35,336
Loans provided to the joint venture	23,468	18,894
Group's investment in the joint venture	23,468	54,230

Loans provided to the joint venture bear interest at the rate of 4% to 8% per annum and are repayable within 5 years from the date of grant. The loans were granted during the years from 2013 to 2015. As of 31 December 2016, based on the requirements of IAS 28 the Company had considered the need to record impairment on the investment in the joint venture based on, among others, the fair value of the underlying assets and liabilities of the joint venture. Since the recoverable amount of the investment exceeds its carrying amount, the Company had concluded that there is no need to record an impairment for the investment in this joint venture.

Summarized statement of comprehensive income of the joint venture:

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Gross rental income and service charge	6,870	11,917
Depreciation and amortization	(35)	(31)
Operating expenses	(2,403)	(2,406)
Revaluation of investment property	(98,394)	(170,027)
General and administrative expenses	(1,121)	(6,256)
Finance income	69	39
Finance expense	(10,469)	(11,832)
Exchange differences	15,319	(22,992)
Other income	211	167
Loss before tax	(89,953)	(201,421)
Tax benefit	9,368	27,778
Loss for the year from continued operations	(80,585)	(173,643)
Loss for the year from discontinued operations	-	-
Loss for the year	(80,585)	(173,643)
Other comprehensive income	13,470	(42,400)
Total comprehensive loss	(67,115)	(216,043)
Attributable to:		
Equity holders of parent	(60,412)	(193,991)
Non-controlling interests	(6,703)	(22,052)
Total comprehensive loss	(67,115)	(216,043)
Dividends paid during the year	-	-
Group's share of total comprehensive income for the year in the joint venture	(35,900)	(110,154)

d. Summarized financial information in aggregate for immaterial entities accounted for using the equity method:

Year ended 31 December 2016	Loss from continued operations	Profit from discontinued operations	Other comprehensive income	Total comprehensive income/(loss)
	Euro in thousand			
Joint ventures	(3,338)	-	6,458	3,120
Associates	(6,970)	-	2,772	(4,198)
	(10,308)	-	9,230	(1,078)

Year ended 31 December 2015	Profit/(loss) from continued operations	Profit from discontinued operations	Other comprehensive income/(loss)	Total comprehensive income/(loss)
	Euro in thousand			
Joint ventures	2,049	-	(4,351)	(2,302)
Associates	(3,954)	-	27,396	23,442
	(1,905)	-	23,045	21,140

e. Carrying value of immaterial entities accounted for using the equity method:

	31 December	
	2016	2015
	Euro in thousand	
Joint ventures	-	50,039
Associates	13,600	41,962
	13,600	92,001

NOTE 8:- FAIR VALUE MEASUREMENT

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2016:

	Date of valuation	Total	Fair value hierarchy: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Euro in thousand			
Assets measured at fair value:					
Investment property	31 December 2016	389,606	-	-	389,606
Property, plant and equipment (*)	31 December 2016	10,686	-	-	10,686
Assets classified as held for sale	31 December 2016	66,129	-	-	66,129
Other investments and loans	31 December 2016	9,152	-	-	9,152
Available-for-sale financial assets	31 December 2016	8,795	-	-	8,795
Financial assets at fair value through profit or loss	31 December 2016	2,686	2,686	-	-
Liabilities measured at fair value:					
Derivatives	31 December 2016	8,947	-	- -	8,947

(*) Only a class of property, plant and equipment is measured at fair value. The remaining property, plant and equipment is accounted for in the consolidated financial statements in accordance with the related Group's accounting policy (see Note 2o) at historic cost.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2015:

	Date of valuation	Total	Fair value hierarchy: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Euro in thousand			
Assets measured at fair value:					
Investment property	31 December 2015	1,618,132	-	11,511	1,606,621

Property, plant and equipment (*)	31 December 2015	14,026	-	-	14,026
Assets classified as held for sale	31 December 2015	6,197	-	6,197	-
Derivatives	31 December 2015	25,761	-	25,761	-
Financial assets at fair value through profit or loss	31 December 2015	2,090	2,090	-	-
Liabilities measured at fair value:					
Derivatives	31 December 2015	9,156	-	970	8,186
Interest-bearing loans and borrowings	31 December 2015	245,509	-	-	245,509
Liabilities for which fair values are disclosed	31 December 2015	209,800	209,800	-	-

(*) Only a class of property, plant and equipment is measured at fair value. The remaining property, plant and equipment is accounted for in the consolidated financial statements in accordance with the related Group's accounting policy (see Note 2o) at historic cost.

There have been no transfers between Level 1 and Level 2 during the years ended 31 December 2016 and 31 December 2015.

NOTE 9:- INVENTORY OF LAND, INVENTORY OF APARTMENTS UNDER CONSTRUCTION AND OTHER INVENTORY

a. Current assets:

	31 December	
	2016	2015
	Euro in thousand	
Cost of land (2)	139,484	27,925
Apartments under construction (1) and (2)	35,368	40,198
Merchandise	1,648	1,203
	176,500	69,326

(1) Includes accumulated capitalized borrowing costs of approximately €9,390 thousand as at 31 December 2016 (€nil as at 31 December 2015).

(2) Including the property located at 90 Morton street Manhattan, New York which was reclassified to inventory during the year ended 31 December 2016. See note 5a(7).

b. Non-current assets:

	31 December	
	2016	2015
	Euro in thousand	
Cost of land	-	21,518
Apartments under construction	-	4,073
	-	25,591

c. Advances from buyers relate to amounts received in advance from buyers in relation to the Group's inventory. Advances are expected to be realised during the next financial year. The decrease in advances during the financial year ended 31 December 2016 relates to the deconsolidation of BCP (see Note 4).

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT, NET

	31 December	
	2016	2015
	Euro in thousand	
Cost		

Balance at the beginning of the year	17,876	2,099
Additions	1,533	3,630
Reclassified from investment property (2)	-	17,377
Fair value loss	(5,747)	(5,670)
Deconsolidation of BCP (1)	(899)	-
Write-off	(1,467)	-
Foreign exchange differences	3,408	440
Balance at the end of the year	14,704	17,876
Accumulated depreciation		
Balance at the beginning of the year	685	374
Depreciation	1,100	203
Deconsolidation of BCP (1)	(340)	-
Write-off	(225)	-
Foreign exchange differences	441	108
Balance at the end of the year	1,661	685
Net book value	13,043	17,191

(1) See Note 4 with respect to BCP deconsolidation.

(2) During the year ended 31 December 2015, the construction of a project owned by an indirect subsidiary of the Company in Russia was completed. Part of the property is owner occupied and as result the related value corresponding to the area used by the Group was reclassified to "Property, plant and equipment, net" in accordance with the requirements of IAS 16. During the period an impairment loss was recognized in the amount of €5.7 million (2015: €5.7 million), inter alia, due to the current economic situation in Russia which impacted the ERV. For additional information about the main assumptions used in the valuation of property, plant and equipment in Russia, see Note 5d.

NOTE 11:- OTHER INVESTMENTS AND LOANS

a. Composition of long term investments and loans:

	31 December	
	2016	**2015**
	Euro in thousand	
Derivative financial instruments	-	792
Employees (1)	6,200	7,530
Loans to companies investing in real estate projects (2)	3,667	4,543
Other investments and loans	7,038	6,352
Related parties (3)	7,414	8,456
	24,319	27,673

(1) Represents recourse loans to employees also secured by their portion in the Group investments. Part of the loans have a non-recourse mechanism that allows the loans to be classified as non-recourse (with the pledged assets being the only security), if the Loan to Value ("LTV") ratio falls to 67% or below, based on market value of the pledged assets, or based on the Net Assets Value of the pledged assets. The loans bear an annual interest rate of 3.5% - 4% and are repayable within 5 – 7 years.

(2) Loans granted by the Group to third parties which intend to finance real estate projects. The loans bear an annual interest rate of 10% - 12% (see also b(1) below).

(3) Loans provided to related parties, see also Note 31c.

b. Composition of short term investments and current maturities of long term loans:

	31 December 2016	31 December 2015
	Euro in thousand	
Derivative financial instruments	-	24,969
Loans to companies investing in real estate projects (1)	10,231	17,140
Other investments and loans	541	-
Related parties (2)	9,394	8,751
	20,166	50,860

(1) In April 2013, the Group established BCRE Real Estate Funding LLC, a US indirect subsidiary that specializes in providing short-term senior construction loans. The loan liabilities provided by the subsidiary are short term loans which bear annual interest within the range of 10% - 12% and are collateralized primarily by small residential development assets in the New York Metropolitan Area with a maximum of 50% LTV ratio. As of 31 December 2016, the Group together with other co-investors had committed to loan liabilities amounting to €28.5 million ($30 million) (2015: €27.5 million ($30 million)) out of which €10.2 million ($10.7million) (2015: €21.7 million ($23.7 million)) had been drawn. All loans are senior loans and are secured by personal guarantees and/or equity pledges.

(2) Loan provided to related parties, see also Note 31c.

c. Restricted bank accounts and deposits:

	31 December 2016	31 December 2015
	Euro in thousand	
Restricted bank accounts and deposits (1) and (2)	4,149	16,072
Less: current maturities	(2,296)	(11,315)
Total non-current restricted bank accounts and deposits	1,853	4,757

(1) Represent amounts which can be only used for the repayment of interest accrued on the financing facilities obtained by Group's companies.

(2) Short term and long term restricted bank accounts and deposits bear an annual interest rate within the range of 0% - 0.1% (2015: 0% - 0.1%).

NOTE 12:- TAX BENEFIT/(EXPENSE)

a. The following are the tax rates applicable to the Company and its key subsidiaries:

The Netherlands	-	Tax rate: 25% (20% on taxable profit up to €200 thousand) (2015: 25%)
U.S.A - Federal tax	-	Tax rate: 35% (calculated on a gradated basis), state and city taxes also apply (2015: 35%)
Cyprus	-	Tax rate: 12.5% (2015: 12.5%)
Germany (1)	-	Corporate income tax rate: 15.825% (2015: 15.825%)
Russia	-	Tax rate: 20% (2015: 20%) (15.5% in certain instances)

(1) Earnings from the sale of apartments are subject to local business tax in Germany. The corporate tax and local business tax rate amount to 31.225% (2015: 31.225%).

b. Taxes on income included in the consolidated income statement:

	Year ended 31 December	
	2016	2015
	Euro in thousand	
Current income tax	(1,110)	(824)
Deferred tax	2,318	(17,718)
Prior year's taxes	-	41
Total tax benefit/(expense)	1,208	(18,501)

c. Reconciliation between the tax benefit/(expense) in the consolidated income statement and the profit before tax, multiplied by the current tax rate, can be explained as follows:

	Year ended 31 December	
	2016	2015
	Euro in thousand	
Loss before tax	(107,635)	(77,020)
Statutory tax rate (25%)	(26,909)	(19,255)
Increase/(decrease) in respect of:		
Company's share in loss of associates and joint ventures	9,242	21,071
Effect of different tax rates in foreign subsidiaries	4,209	7,103
Differences for which deferred tax assets were not recorded	11,023	9,623
Effect of non-deductible expenses	1,227	-
Previous year's tax and others	-	(41)
Tax (benefit)/charge	(1,208)	18,501

d. Deferred taxes:

Analysis:

	31 December	
	2016	2015
	Euro in thousand	
Deferred tax liabilities:		
Deferred tax liability to be recovered after 12 months	(27,721)	(79,658)
Deferred tax assets:		
Deferred tax asset to be recovered after 12 months	1,559	9,240
Deferred tax liabilities, net (*)	(26,162)	(70,418)

Composition:

	31 December	
	2016	2015
	Euro in thousand	
Deferred tax liabilities:		
Measurement of loans and debentures at fair value	-	(926)
Measurement of investment property, property, plant and equipment and inventory of land at fair value	(45,867)	(104,629)

Measurement of derivative financial instruments at fair value	-	(8,044)
Deferred tax assets:		
Others	-	199
Carry forward tax losses (**)	19,705	42,982
Deferred tax liabilities, net (*)	(26,162)	(70,418)

(*) The decrease in the deferred tax liabilities, net during the year ended 31 December 2016 related mainly to the deconsolidation of BCP (see Note 4).

(**) An amount of €14.8 million relates to carried forward taxable losses of Russian companies of the Group and an amount of €4.9 million relates to carried forward taxable losses of US companies of the Group.

Movement:

	31 December	
	2016	**2015**
	Euro in thousand	
Deferred tax assets:		
Balance at the beginning of the year	43,181	26,578
Charged to profit or loss of the year (continuing operations)	(175)	9,535
Charged to profit or loss of the year (discontinued operations)	(17,522)	6,727
Deconsolidation of BCP (1)	(5,513)	
Foreign exchange differences	(266)	341
Balance at the end of the year	19,705	43,181
Deferred tax liabilities:		
Balance at the beginning of the year	(113,599)	(66,831)
Charged to profit or loss of the year (continuing operations)	2,493	(27,253)
Charged to profit or loss of the year (discontinued operations)	938	(20,372)
Deconsolidation of BCP (1)	65,024	
Foreign exchange differences	(723)	857
Balance at the end of the year	(45,867)	(113,599)

(1) See Note 4.

Losses carried forward:

As of 31 December 2016, the Group has taxable losses of €161 million, in the relevant jurisdictions where the Group operates.

The Company has tax losses of €71.7 million (2015: €60.7 million) as reported to tax authorities, that are available for a period of 9 years from the year that the losses were generated for offsetting against future taxable profits of the Company.

These taxable losses can be utilized as follows:

Year ended in which taxable losses incurred	**Amount** **Euro in thousand**	**Usable until year ending**

31.12.2008	3,492	31.12.2017
31.12.2009	3,632	31.12.2018
31.12.2010	5,674	31.12.2019
31.12.2011	4,480	31.12.2020
31.12.2012	6,029	31.12.2021
31.12.2013	14,902	31.12.2022
31.12.2014	4,240	31.12.2023
31.12.2015	15,782	31.12.2024
31.12.2016	13,475	31.12.2025
Total	**71,706**	

Deferred tax assets have not been recognized in respect of these losses as it may not be used to offset future taxable profits, there are no other tax planning opportunities or other evidence of recoverability in the near future. Other Dutch and Cypriot entities have tax losses carried forward, for which deferred taxes were not recorded for, since there is no evidence of recoverability in the near future.

As of 31 December 2016, the Russian companies of the Group have business losses and capital losses carried forward for tax purposes, for which can be utilized without any time restrictions, amounting approximately €74.1 million (2015: €77.7 million). In respect of these carried forward losses, deferred tax assets have been recognized in the consolidated financial statements as of 31 December 2016 and 31 December 2015 in the amount of approximately €14.8 million and €15.7 million respectively.

As of 31 December 2016, the US companies of the Group have business losses and capital losses carried forward for tax purposes, for which can be utilized without any time restrictions, amounting approximately €15.2 million. As of 31 December 2016 and as of 31 December 2015, no deferred tax assets have been recognized in respect of these losses as it may not be used to offset future taxable profits, there are no other tax planning opportunities or other evidence of recoverability in the near future.

e. The tax benefit/(charge) relating to components of other comprehensive income is as follows:

	Year ended 31 December 2016		
	Before tax	**Tax charge**	**After tax**
Fair value gains of property, plant and equipment, net	3,704	(1,297)	2,407
Share of other comprehensive income of associates and joint ventures (exchange differences)	14,122	-	14,122
Exchange differences on translation of foreign operations	4,011	-	4,011
Loss on available for sale financial assets	(239)		(239)
Other comprehensive income	21,598	(1,297)	20,301

	Year ended 31 December 2015		
	Before tax	**Tax charge**	**After tax**
Fair value gains of property, plant and equipment, net	36,122	(12,643)	23,479

Share of other comprehensive loss of associates and joint ventures (exchange differences)	(8,639)	-	(8,639)
Exchange differences on translation of foreign operations, net	9,230	-	9,230
Other comprehensive income	36,713	(12,643)	24,070

NOTE 13:- FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December	
	2016	**2015**
	Euro in thousand	
Marketable securities and other short-term investments	2,686	2,090

NOTE 14:- TRADE AND OTHER RECEIVABLES

	31 December	
	2016	**2015**
	Euro in thousand	
Government authorities	8,239	8,393
Trade receivables (1)	2,580	8,449
Prepaid expenses	3,096	2,350
Related parties (2)	1,921	1,875
Other receivables	4,983	5,064
	20,819	26,131

(1) Trade receivables are presented after the deduction of provision for doubtful debts in the amount of €nil (2015: €3,849 thousand). All of the decrease in the provision for doubtful debts is related to the deconsolidation of BCP (see Note 4).

(2) See Note 31e.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

NOTE 15:- CASH AND CASH EQUIVALENTS

a. Composition:

	31 December	
	2016	**2015**
	Euro in thousand	
Bank balances (1)	21,853	58,884
Deposits (2)	-	12,706
Cash and cash equivalents	21,853	71,590

(1) Cash at banks earn interest at floating rates based on daily bank deposit rates.

(2) Short-term deposits bore an average yearly interest of 0% -0.2%.

b. By currency:

	31 December	
	2016	2015
	Euro in thousand	
In NIS	428	4,857
In Euro	189	51,250
In US dollar	20,616	14,599
Other	620	884
	21,853	71,590

NOTE 16:- EQUITY

a. Composition of share capital:

	31 December 2016		31 December 2015	
	Authorized	Issued and fully paid*	Authorized	Issued and fully paid
Ordinary shares of €0.01 (2015: €0.01) each (1), (2) and (3)	700,000,000	159,596,899	700,000,000	161,610,064

(*) 2,013,165 shares purchased by the Company under the share buyback program were deducted from the issued and fully paid share capital. See 2 below.

(1) On 15 January 2016, the nominal value of each share was increased from €0.01 to €0.04 and subsequently, on 29 March 2016, the nominal value of each share was reduced from €0.04 to €0.01. The capital reduction amounted in total to €4.8 million, see also b(2) below.

(2) On 3 June 2016, the Company's Board of Directors authorized the Company to buy shares of its own capital up to an amount of €3 million ("share buyback program"). Under the share buyback program, 2,013,165 shares (1.2% of the Company's issued share capital) were purchased during the year ended 31 December 2016 for a total consideration of €2 million.

On 10 January 2017, the Company cancelled 1,533,415 shares in its own capital, which were purchased under the share buyback program. Following this cancellation, the Company's entire issued share capital consists of 160,076,649 shares, including 479,750 shares purchased under the share buyback program which are not yet cancelled (see Note 32(1)).

b. Ordinary shares issued and fully paid:

	Number of shares	In Euro
At 1 January 2016	161,610,064	1,616,101
Conversion (2)	-	4,848,302
Capital reduction (2)	-	(4,848,302)
Share buyback (a(2))	(2,013,165)	(20,132)
At 31 December 2016	159,596,899	1,595,969

1. The Convertible Loan Notes amounting to €16.6 million, net of expenses, bear 2.25% annual compounded interest and had a term initially maturing on 14 November 2016. The maturity of the Convertible Loan Notes has been extended up until 30 November 2018 through an addendum signed during the year ended 31 December 2016. The addendum provided that the conversion price shall be €1.5 per share (save for certain customary exceptions) and the ratchet protection

provided to the lenders will be only for the first year of the Convertible Loan Notes' term. The Convertible Loan Notes (including accrued interest) will be convertible in whole into ordinary shares (i) at the holder's option at any time up to the end of the term, and (ii) at the Company's option on the maturity date. Furthermore, the conversion price shall be reduced to the lowest effective price per share paid for any share or securities convertible into shares following the date of the convertible loan agreement (save for certain customary exceptions).

2. On 15 January 2016, the shareholders approved the capital increase in the nominal value of each share from €0.01 to €0.04 per share and the subsequent reduction of €0.03 in the nominal value of each share from €0.04 to €0.01 totaling to €4.8 million, distributed to the Company's shareholders in accordance with the Company's dividend policy as per Note 16c. As a result, on 15 January 2016, the authorized share capital of the Company was changed from 700,000,000 shares of €0.01 each into 700,000,000 shares of €0.04 each and on 29 March 2016, from 700,000,000 shares of €0.04 each into 700,000,000 shares of €0.01 each.

3. On 20 September 2016, the Company issued bonds in an aggregate principal amount of €14.5 million, net of expenses, convertible into ordinary shares of the Company's issued share capital. The Company has the option to call for the conversion of the bonds only at the maturity of the bond term on 20 March 2020 or upon enforcement events. The bondholders have the right to convert at any time during the bond term. Subject to certain adjustment mechanisms, the initial bondholder conversion price is €1.50 per share (subject to certain adjustments) and the initial Company's conversion price is €0.70 per share (subject to certain adjustments). During the bond term, the bonds will bear fixed interest at 4.25% per annum, payable annually in arrears on 20 September of each year, commencing on 20 September 2017 up until maturity. As a result of the above, the bonds were classified as equity, where the interest component of the bonds has been classified within current liabilities.

c. Dividend policy:

Subject to compliance with Dutch law and depending on the extent of a receipt of a distribution from BCP, the Company intends to target making an annual distribution to its shareholders (either in the form of a cash dividend or in any other form available under Dutch law) of around 2.5% of the Company's end-of-year Net Asset Value ("NAV") commencing in 2014, assuming no change to the issued share capital of the Company. However, there can be no assurance that the Company will generate sufficient earnings to allow it to make distributions and if it does, the Board of Directors may elect to reinvest the entire profit instead of making distributions.

d. Nature and purpose of reserves:

Reserves from transactions with non-controlling interests:

Transactions between the Company or its subsidiaries with non-controlling interests of the Group are accounted for as equity transactions. Any difference between the consideration paid or received and the carrying amount of non-controlling interests on the date of a transaction is recognized directly in equity and is attributed to the equity holders of the Company.

The main transactions recognized in the "Reserves from transactions with non-controlling interests":

1. During 2015, on various days, the Company through a subsidiary has acquired 61,704 shares of BCP at an average price of NIS267 per share. As a result, the Company recorded a reduction in equity amounting to €1.1 million within "Reserves from transactions with non-controlling interests".
2. During 2015, the employees and officers of the Group exercised at various dates 155,017 options into 155,017 shares of BCP. The consideration received for those options exercised amounted to €717 thousand. As a result, the Company recorded a reduction in equity amounting to €1.3 million within "Reserves from transactions with non-controlling interests".
3. During 2015, the Company, through its indirect subsidiaries has entered into various transactions with non-controlling shareholders in relation to the acquisition of their shareholding in other indirect subsidiaries of the Group. As a result of these transactions the Company recorded an increase in equity of €0.3 million within "Reserves from transactions with non-controlling interests".
4. During 2016, the Company, through its indirect subsidiaries has entered into various transactions with non-controlling shareholders in relation to the acquisition of their shareholding in other indirect subsidiaries of the Group amounting to €10.1 million. As a result of these transactions the Company recorded a reduction in equity of €0.45 million within "Reserves from transactions with non-controlling interests".

e. Classifications according to Dutch law - statutory capital reserve:

In accordance with Dutch law provisions applicable to the Company, gains from fair value adjustments, which have not been realized, cannot be distributed as dividends. In addition, earnings of associates and joint ventures cannot be distributed as dividends, unless distributed by the associates and joint ventures themselves. At the same time, according to Dutch law, these earnings can be distributed only after their conversion into share capital and a reduction in equity as a result of the dividend distribution.

NOTE 17:- SHARE BASED PAYMENTS

1. Warrants 1 - On 29 June 2009 BCRE Russian Properties Limited ("BRP"), an indirect subsidiary of the Company, granted warrants to the employees of the Group exercisable into 584,658 BRP shares. The exercise prices of the warrants are within the range of €11.7 - €37 per share (the exercise prices of some of the warrants are adjusted by cumulative yearly interest within the range of 8% - 12%). The warrants were immediately vested and can be exercised to shares in five years from the grant date. On 29 November 2012, the BRP's Board of Directors approved the extension of the exercise period from 5 years to 10 years since the grant date. The change in the terms of the warrants did not have material effect on the Group's results.

2. Warrants 2 - During 2012, the Company's Board of Directors approved the issuance of 4,086,000 fully vested warrants exercisable into 4,086,000 Company's shares (representing 3% of the Company's share capital at that point of time) to an investment committee member. The exercise price of the warrants is €1.32 per share. The fair value of the option granted is approximately €1,517 thousand.

3. Warrants 3 - On 2 July 2013, the managing Board of Brack Capital USA B.V. ("BCRE

USA"), an indirect subsidiary of the Company, granted to employees of the Group 509,852 warrants exercisable into 13.8% of BCRE USA's share capital, at an exercise price within the range $8.2- $19.1 per share. 55% out of the warrants granted are vested upon grant, 10%, 15% and 20% of the warrants granted are vested at each year thereafter. During the year, the terms of the options were modified to extend the period of exercising the option up until 30 June 2022. As per the modified terms, the exercise prices of the warrants were modified within the range of $10.2 - $11.8. The fair value of the warrants granted is approximately €1,258 thousand. The change in terms of the warrants did not have material effect on the Group's results.

4. Warrants 4 - On 28 May 2014, an entity beneficially owned by the family of senior manager A was granted 2,862,155 warrants under a warrant agreement entered into between the Company and the relevant entity, exercisable (subject to the warrants having vested) from the date of grant within seven years, to 2,862,155 shares. 50% of these warrants can be exercised at an exercise price of €1.4565 ("A Warrants"). The remaining 50% of the warrants can be exercised at an exercise price of €1.7801 ("B Warrants"). The warrant agreement also provides for a cashless exercise, at the option of the holder of the warrants. 50% of the A Warrants and 50% of the B Warrants vested immediately and 50% of the A Warrants and 50% of the B Warrants vested one year after the grant of the warrants. The holder of warrants is protected against dilution in the case of a bonus payment, rights offering, distribution of a cash dividend or any other distribution by the Company. The fair value of these warrants is approximately €1,413 thousand.

   On 28 May 2014, senior manager B was granted 483,519 warrants under a warrant agreement entered into with the Company, exercisable (subject to the warrants having vested) from the date of grant within seven years, to 483,519 shares. These warrants can be exercised at an exercise price of €1.6183. 1/3rd of these warrants vested immediately, 1/3rd vested one year after the date of the grant of the warrants and the remaining 1/3rd shall be vested two years after the date of the grant of the warrants. The warrant agreement also provides for a cashless exercise, at the option of the holder of the warrants. The holder of warrants is protected against dilution in the case of a bonus payment, rights offering, distribution of a cash dividend or any other distribution by the Company. The fair value of these warrants is approximately €241 thousand.

5. Warrants 5 – On 16 December 2016, the managing Board of Brack Capital USA B.V. ("BCRE USA"), an indirect subsidiary of the Company, granted to employees of the Group 184,729 warrants exercisable into 5% of BCRE USA's share capital, at an exercise price within the range of $11.76 - $24.49 per share. 20% of the 166,256 warrants has vested on 1 January 2017. At each year, thereafter, up until 1 January 2021, 20% will be vesting on each 1 January. Out of these, 18,473 warrants have been cancelled as of the date of the consolidated statement of financial position. For the remaining 18,473 warrants, 40% has been vested immediately. The remaining 60% of the warrants has been cancelled. The fair value of the warrants granted is approximately €4,169 thousand.

   Expense recognized in the consolidated financial statements in relation to the share-based payment plans:

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Equity-settled share-based payment plans	1,643	326

Movement during the year:

The following table illustrates the number and the weighted average exercise prices (WAEP) of, and the movement in, share options during the year:

	2016 Number	2016 WAEP	2015 Number	2015 WAEP
Outstanding at 1 January	8,968,508	4.46	9,205,786	4.68
Granted during the year	184,729	15.59	-	-
Deconsolidation of BCP	(426,274)	(39.67)	-	-
Cancelled	(36,946)	(17.24)	-	-
Exercised during the year	(15,250)	(32.74)	(237,278)	(22.74)
Outstanding at 31 December	8,674,767	5.35	8,968,508	4.46

The following table lists the inputs to the models used for the five share based plans:

	Warrants 1	Warrants 2	Warrants 3
Dividend yield (%)	0%	0%	0%
Expected volatility (%)	28%-29%	23%-30%	31%
Risk-free interest rate (%)	0.18%-2.53%	0.21%-1.48%	0.4%-1.0%
Early Exercise Factor-EEF (%)	150%-250%	250%	200%-250%
Weighted average share price (€)	€39.40	€505.66 per 1% of Company's equity	€10.28
Model used	Binomial	Binomial	Binomial

	Warrants 4	Warrants 5
Dividend yield (%)	0%	0%
Expected volatility (%)	20%-34%	31%
Risk-free interest rate (%)	0.09%-1.11%	0.9%-2.1%
Early Exercise Factor-EEF (%)	150%	200%-250%
Weighted average share price (€)	€1.62	€5.60
Model used	Binomial	Binomial

The expected life of the warrants is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the warrants is indicative of future trends, which may not necessarily be the actual outcome.

NOTE 18:- INTEREST-BEARING LOANS AND BORROWINGS

	Currency	Interest rate	Maturity date	31 December 2016	31 December 2015
				Euro in thousand	
USA:					
Bank loan	USD	4.91%	6 February 2024	11,920	11,459
Bank loan (9)	USD	4.07%	6 May 2025	10,298	9,948
Bank loan (10)	USD	3 months Libor plus 4.25%	30 September 2017	13,076	13,525
Bank loan (2)	USD	1 month Libor plus a margin within the range of 3.9% to 9.22%	8 November 2019	57,710	-
Bank loan (2)	USD	1 month Libor plus 5.5%	1 June 2016	-	59,000

Bank loan (2)	USD	1 month Libor plus 5.5%	1 June 2016	-	18,339
Bank loan (11)	USD	1 month Libor plus 10.75%	1 November 2018	51,766	49,629
Loans from others (3)	USD	6.5%	31 October 2017	10,717	9,628
Loans from others (8)	USD	0.5%	During 2020 and 2021 (5th anniversary of each loan agreement)	29,102	5,508
Loans from others (4)	USD	11%	1 October 2021	24,566	-
Loans from others (11)	USD	6%	31 December 2050 or, if earlier, 90 days after the termination of the lease agreement between the subsidiary and the existing tenant	35,598	34,289
Loans from others (7)	USD	4%	During 2023 and 2024 (8th anniversary of each loan agreement)	31,620	29,161
				276,373	240,486

				31 December	
	Currency	**Interest rate**	**Maturity date**	**2016**	**2015**
				Euro in thousand	
Russia:					
Bank loan (5)	USD	7.7%	24 December 2021	28,587	29,484
Bank loan (6)	USD	5%	20 May 2023	73,105	74,007
Bank loan	RUR	11.1%	29 November 2016	-	1,286
Loans from others	RUR	0%	June 2017	2,161	1,878
Loans from others (Note 30a(3))	USD	13%	February 2018	15,106	12,889
				118,959	119,544
Germany (see Note 4):					
Bank loans	EURO	Euribor plus a margin within the range of 1.5% to 1.9%	n/a	-	93,223
Bank loans	EURO	2.47% to 2.67%	n/a	-	146,588
Beneficiary loans	EURO	0.86%	n/a	-	5,698
Bank loans	EURO	Euribor plus a margin within the range of 1.5% to 1.9%	n/a	-	326,369
Debentures linked to CPI	NIS	3.29% - 4.3%	n/a	-	143,699
				-	715,577
Italy:					
Bank loan	EURO	2.95%	30 April 2019	2,114	2,930
Corporate:					
Bank loan	USD	5.1%	30 December 2019	2,910	3,741

Loans from others (12)	USD	6.5%	31 December 2018	6,037	9,439
Loans from others	USD	6.5%	5 December 2022	-	2,384
Debentures series A linked to CPI	NIS	6.5%	19 December 2018	37,221	53,195
Debentures series B	USD	7%	31 December 2021	22,679	23,324
Debentures series C (1)	USD	6.5%	5 December 2022	77,260	51,592
				146,107	143,675
Total interest-bearing loans and borrowings				543,553	1,222,212
Less: current maturities				200,457	243,797
Total non-current interest-bearing loans and borrowings				343,096	978,415

Details of the interest-bearing loans and borrowings obtained during the years ended 31 December 2016 and 31 December 2015 are as follows:

(1) On 3 March 2016, the Company has increased the issuance limit of bonds series C from $60 million (€54 million) to $180 million (€162 million). On 31 March 2016, the Company issued bonds (series C) with an aggregate principal amount of $18.4 million out of which $17.5 million remains outstanding (€16.4 million out of which €15.5 million remains outstanding). On 20 April 2016, the Company made an additional issue of bonds (series C) with an aggregate principal amount of $12.7 million out of which $12.1 million remains outstanding (€11.4 million out of which €10.9 million remains outstanding). The additional bonds issued during the period were consolidated and formed a single series with the existing bonds series C that were outstanding at the beginning of the period. The bonds bear interest rate of 6.5% per annum which is subject to adjustments of 0.25% - 0.5% (up to a maximum of 1%) in the case of changes in the bonds' rating. The initial principal amount of bonds is repayable in eight annual payments of unequal amounts on 5 December of each year from 2015 to 2022 (inclusive). Each of the first two payments constitute 5% of the bonds' amount, the third and fourth payments constitute 10% each of the bonds' amount and each of the last four payments constitutes 17.5% of the bonds' amount. With respect to the bonds covenants see Note 30a(3).

(2) On 29 September 2016, an indirect subsidiary of the Company in the USA, entered into an agreement with a financial institution for a construction loan facility of up to an amount of $85.1 million (€80.9 million). The facility is split into a senior note (up to an amount of $57.5 million (€54.7 million)), a mezzanine note (up to an amount of $2.6 million (€2.5 million)), a building note (up to an amount of $13.7 million (€13 million)) and a project note (up to an amount of $11.3 million (€10.7 million)). The senior note, the building note and the project note are split into Notes A and B where instead, the Mezzanine note is not split and consists only of Note A. Note A of each facility bears variable interest of 1 month Libor plus a margin of 3.9% and Note B bears also variable interest of 1 month Libor plus a margin of 9.22%. Interest is payable through monthly instalments payable during the loan term up until the maturity of the facility on 8 November 2019, when the whole outstanding principal shall be also paid. Up to 31 December 2016, an amount of $63.1 million (€60 million) has been withdrawn in total in respect of these facilities. The new construction loan facility has replaced the existing development loan facility amounting to $87 million (€80 million). For the guarantees in respect to this agreement see Note 30a(12).

(3) On 3 November 2016, an indirect subsidiary of the Company agreed with the group of lenders who provided a credit facility to the subsidiary in the amount of $11.3 million (€10.7 million) as at 31 December 2016, the extension of the maturity of the facility up until 31 October 2017. As per the amended terms, the facility will bear interest of 6.5% per annum payable, along with the principal amount of the facility, on maturity. For the guarantees in respect of the facility see Note 30a(10). The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are not substantially different

compared to the original facility and therefore accounted for the change in terms as a modification without any profit or loss effect.

(4) During 2016, an indirect subsidiary of the Company in the USA, entered into a financing agreement with individual lenders in the total amount of $28 million (€26.6 million). The facility carries interest of 11% and is payable on maturity on 1 October 2021.

(5) During 2016, an indirect subsidiary of the Company in Russia, entered into a refinancing agreement with the financing bank for the change in the terms of the facility provided by the bank. The facility as at 31 December 2016 amounted to $31.4 million (€29.9 million) and as per the revised terms, the facility will bear a fixed interest of 7.7% payable throughout the loan term along with the outstanding principal. For the guarantees and the loan covenants in respect of this facility see Note 30a(16). The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are not substantially different compared to the original facility and therefore accounted for the change in terms as a modification without any profit or loss effect.

(6) During 2016, an indirect subsidiary of the Company in Russia, entered into a refinancing agreement with the financing bank for the change in the terms of the 2 loan facilities provided by the bank, which amounted in total to $79.8 million (€75.9 million) as at 31 December 2016. As per the revised terms, the facilities will bear a fixed interest of 5% up until 29 September 2017. For the guarantees and the loan covenants in respect of this facilities see Note 30a(17). The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are not substantially different compared to the original facility and therefore accounted for the change in terms as a modification without any profit or loss effect.

(7) During 2015 and 2016, an indirect subsidiary of the Company in the USA, entered into financing agreements with individual lenders in the total amount of $38.5 million (€36.6 million) as at 31 December 2016 (2015: $36.5 million (€32.8 million)). These financing agreements provided that the loan amount advanced to the Company’s indirect subsidiary shall be either payable in full on the 8th anniversary of each financing agreement or, at the discretion of each individual lender, shall be converted into the designated units in the residential building acquired by another Company’s indirect subsidiary, as described in Note 5a(4) during 2015, in case that this project will be potentially developed. Up until maturity or conversion, the amounts advanced by the individual lenders bear interest of 4% per annum. For the conversion option, see Note 19a. For the guarantees in respect to this agreement see Note 30a(6).

(8) During 2015 and 2016, an indirect subsidiary of the Company in the USA, entered into financing agreements with individual lenders in the total amount of $57.6 million (€54.8 million) as at 31 December 2016 (2015: $11.64 million (€10.49 million)) The outstanding balance of the facilities provided to the indirect subsidiary as at 31 December 2016 amounted to $30.6 million (€29.1 million) (2015: $6.94 million (€5.1 million)). The financing agreements provided that the loan amount advanced to the Company’s indirect subsidiary shall be either payable in full on the 5th anniversary of each agreement or, at the discretion of the lender, shall be converted into a designated unit in the residential building owned by another Company’s indirect subsidiary as described in Note 5a(7). Up until maturity or conversion, the amounts advanced by the individual lenders bear interest of 0.5% per annum (or 1.5% per annum if not converted). For the conversion option, see Note 19b. For the guarantees in respect to this agreement see Note 30a(6).

(9) On 7 April 2015, for the purpose of financing the acquisition of a multifamily residential property as described in Note 5a(3), an indirect subsidiary of the Company in USA obtained a bank loan amounting to $11.2 million (€10.3 million). The principal balance of the loan is payable on the loan maturity date on 6 May 2025. The facility carries interest at 4.07% per annum and is payable by monthly instalments. For the guarantees and the financial covenants provided in respect to this agreement see Note 30a(4).

(10) On 22 September 2015, an indirect subsidiary of the Company, entered into a loan agreement with a financing bank for obtaining a facility amounting to $15 million (€13.5 million). The facility carries interest equal to 3 months Libor plus a margin of 4.25%, capped at 4.5%. Interest shall be paid to the financing bank quarterly along with principal payments of $250 thousand (€238 thousand) each quarter. The facility matures on 30 September 2017, on which date the outstanding principal amount is fully payable with a balloon payment. For the guarantees and the financial covenants provided in respect to this agreement see Note 30a(7).

(11) On 16 October 2015, for the purpose of financing the acquisition of a residential building, an indirect subsidiary of the Company in USA entered into two loan facilities, Note A with a financing institution for the total amount of $55 million (€49.6 million) and Note B with the existing tenant of the property for the total amount of $38.8 million (€34.9 million). As per the agreed terms, Note A will bear interest equal to 1 month Libor (subject to a cap of 0.25%) plus a margin of 10.5% per annum and Note B will bear interest equal to 6% per annum. Interest on Note A will be repayable through monthly instalments payable during the loan term up until the maturity of the facility on 1 November 2018 when the principal amount shall also be repaid. Interest on Note B will be repayable through monthly instalments payable during the loan term until the maturity of the facility which shall occur on the earlier of 31 December 2050 or of 90 days after the termination of the lease agreement between the subsidiary and the existing tenant. Upon the maturity, the subsidiary shall also pay the existing tenant the outstanding principal amount of Note B. For the guarantees in respect of Note A see Note 30a(5).

(12) On 10 December 2015, the Company entered into a loan agreement with a group of lenders for obtaining a loan facility amounting to $10.25 million (€9.4 million). The facility bears interest of 6.5% per annum which is payable semi-annually until the maturity of the facility on 31 December 2018, when the principal amount shall be also repaid in full. Part of the group of lenders were related parties of the Company, who entered into the loan agreement in the same terms as per the other group of lenders in the total amount of $1.7 million (€1.6 million) (see Note 31c). For the guarantees in respect to this agreement see Note 30a(8).

NOTE 19:- DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER LIABILITIES MEASURED AT FAIR VALUE

	31 December	
	2016	**2015**
	Euro in thousand	
Interest rate derivative measured at fair value *)	-	970
Fair value of lenders' conversion option rights (a) and (b)	8,947	8,186
	8,947	9,156

*) Amount of €393 thousand was recorded as current liabilities as of 31 December 2015.

a. As described in Note 18(7), during the years ended 31 December 2015 and 31 December 2016 an indirect subsidiary of the Company in the USA, entered into financing agreements with individual lenders. These financing agreements provide to the lenders the option to convert the amounts advanced to the subsidiary to designated units in the residential building acquired by another Company's subsidiary, as described in Note 5a(4), in case that this project will be potentially developed. Accordingly, the fair value of these conversion option rights granted to the lenders as at 31 December 2016 amounted to $9.4 million (€8.9 million). The fair value of options was calculated using the "Black and Scholes" option pricing model. The main parameters using in the option pricing model are as follows:

Value of underlying asset per sq ft	$1,839
Time for expiration	2.25 years

Implied volatility	10%
Risk-free interest rate	1.34%
Exercise price of option per sq ft	$1,450

b. Further to an acquisition made by an indirect subsidiary of the Company in the USA, another subsidiary of the Company in the USA entered into financing agreements with individual lenders, as described in Note 18(8). These financing agreements provide to the lenders the option to convert the amounts advanced to the subsidiary to designated units in the residential building acquired during the year ended 31 December 2014. Accordingly, the fair value of these conversion option rights granted to the lenders as at 31 December 2016 amounted to nil. The fair value of options was calculated using the "Black and Scholes" option pricing model.

NOTE 20:- OTHER NON-CURRENT LIABILITIES

	31 December	
	2016	**2015**
	Euro in thousand	
Finance lease liability	-	3,147
Tenant deposits	1,482	1,634
	1,482	4,781

NOTE 21:- TRADE AND OTHER PAYABLES

	31 December	
	2016	**2015**
	Euro in thousand	
Trade payables	4,359	4,787
Real estate taxes and other tax payable	2,521	962
Tenant deposits	311	5,124
Accrued expenses	5,514	12,962
Advances received from tenants and others	-	1,766
Other payables	1,463	4,652
Amounts payable to partner upon acquisition of interest in investees	-	4,788
Related parties (1)	-	556
	14,168	35,597

(1) See Note 31e.

NOTE 22:- SERVICE CHARGE, MANAGEMENT AND OTHER INCOME

	Year ended December 31	
	2016	**2015**
	Euro in thousand	
Service charge from tenants	3,175	2,760
Management and consultancy fee	5,257	3,222
	8,432	5,982

NOTE 23:- PROPERTY OPERATING AND OTHER EXPENSES

	Year ended December 31	
	2016	**2015**
	Euro in thousand	

Service charge expenses	1,472	916
Property management and salary expenses	8,457	5,778
Property taxes and fees	1,915	845
Maintenance, repairs and renewals	805	365
Professional and consulting fees	1,237	1,741
Marketing expenses	567	1,313
Other expenses	4,226	5,267
	18,679	16,225

NOTE 24:- ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2016	2015
	Euro in thousand	
Wages and salaries	3,082	3,303
Legal expenses and other professional services	2,725	2,333
Office rent and maintenance	601	495
Other administrative expenses	2,258	907
	8,666	7,038

NOTE 25:- FINANCIAL INCOME

	Year ended 31 December	
	2016	2015
	Euro in thousand	
Revaluation of marketable securities and other investments	483	387
Interest income from loans to employees and co-investors	81	266
Revaluation of options granted to related parties (Note 31c(1))	2,402	-
Interest income from loans to other related companies	1,936	1,555
Other interest income	1,204	1,759
	6,106	3,967

NOTE 26:- FINANCIAL EXPENSES

	Year ended 31 December	
	2016	2015
	Euro in thousand	
Finance expenses on interest bearing loans and other borrowings	28,965	16,090
Amortization of finance costs	1,430	530
Bank charges	275	215
Other finance expenses	885	2,734
	31,555	19,568

NOTE 27:- OTHER INCOME/(EXPENSES), NET

	Year ended 31 December	
	2016	2015
	Euro in thousand	
Re-measurement of liability in respect of joint venture (1)	4,131	(4,119)
Other expenses, net	(2,413)	(5,876)
	1,718	(9,995)

(1) See Note 7(c).

NOTE 28:- FINANCIAL INSTRUMENTS

Classification of financial assets and financial liabilities:

	31 December	
	2016	2015
	Euro in thousand	
Financial assets at fair value through profit or loss:		
Marketable securities and other short-term investments	2,686	2,090
Other investments and loans	9,152	-
	11,838	2,090
Available for sale financial assets	8,795	-
Loans and receivables at amortized cost:		
Cash and cash equivalents	21,853	71,590
Loans to associates and joint ventures (1)	60,771	61,309
Current maturities of long term loans	20,166	50,860
Trade and other receivables (2)	17,723	23,781
Restricted deposits	4,149	16,072
Other investments and loans	15,167	27,673
	139,829	251,285
Financial liabilities at fair value through profit or loss:		
Interest-bearing loans and borrowings	-	(243,797)
Derivative financial instruments and other liabilities measured at fair value	(8,947)	(9,156)
	(8,947)	(252,953)
Other financial liabilities at amortized cost:		
Interest-bearing loans and borrowings	(543,553)	(978,415)
Trade and other payables (3)	(13,857)	(28,707)
Other non-current liabilities (4)	-	(3,147)
	(557,410)	(1,010,269)

(1) Included as part of investments in associates and joint ventures (see Note 7).
(2) With the exception of prepaid expenses.
(3) With the exception of tenant deposits and advances from customers.
(4) With the exception of tenant deposits.

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's, financial performance. The Group's management reviews and agrees on policies for managing each of the risks.

Credit risk

Management has a credit policy in place and monitors the exposure to credit risk on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets. Customers that fail to meet the Group's benchmark for creditworthiness may transact with the Group only on a prepayment basis. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, restricted deposits and other financial assets (including loans granted).

The Group's companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from the provision of credit, in respect of specific debts of which collection is doubtful. As a result, the Group exposure to bad debts is insignificant. At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is presented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position.

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and is aggregated by Group's finance. Group's finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and its liabilities when due, under both normal and stressed conditions, while maintaining sufficient margin at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans and covenant compliance. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Company's cash accounts.

The repayments of the obligations of the Group are likely to be funded by a combination of one or more of the following, existing cash balances, including marketable securities, its ongoing development activity and operations, cash generated from the repayment of certain shareholder's loans by some of the Group's associates/joint ventures, cash generated through sale of certain assets in accordance with the Group's strategy on developed and stabilized projects (like IHG Orchard and Bowery assets held for sale at year end 2016), raising bonds and loans or equity transactions within the existing limits, partial refinancing of existing obligations, dividend distributions from associates/joint ventures. The Board regularly reviews and discusses the cash flow forecast and funding. However, although these forecasts have been made with due care, there is always an inherent risk that results will not materialize as forecasted and reality may differ, taking into consideration the risks identified as described in detail in Section 1.9 of the Annual report.

The tables below summarize the maturity profile of the Group financial liabilities at 31 December 2016 and 31 December 2015 based on contractual undiscounted payments:

	31 December 2016							
	Less than a year (*)	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**On demand**	**Total**
	Euro in thousand							
Interest-bearing loans and borrowings	118,297	129,761	111,877	45,491	109,758	162,597	-	677,781
Financial liabilities and other long-term liabilities	231	422	22	673	113	252	-	1,713
Financial guarantee provided to associate company	-	-	-	-	-	-	5,700	5,700
Trade and other payables	13,857	-	-	-	-	-	-	13,857
	132,385	130,183	111,899	46,164	109,871	162,849	5,700	699,051

(*) Interest bearing loans and borrowings in the amount of €111,378 thousand as of 31 December 2016, classified in the consolidated statement of financial position within current liabilities in accordance with the Group's operating cycle, have been classified in the liquidity table in accordance with the actual contractual terms.

31 December 2015

	Less than a year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	On demand	Total
	Euro in thousand							
Interest-bearing loans and borrowings	262,536	138,823	471,332	129,904	93,769	314,954	-	1,411,318
Financial liabilities and other long-term liabilities	403	855	644	225	237	6,062	-	8,426
Financial guarantee provided to associate company	-	-	-	-	-	-	9,400	9,400
Trade and other payables	28,707	-	-	-	-	-	-	28,707
	291,646	139,678	471,976	130,129	94,006	321,016	9,400	1,457,851

Cash flow and fair value interest rate risk

The Group is exposed to risk resulting from changes in cash flows of assets and liabilities bearing variable interest rate because of changes in interest rates. As of 31 December 2016, approximately 23% of the Group’s interest bearing loans and borrowings were issued at variable interest rates.

Assets and liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group hedges most of its financial liabilities by taking loans at fixed interest rate to reduce exposure to interest rate changes and therefore Management considers that the Group is not exposed to any material cash flow interest rate risk.

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in variable interest rates, of the Group's profit before tax:

	Sensitivity to change in variable interest rates of Euro denominated interest bearing loans and borrowings	
	Effect on profit or loss	
	100 basis points increase	100 basis points decrease
	Euro in thousand	
2016	n/a	n/a
2015	(4,196)	4,196

	Sensitivity to change in variable interest rates of USD denominated interest bearing loans and borrowings	
	Effect on profit or loss	
	100 basis points increase	100 basis points decrease
	Euro in thousand	
2016	(1,315)	1,315
2015	(628)	628

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Russian Rouble and NIS. The Group incurs foreign currency risk on income, purchases, receivable loans and borrowings that are denominated in a currency other than the Euro.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency transaction risk. Currency exposure arising from the net assets of the Group's foreign operations is mainly managed primarily through borrowings denominated in the relevant foreign currencies. With respect to the deterioration in the Russian economy, which resulted in the weakening of Russian Rouble, see note 7c.

The Group seeks to reduce its currency risks by matching, in each project, the currency denomination of its principal liabilities (financing and construction) and its principal sources of revenue (sale proceeds and rentals).

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the relevant variable, with all other variables held constant, of the Group's profit before tax:

	Sensitivity to change in Euro/NIS	
	Effect on profit or loss	
	NIS strengthened by 5%	**NIS weakened by 5%**
	Euro in thousand	
2016	(1,735)	1,735
2015	(9,497)	9,497

	Sensitivity to change in USD/RUB	
	Effect on profit or loss	
	RUB strengthened by 20%	**RUB weakened by 20%**
	Euro in thousand	
2016	20,929	(20,929)
2015	20,698	(20,698)

	Sensitivity to change in Euro/USD	
	Effect on profit or loss	
	EUR strengthened by 5%	**EUR weakened by 5%**
	Euro in thousand	
2016	(120)	120
2015	(309)	309

Fair value

Set out below, are the carrying amounts and the fair value of the Group's financial instruments that are not presented in the consolidated financial statements at fair value:

	Carrying amount		**Fair value**	
	31 December		**31 December**	
	Euro in thousand			
	2016	**2015**	**2016**	**2015**
Financial liabilities:				
Debentures and interest payable on debentures	77,260	197,194	79,139	209,800

The carrying amount of cash and cash equivalents, restricted deposits and other short-term investments, trade receivables, other accounts receivable, trade payables and other payables and interest-bearing loans and borrowing presented at amortized cost approximates their fair value. The Group’s interest-bearing loans and borrowings have been recently obtained from banks and other financial institutions, at market interest rates and terms and therefore Management considers that its carrying amounts approximate its fair value as of the date of the consolidated statement of financial position.

Fair value of the quoted debentures is based on price quotations at the reporting date and is classified as Level 1 in the fair value hierarchy.

As of the data for the determination of the fair value of investment property, see note 5.

Capital management

For the purpose of the Group's capital management, capital includes issued capital, share premium, convertible bonds and loans and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Group's capital management is to maximize the shareholder value.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to its loans that define capital structure requirements as breaches in meeting the financial covenants might, in some cases, permit the lender to seek for immediate repayment of the defaulting loan. In relation to the financial covenants of financing facilities see Note 30.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sells assets to reduce debt.

NOTE 29:- EARNINGS PER SHARE (EPS)

The following reflects the income/(loss) and share data used in the basic and diluted EPS computations:

	31 December	
	2016	**2015**
	Euro in thousand	
Net loss for the year attributable to equity holders of the Company for basic EPS	(3,749)	(27,765)
Adjustment due to share of diluted earnings of investees	-	(5,290)
Net loss for the year attributable to equity holders of the Company for diluted EPS	(3,749)	(33,055)
Net loss for the year from continuing operations attributable to equity holders of the Company for basic EPS	(71,679)	(50,274)
Adjustment due to share of diluted earnings of investees	-	(5,658)
Net loss for the year from continuing operations attributable to equity holders of the Company for diluted EPS	(71,679)	(55,932)
Net profit for the year from discontinued operations attributable to equity holders of the Company for basic EPS	67,930	22,509
Adjustment due to share of diluted earnings of investees	-	368
Net profit for the year from discontinued operations attributable to equity holders of the Company for diluted EPS	67,930	22,877

	31 December	
	2016	**2015**
	Number of shares	
Weighted average number of ordinary shares for basic EPS	160,788,210	161,610,064

Effect of dilution:		
Warrants (*)	-	-
Weighted average number of ordinary shares adjusted for diluted EPS	160,788,210	161,610,064

(*) For the years ended 31 December 2016 and 31 December 2015, as per the accounting policy in Note 2z, the Company has excluded potential ordinary shares (including convertible loans and options to employees) in the computation of diluted earnings per share, as these decrease the loss per share from continuing operations.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these consolidated financial statements, other than the cancellation of the share buyback as described in Note 16a(3).

NOTE 30:- COMMITMENTS AND CONTINGENCIES

a. Liens and guarantees:

The investment properties of the Group, are subject to registered debentures to secure the related bank loans. The lien on the assets is the only guarantee that was submitted to secure the bank loans, except as detailed below. Some of the loan agreements also contain “negative lien” provisions, whereby the borrowers are prohibited from creating additional liens on the encumbered assets and revenues, without receiving the prior explicit consent of the lender.

1. A guaranty was provided by the Company, jointly and equally with its partner for the related project, with regards to a refinancing of the construction loan for the development of a property in the USA, obtained by a Group’s associate company as follows:

   (a) Principal Payment Guaranty equal to 12.5% of the outstanding amount of the loan, then decreasing to 5% after the property achieves a 10.5% debt yield and then reducing to nil once the property achieves 11% debt yield.
   (b) Debt Service Guaranty throughout the loan term covering interest payments (not principal) for the first 3 years of the loan term and then for years 4 to 5 covering both interest and principal payments.
   (c) Standard “bad-boy” carve-outs (*) throughout the term of the loan.
   (d) Standard environmental indemnity.

   Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees.

   The Company had also undertaken, jointly with its partner for the related project the following covenants with respect to this facility:

   a) The Company shall maintain a minimum net equity of $100 million.
   b) The Company shall maintain a minimum liquidity of $15 million.

   As of 31 December 2016, all of the above covenants are met.

2. The Company had undertaken, the following covenants with respect to series B

debentures:

(a) The Company will not make any distribution of dividends and/or capital to its shareholders or purchase its shares if, as a result of such distributions or purchase, the equity of the Company (excluding non-controlling interests) will be reduced below $200 million or the ratio described in (d) below will exceed 37.5%.
(b) The Company's equity attributable to its shareholders (excluding non-controlling interests) shall not fall below $140 million.
(c) BCP's equity attributable to BCP's shareholders shall not fall below €135 million.
(d) The ratio between the net financial debt to the total capital and debt ("CAP") of the Company shall not exceed 36.5% (Company's financial statements).
(e) The net financial debt to CAP ratio of BCP shall not exceed 45% (BCP's financial statements).

The facility is also secured by BCP shares. As of 31 December 2016, all of the covenants are met.

3. The Company had undertaken, the following covenants with respect to series C debentures (see note 18(1)):

(a) The Company's equity attributable to its shareholders (excluding non-controlling interests) shall not fall below $140 million.
(b) The ratio between the net financial debt to the total assets of the Company's shall not exceed 75%.
(c) The Company will not make any distribution of dividends to its shareholders if, as a result of such distributions the equity of the Company (excluding non-controlling interests) will be reduced below $150 million or the ratio described in (b) above will exceed 70%.

The facility is also secured by BCP shares. As of 31 December 2016, all the above covenants are met.

4. Pursuant to the loan agreement entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a multifamily residential property (Note 18(9)), the Company has provided a guarantee in the favor of the bank as follows: (1) standard environmental indemnity and (2) standard "bad boy" carve-outs (*). The Company further undertakes to maintain a minimum net worth of $11.2 million (€10.3 million) and minimum liquid assets of $1.2 million (€1.1 million). Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees. As of 31 December 2016, all of the above covenants are met.

5. Pursuant to the first loan facility entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a residential building (see Note 18(11)), the Company has provided a guarantee in the favor of the lender as follows: (1) standard environmental indemnity, (2) standard "bad boy" carve-outs (*) and (3) carry guarantee for the property.

6. Pursuant to the financing agreements entered into by two indirect subsidiaries of the Company in the USA with individual lenders (see Notes 18(7) and 18(8)), the Company has provided to these lenders payment guarantees for the amounts advanced to the subsidiaries.

7. Pursuant to the loan agreement entered into by an indirect subsidiary of the Company (Brack Capital USA B.V.) with a financing bank, as described in Note 18(10), a full payment guarantee was given to the financing bank, jointly by the Company and another wholly owned subsidiary of the Company. In addition, the Company and its wholly owned subsidiary guaranteeing this facility, have also undertaken the following covenants for so long as the facility is still outstanding:

   (a) Brack Capital USA B.V. should maintain a minimum net equity of $45 million.
   (b) Brack Capital USA B.V. should maintain a minimum of shareholders' funds of $30 million.
   (c) Brack Capital USA B.V. should maintain a minimum gross cash flow from operations of $5 million for each of the six-month periods during the first year of the loan term, then increasing to $10 million for each of the six-month periods for the remaining term of the loan.
   (d) The Company should maintain a minimum net equity of $140 million.
   (e) The ratio between the net financial debt of the Company to its total assets shall be maintained during the loan term within 0.75 to 1.00.

   The above covenants relate to the consolidated financial statements of Brack Capital USA B.V. and of the Company, where applicable. As of 31 December 2016, Brack Capital USA B.V. and the Company met all the covenants.

8. Pursuant to the loan agreement entered into by the Company and a group of lenders during the year, as described in Note 18(12), Company's subsidiaries pledged their rights in BCRE Funding Holdings LLC, an indirect subsidiary of the Company in the USA.

9. Pursuant to a loan agreement entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a multifamily residential property amounting to $12.5 million (€11.9 million) as of 31 December 2016, the Company provided a guaranty in favour of the bank as follows: (1) standard "bad-boy" carve-outs (*) and (2) standard environmental indemnity. The Company further undertakes to maintain $12.8 million (€10.5 million) of net worth and $1.28 million (€1.05 million) of liquid assets. Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees. As of 31 December 2016, all of the above covenants are met.

10. Pursuant to the financing agreement entered into by an indirect subsidiary of the Company for the amount of $11.3 million (€10.7 million) as at 31 December 2016, as described in Note 18(3), the Company has provided to the lenders, jointly with Brack Capital USA B.V., another indirect subsidiary, a full payment guarantee. The facility is secured by BCP shares.

11. Pursuant to the loan agreement entered into by the Company and a financing bank in December 2014 for the amount of $5.1 million (€4.2 million), the Company undertaken the following throughout the loan term:

    (a) The Company shall maintain a minimum of NIS20 million liquid assets.
    (b) The Company shall maintain a minimum equity of $140 million.
    (c) The Company shall ensure that BCP maintains a minimum equity of €135 million.
    (d) The Company shall ensure that the ratio between its net financial debt to the total capital and debt will not exceed 36.5% (Company's financial statements).
    (e) The Company shall ensure that the net financial debt to CAP ratio of BCP will not exceed 45% (BCP's financial statements).
    (f) The Company will not make any distribution to its shareholders, if as a result of such distribution the equity of the Company (excluding non-controlling interests) will be reduced below $200 million or the ratio described in (d) above will exceed 37.5%.

    As of 31 December 2016, all the above covenants are met.

12. Pursuant to the facility agreement entered into by an indirect subsidiary of the Group in the USA as described in Note 18(2), the Company, jointly with another indirect subsidiary in the USA, provided a guaranty in favour of the financing bank as follows: (1) standard "bad-boy" carve-outs (*), (2) standard environmental indemnity (3) guaranty of additional required equity, (4) carry guarantee for the property, (5) completion guarantee and (6) rebalancing guarantee.

13. Pursuant to the financial covenants set forth in the loan agreement entered into between a Group's indirect subsidiary in Russia and a group of lenders amounting to $15.9 million (€15.1 million) as of 31 December 2016, the equity of the guarantor for this loan facility, BCRE Russian Properties Limited, shall not fall below 10 times of the outstanding loan amount including any accrued interest. In case the covenant is breached and upon demand of 50% of the group of lenders, the guarantor will be obliged to pay to the lenders such amount so as to furnish for the breach. As of 31 December 2016, the above covenant is not met and in this respect an amount of $15.7 million (€15 million) has been classified within current liabilities.

14. Pursuant to the financing agreements entered into by a joint venure of the Company in Russia for the amounts of $29.1 million (€27.7 million) and $86.8 million (€82.5 million), the joint venture entered into a refinancing agreement with the financing bank.

    The key amendments to the existing loan facilities and to the corporate structure of the joint venture are, among other things, prolonging the final maturity dates by 3 to 5 years, amortisation payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a 'golden' share in each project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the joint venture. The 'golden' shares can be repurchased subject to meeting certain conditions. The completion of the refinancing is expected to be completed within a period of eight months after the signing of the relevant agreements and is subject to certain other conditions which need to fulfilled by the joint venture and the approval of the transfer of the ‘golden’ shares to the financing bank, by the Federal Antimonopoly Service of the Russian Federation.

Also, the joint venture undertaken to maintain a Debt Service Ratio of 1, from 1 September 2016 onwards, gradually increasing during the loan term. As of 31 December 2016, all the applicable covenants were met.

The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are not substantially different compared to the original facility and therefore accounted for the change in terms as a modification without any profit or loss effect.

The Company has provided a payment guarantee in the amount of $12.8 million (€12.2 million) for both facilities obtained by the joint venture. The partner participating in this project, has provided to the Company a guarantee amounting to $6.8 million (€6.5 million) in relation to the above.

15. Pursuant to the financing agreement entered into by an associate of the Group and a financing bank in Russia amounting to $37 million (€35.2 million) as of 31 December 2016, the associate entered into a refinancing agreement with the financing bank.

    The key amendments to the existing loan facilities and to the corporate structure of the associate are, among other things, prolonging the final maturity dates by 3 to 5 years, amortization payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a ‘golden’ share in each project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the associate. The ‘golden’ shares can be repurchased subject to meeting certain conditions. The completion of the refinancing is expected to be completed within a period of eight months after the signing of the relevant agreements and is subject to certain other conditions which need to fulfilled by the associate and the approval of the transfer of the ‘golden’ shares to the financing bank, by the Federal Antimonopoly Service of the Russian Federation.

    Also, the associate undertaken to maintain a Debt Service Ratio of 1, from 1 September 2016 onwards, gradually increasing during the loan term. As of 31 December 2016, all the applicable covenants were met.

    The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are not substantially different compared to the original facility and therefore accounted for the change in terms as a modification without any profit or loss effect.

16. Further to Note 18(5) and following the refinancing agreement entered into by the indirect subsidiary and the financing bank, the key amendments to the existing facility and to the corporate structure of the subsidiary are, among other things, prolonging the final maturity dates by 3 to 5 years, amortization payment schedules

shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a ‘golden’ share in each project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the subsidiary. The ‘golden’ shares can be repurchased subject to meeting certain conditions. The completion of the refinancing is expected to be completed within a period of eight months after the signing of the relevant agreements and is subject to certain other conditions which need to fulfilled by the subsidiary and the approval of the transfer of the ‘golden’ shares to the financing bank, by the Federal Antimonopoly Service of the Russian Federation.

Also, the indirect subsidiary under the existing terms, undertaken to maintain a Debt Service Ratio of 1, from 1 September 2016 onwards, gradually increasing during the loan term. As of 31 December 2016, all the applicable covenants were met.

The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are not substantially different compared to the original facility and therefore accounted for the change in terms as a modification without any profit or loss effect.

17. Further to Note 18(6) and following the refinancing agreement entered into by the indirect subsidiary and the financing bank, the key amendments to the existing facility and to the corporate structure of the subsidiary are, among other things, prolonging the final maturity dates by 3 to 5 years, amortization payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a ‘golden’ share in each project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the subsidiary. The ‘golden’ shares can be repurchased subject to meeting certain conditions. The completion of the refinancing is expected to be completed within a period of eight months after the signing of the relevant agreements and is subject to certain other conditions which need to fulfilled by the subsidiary and the approval of the transfer of the ‘golden’ shares to the financing bank, by the Federal Antimonopoly Service of the Russian Federation.

    Also, the indirect subsidiary undertaken to maintain a Debt Service Ratio of 1, from 1 September 2016, gradually increasing during the loan term. As of 31 December 2016, all the applicable covenants were met.

    The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are not substantially different compared to the original facility and therefore accounted for the change in terms as a modification without any profit or loss effect.

(*) A guaranty pursuant to which the guarantor agrees to be responsible for (i) actual losses suffered by the lender as result of certain bad acts committed by the borrower in the nature of misappropriating funds and (ii) for the entire loan in the event of major bad acts committed by the borrower.

b. Commitments:

1. During 2007, the Company committed to invest in India through investing in the BCRE India Fund (the "Fund") an amount of $21.8 million which reflected 20% of the total Fund's commitments. The Group has a 20.92% (2015: 20.92%) equity interest in the Fund and receives a management fee and a performance fee on all of the investments made by the Fund. In 2009, following an amendment to the terms and conditions of the Fund, it was decided that the Fund will cease making new investments in India (but would continue supporting existing investments). As of 31 December 2016 and 31 December 2015, the Company has invested in the Fund €20.5 million ($21.5 million) and €19.4 million ($21.2 million), respectively.

2. When shareholders of the Company and other investors are joining the Group in real estate investments, the relevant subsidiary of the Group which manages the investment, is entitled to a promote of 20% to 30% of the investors' share in the profit made by the investment, after full return of the investment plus an annual yield within the range of 8% to 15%. The IRR threshold and the promote mechanism are dependent upon the location of the investment.

c. Legal claims:

No material claims were filed against the Group.

NOTE 31:- RELATED PARTIES

a. Transactions with related parties:

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Interest income from related parties	549	339
Interest expenses to related parties	(288)	(158)
Management fees expenses to related parties (1) and (2)	(1,178)	(1,006)
Reimbursement of expenses (1)	(1,600)	(1,308)
Management fees – income from related parties	28	104

(1) The Group is supported by BCH – Brack Capital Holdings Limited ("BCH") through the provision of services by the employees of BCH, which are paid for on cost basis and the provision of rating, investor relations and other financial services for a fixed amount of $1.1 million (€1 million). In addition, the Company paid to BCH reimbursement of expenses for the year ended 31 December in the amount of $1.8 million (€1.6 million) (2015: $1.4 million (€1.3 million)).

(2) The Group is receiving advisory services from B Joel Advisors Limited, a company owned by a related party, payable on a monthly basis. An amount of €0.2 million was recorded in the consolidated income statement.

(3) On 28 October 2016, a direct subsidiary of the Company acquired 26,813 shares of BCP from a sister company for the amount of €2,060 thousand (see Note 7b).

b. Transactions with entities accounted for using the equity method:

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Management fee income from related parties	498	610
Interest income from related parties (1)	1,513	995

Interest expenses to related parties (2)	(779)	(742)

(1) See section d(1).
(2) See section d(2).

c. Balances with related parties:

	31 December	
	2016	2015
	Euro in thousand	
Loans granted to related parties (1) and (2)	16,808	14,962
Loans granted by related parties (3) and (4)	(5,607)	(6,250)

(1) The loans granted to related parties bear annual interest rate in the range of 3% to 4.5% per annum and are repayable on February 2017, June 2017 and September 2017 depending on the terms of each loan and the date the loan was granted. Loans with fair value amounting to €9.2 million are secured by 108,113 BCP shares. The subsidiary that entered in these financial agreements has the option to acquire these pledged shares of BCP instead of receiving the loan and interest. As a result of these options, the Group has remeasured these loans at their fair values and has recognized a gain of €2.4 million in the consolidated income statement within the line "Finance income" (see Note 25).

None of the above options has been exercised as of 31 December 2016. On 16 February 2017, which was the maturity date for the 2 of the above loans amounting to €1.7 million, as of 31 December 2016, the Company decided to exercise its option and had acquired 29,556 shares of BCP instead of receiving the principal and the accrued interest (see Note 32(4)).

(2) Loan to a related company in the amount of €900 thousand was provided during the year and bears interest of 4.25% per annum and is repayable on 20 March 2020.

(3) Loans granted by Melody Trust in the amount of €4,584 thousand as of 31 December 2016, a company owned by a related party, bear annual interest within the range of 6.5% - 7% per annum. See also Notes 18(1) and 18(12).

(4) Loans granted by related parties in the amount of $1.1 million (€1 million) bear interest of 6.5% per annum. See also Note 18(12).

d. Balances with entities accounted for using the equity method:

	31 December	
	2016	2015
	Euro in thousand	
Loans granted to related parties (1)	60,771	61,309
Loans granted by related parties (2)	(13,343)	(12,075)

(1) The Group provided various loans to entities accounted for using the equity method as follows:

(a) Loans in the total amount of €20.7 million (2015: €23.2 million) bear no interest and are repayable on demand.
(b) Loans in the amount of €24.6 million (2015: €19 million) bear interest at the

rate of 4% to 8% per annum and are repayable within 5 years from the date of grant. The loans were granted during the years from 2013 to 2015.

(c) Loan in the amount of €2 million (2015: €1 million) bears interest at the rate of 12% per annum and is repayable within 5 years from the date of grant. The loans were granted during the years from 2011 to 2016.

(d) Loan in the amount of €13.5 million (2015: €12.9 million), granted to a project in USA, bears interest at the rate of 1.25% per annum and is repayable on 1 November 2017.

(2) The loans received from an associate company accounted for using the equity method, in the amount of €13.3 million (2015: €12 million) bear annual interest rate of 12% and are repayable within 5 years from the date of grant. The loans were granted during the years from 2011 to 2016.

e. Balances with companies under joint control and associates:

	31 December 2016	31 December 2015
	Euro in thousand	
Loans to associates (1)	-	858
Receivable from companies under joint control and associates (2)	1,921	3,263
Payable to companies under joint control (2),(3)	-	(556)

(1) The loans to associate bore interest at the rate of 5% per annum and were repaid during 2016.

(2) The above balances bear no interest and are repayable on demand.

(3) Payable to companies under joint control were repaid during the year ended 31 December 2016.

f. Balances with key management personnel:

	31 December 2016	31 December 2015
	Euro in thousand	
Loans granted to key management personnel (1)	3,633	3,951

(1) Loans granted to key management personnel of the Group bear interest of 0.19% to 7.1% per annum and are repayable on demand. As of 31 December 2016, following the deconsolidation of BCP (see Note 4), loans granted to key management personnel do not include any facilities provided to key management personnel of BCP.

g. Compensation of key management personnel of the Group:

	Year ended 31 December 2016	Year ended 31 December 2015
	Euro in thousand	
Share – based payments transactions (1)	775	1,318
Salaries (2) and (5)	3,109	3,029
Directors fees (3)	364	463
Other compensation (4)	-	1,000
Total	4,248	5,810

(1) See also Notes 17(2), 17(3) and 17(4).

(2) The Chairman of the Board, has an option to purchase 2.5% of the equity of any deal in which BCRE UK Properties B.V. ("BCRE UK") invests in accordance with the following terms: (a) term: 36 months from the closing of each deal; (b) exercise price: 2.5% of the equity invested by BCRE UK and the co-investment club, adjusted for distributions and additional investments; and (c) type: regular or cashless as determined by the chairman at the time of the exercise. In addition, the Chairman of the Board is entitled for an additional annual salary of £122,500 (€149,610) in his capacity as a member of the Investment Advisory Committee (besides his salary as a non-executive Director). Following the disposal of the property held by the Group in the UK, as described in Note 5(8) the Chairman of the Board exercised the abovementioned option and realized a profit of £46,979 (€58,800) from this transaction. In addition, during the year ended 31 December 2015 the Chairman of the Board received additional fees in the total amount £90,000 (€123,900) in relation to the provision of additional services within the Investment Advisory Committee. In relation to the year ended 31 December 2016, no other additional fees were paid to the Chairman of the Board.

(3) Relates to the Company's Directors' remuneration.

(4) During 2015, key employees received supplementary remuneration in the total amount of €1 million.

(5) For the year ended 31 December 2016, following the deconsolidation of BCP (see Note 4), salaries of key management personnel include salaries of key management personnel of BCP up to the deconsolidation date.

NOTE 32: SUBSEQUENT EVENTS

1. On 10 January 2017, the Company cancelled 1,533,415 of its own shares, which were purchased under the share buyback programme. Following this cancellation, the Company's entire issued share capital consists of 160,076,649 shares, including 479,750 shares purchased under the share buyback programme which are not yet cancelled.

2. On 17 January 2017, an indirect subsidiary of the Company in the USA has acquired a new rented multifamily residential property in Dayton, Ohio comprising of 336 multifamily units (approximately 334,000 sq ft), for a total consideration, including related transaction costs, of $26.5 million (€25.2 million).

3. On 31 January 2017, BCP completed a public offering of 598,540 shares and 299,270 warrants exercisable into 299,270 shares of BCP, at a total gross consideration of €49.6 million. Following the offering the Group's share in BCP was 26.33% as of that date.

4. On 16 February 2017, the Company exercised the option provided, in the loan agreements with subsidiaries of BCH, to acquire 29,556 shares of BCP instead of receiving the principal amount and the accrued interest under the facilities amounting to €1.7 million on that date. Following the Group's share in BCP was 26.74% as of that date.

5. On 16 February 2017 and 27 February 2017, the Company issued bonds (series C) with an aggregated principal amount of $13.3 million out of which $12 million remains outstanding (€12.6 million out of which €11.4 million remains outstanding) and of $7.8 million out of which $7 million remain outstanding (€7.4 million out of which €6.7 million remains

outstanding), respectively. These additional bonds will be consolidated and will form a single series with the existing bonds outstanding as at 31 December 2016.

COMPANY FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2016

COMPANY STATEMENT OF FINANCIAL POSITION
(AFTER PROFIT APPROPRIATION)

	Note	31 December 2016	31 December 2015
		Euro in thousand	
ASSETS			
Property, plant and equipment		4	4
Investments in investees	**1**	364,654	363,577
Loan to related party	**2**	4,992	-
Total non-current assets		369,650	363,581
Loan to related party	**2**	437	5,072
Other receivables	**3**	3,814	5,883
Amounts due from related parties	**4**	39,688	27,817
Marketable securities and other investments		576	901
Restricted cash	**5**	10	-
Cash and cash equivalents	**6**	12,527	3,716
Total current assets		57,052	43,389
Total assets		426,702	406,970
EQUITY			
Share capital	**7**	1,596	1,616
Share premium	**7**	140,614	147,404
Convertible loan and bonds	**7**	31,084	16,575
Legal reserves of subsidiaries and associates	**7**	306,377	279,895
Reserves from transactions with non-controlling interests	**7**	(13,664)	(13,213)
Share based payment reserve	**7**	3,171	3,156
Accumulated losses	**7**	(215,084)	(194,782)
Total equity		254,094	240,651
LIABILITIES			
Debentures	**8**	106,124	103,892
Bank loan	**9**	1,940	2,916
Other loans	**8**	5,983	11,657
Total non-current liabilities		114,047	118,465
Debentures	**8**	31,036	24,219
Bank loan	**9**	970	825
Other loans	**8**	54	166
Amounts due to related parties	**10**	25,466	21,115
Trade and other payables	**11**	1,035	1,529
Total current liabilities		58,561	47,854
Total liabilities		172,608	166,319
Total equity and liabilities		426,702	406,970

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

COMPANY INCOME STATEMENT

	Note	Year ended 31 December 2016	2015
		Euro in thousand	
Management fees		1,320	1,899
Total operating revenues		1,320	1,899
Administrative expenses	**16**	(3,847)	(5,535)
Wages and salaries	**17**	(860)	(920)
Other losses	**18**	(3,083)	(7,264)
Share based payments	**15**	(15)	(326)
Total operating expenses		(7,805)	(14,045)
Operating loss		(6,485)	(12,146)
Financial income	**19**	408	1,656
Financial expenses	**20**	(10,447)	(9,969)
Exchange rate differences, net		(3,778)	(6,981)
Financial expenses, net		(13,817)	(15,294)
Loss before tax		(20,302)	(27,440)
Tax expense	**21**	-	-
Loss after tax		(20,302)	(27,440)
Share of profit/(loss) of investees	**1**	16,553	(235)
Net loss for the year		(3,749)	(27,675)

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

General

The Company has its official seat in Amsterdam, the Netherlands, registered with the Dutch trade register under number 34217263. The address of the Company's registered office is 201 Barbara Strozzilaan, 1083HN, Amsterdam, The Netherlands and the Company's main activity is the holding of investments including any other interest-earning activities.

The consolidated financial statements form an integral part of the statutory financial statements of the Company for the year ended 31 December 2016. If there is no further explanation provided to the items included in the statement of financial position and the income statement of the Company, please refer to the related notes in the consolidated statement of financial position, the consolidated income statement and the consolidated statement of other comprehensive income.

Currency

The exchange rates used in these Company financial statements are:

	31 December 2016	31 December 2015
EUR : USD	1.0516	1.0906
EUR : ILS	4.0417	4.2499
EUR : GBP	0.8521	0.7367

Accounting policies

The Company financial statements of BCRE - Brack Capital Real Estate Investments N.V. (the "Company") have been prepared in accordance with the provisions of Part 9, Book 2, of the Dutch Civil Code. The presentation of the Company's income statement for the year ended 31 December 2016 has been changed compared to the presentation of the Company's income statement for the year ended 31 December 2015, to reflect the amendments in article 402 of Book 2 of the Dutch Civil Code.

The same principles governing valuation and the determination of results (including the principles governing the classification of financial instruments as equity or liability) have been applied in compilation of the Company's financial statements as in compilation of the consolidated financial statements, as permitted by Article 2:362, clause 8, of the Dutch Civil Code.

In these Company's financial statements the investments in subsidiaries and associate are measured at net asset value. The net asset value of a participating interest is determined by valuing the assets, provisions and liabilities and calculating the result using the accounting principles applied to the consolidated financial statements. When the Company's share of losses in an investment equals or exceeds its interest in the investment, (including separately presented goodwill or any other unsecured non-current receivables, being part of the net investment), the Company does not recognize any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case the Company will recognize a provision.

NOTE 1:- INVESTMENTS IN INVESTEES

a. Investments in subsidiaries and associate:

	31 December	
	2016	2015
Name	Euro in thousand	
Brack Capital First B.V. (Subsidiary)	355,604	353,854
BCRE Capital B.V. (Subsidiary)	9,272	8,755
Brack Capital Cyprus Management Limited (Subsidiary) (1)	-	1,190
Seaband Limited (Associate)	(141)	(141)
Brack Maraconi (Netherlands) B.V. (Subsidiary)	(81)	(81)
	364,654	363,577

(1) During the year ended 31 December 2016, the Company's direct shareholding of 100% in Brack Capital Cyprus Management Limited has been transferred to Brack Capital First B.V., a 100% direct subsidiary of the Company, at net assets value.

b. Movement in investments in subsidiaries:

	31 December	
	2016	2015
	Euro in thousand	
Balance at beginning of year	363,718	338,024
Additions	27,819	42,094
Repayments	(52,773)	(21,169)
Transfer from loans	-	4,166
Share of profit/(loss)	16,553	(51)
Share of translation reserve	9,929	2,806
Transactions with non-controlling interests	(451)	(2,152)
Balance at end of year	364,795	363,718

c. Movement in investment in associate:

	31 December	
	2016	2015
	Euro in thousand	
Balance at beginning of year	(141)	43
Share of loss	-	(184)
Balance at end of year	(141)	(141)

d. Loans to indirect subsidiaries:

	31 December	
	2016	2015
	Euro in thousand	
Balance at beginning of year	-	3,351
Interest on loans	-	147
Exchange differences	-	668
Transfer to direct investments	-	(4,166)
Balance at end of year	-	-

e. The Company holds the following direct financial interests:

Company name	City and country of incorporation	Share in issued capital %
Brack Capital First B.V.	Amsterdam, The Netherlands	100%
BCRE Capital B.V.	Amsterdam, The Netherlands	100%
Seaband Limited	Limassol, Cyprus	30.49%
Brack Maraconi (Netherlands) B.V.	Amsterdam, The Netherlands	3.40%
BCRE Holdings B.V.	Amsterdam, The Netherlands	100%

f. The Company holds the following significant indirect financial interests:

Company name	City and country of incorporation	Share in issued capital %
BCRE India B.V.	Amsterdam, The Netherlands	100%
Brack Capital Gamma B.V.	Amsterdam, The Netherlands	100%
Brack Capital USA B.V.	Amsterdam, The Netherlands	100%
Brack Capital Properties N.V. ("BCP") (1)	Amsterdam, The Netherlands	28.74%
Brack Maraconi (Netherlands) B.V.	Amsterdam, The Netherlands	84.65%

(1) As at 31 December 2016 and as at 31 December 2015, the Company held 28.72% and 34.76% respectively, of BCP's issued share capital and voting rights. Refer also to Note 4 of the consolidated financial statements.

g. Additional disclosure of financial information for investees:

Company name	Net asset/(liability) value attributable to equity holders Euro in thousand	Profit/(loss) for the year attributable to equity holders Euro in thousand
Seaband Limited	(462)	-
Brack Maraconi (Netherlands) B.V.	8,204	(1,712)
Brack Capital Properties N.V. (1)	419,173	76,276

NOTE 2:- LOAN TO RELATED PARTY

The loan to Brack Capital Holdings Limited was payable on September 2016. During the year ended 31 December 2016, there was an addendum to the loan agreement and as per the amended terms the facility bears annual interest of 3.5% (2015: 3%), is unsecured and is repayable through annual instalments of $400,000 thousand plus accrued interest up until the extended maturity on 13 September 2021 when the facility shall be paid in full.

The loan to related party is analyzed as follows:

	31 December	
	2016	2015
	Euro in thousand	
Loan to related party	5,429	5,072
Less: Current maturity	(437)	(5,072)
Total non-current loan to related party	4,992	-

The movement in the loan to related party is as follows:

	31 December	
	2016	2015
	Euro in thousand	
Balance at the beginning of the year	5,072	4,461
Interest charged	161	142
Exchange differences	196	469
Balance at the end of the year	5,429	5,072

NOTE 3:- OTHER RECEIVABLES

Other receivables include loans granted to employees in the amount of €1.6 million (2015: €1.9 million) and to third party investors in the amount of €2.2 million (2015: €4 million) secured by their portion in the Group's investments. Loans granted to employees and to third party investors bear interest of 3% - 4.5% (2015: 3% - 4.5%) per annum, are secured by their portion in the Group's investments and are repayable on demand.

NOTE 4:- AMOUNTS DUE FROM RELATED PARTIES

Amounts due from related parties represent various short term loans given to Group's related parties.

Amount due from indirect subsidiary, BCRE Manchester 1 B.V., in the amount of €3.1 million as of 31 December 2015, bore interest of 7% per annum, was unsecured and was repaid in January 2016.

Amount due from parent company, Brack Capital Investments Ltd, in the amount of €2.6 million as of 31 December 2015, bore interest of 4.5% per annum and was repaid in April 2016.

Amounts due from a direct subsidiary, Brack Capital First B.V., in the amount of €5.3 million, and from a related party, in the amount of €0.9 million, as of 31 December 2016, bear interest of 4.25% per annum and are repayable on demand of the Company.

All the remaining short term loans given to Group's related parties do not bear any interest and are repayable on demand.

NOTE 5:- RESTRICTED CASH

	31 December	
	2016	2015
	Euro in thousand	
Restricted cash	10	-

(1) Restricted cash has been provided as collateral for the series C bonds issued by the Company. See Note 8a(3).

NOTE 6: CASH AND CASH EQUIVALENTS

Cash at banks earn interest at floating rates based on daily bank deposit rates. Cash and cash equivalents are free from any pledges and any other securities.

NOTE 7:- EQUITY

The composition of the Company's equity is as follows:

	Share capital	Share premium	Convertible loan and bonds	Share based payment	Legal reserves of subsidiaries and associates	Reserves from transactions with non-controlling interests	Accu-mulated losses	Total
	Euro in thousand							
Balance as at 1 January 2015	1,616	147,404	16,575	2,830	276,342	(11,061)	(166,359)	267,347
Result for the period	-	-	-	-	747	-	(28,423)	(27,676)
Revaluation of investments held by investees	-	-	-	-	5,396	-	-	5,396
Foreign exchange differences	-	-	-	-	(2,590)	-	-	(2,590)
Share based payments transactions	-	-	-	326	-	-	-	326
Transactions with non-controlling interests, net	-	-	-	-	-	(2,152)		(2,152)
Balance as at 31 December 2015 / 1 January 2016	1,616	147,404	16,575	3,156	279,895	(13,213)	(194,782)	240,651
Result for the period	-	-	-	-	16,553	-	(20,302)	(3,749)
Revaluation of investments held by investees	-	-	-	-	286	-	-	286
Foreign exchange differences					9,643			9,643
Share buyback	(20)	(1,942)	-	-	-	-	-	(1,962)
Capital reduction	-	(4,848)	-	-	-	-	-	(4,848)
Issue of convertible bonds, net of expenses	-	-	14,509	-	-	-	-	14,509
Share based payments transactions	-	-	-	15	-	-	-	15
Transactions with non-controlling interests, net	-	-	-	-	-	(451)	-	(451)
Balance as at 31 December 2016	1,596	140,614	31,084	3,171	306,377	(13,664)	(215,084)	254,094

The legal reserves of subsidiaries and associates are not distributable reserves and cannot be utilized for the distribution of dividends to shareholders.

Authorized and issued share capital

	31 December 2016		31 December 2015	
	Authorized	Issued and fully paid*	Authorized	Issued and fully paid
Ordinary shares of €0.01 (2015: €0.01) each	700,000,000	159,596,899	700,000,000	161,610,064

(*) 2,013,165 shares purchased by the Company under the share buyback program were deducted from the issued and fully paid share capital.

On 15 January 2016, the nominal value of each share was increased from €0.01 to €0.04 and subsequently, on 29 March 2016, the nominal value of each share was reduced from €0.04 to €0.01. The capital reduction amounted in total to €4.8 million.

On 3 June 2016, the Company's Board of Directors authorized the Company to buy shares of its own capital up to an amount of €3 million ("share buyback program"). Under the share buyback program, 2,013,165 shares (1.2% of the Company's issued share capital) were purchased during the year ended 31 December 2016 for a total consideration of €2 million.

On 10 January 2017, the Company cancelled 1,533,415 shares in its own capital, which were purchased under the share buyback program. Following this cancellation, the Company's entire issued share capital consists of 160,076,649 shares, including 479,750 shares purchased under the share buyback program which are not yet cancelled. See also Subsequent events note.

Share premium

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares.

Convertible loan

The Convertible Loan Notes amounting to €16.6 million, net of expenses as of 31 December 2016, bear 2.25% annual compounded interest and had a term initially maturing on 14 November 2016. The maturity of the Convertible Loan Notes has been extended up until 30 November 2018 through an addendum signed during the year ended 31 December 2016. The addendum provided that the conversion price shall be €1.5 per share (save for certain customary exceptions) and the ratchet protection provided to the lenders will be only for the first year of the Convertible Loan Notes' term. The Convertible Loan Notes (including accrued interest) will be convertible in whole into ordinary shares (i) at the holder's option at any time up to the end of the term, and (ii) at the Company's option on the maturity date. Furthermore, the conversion price shall be reduced to the lowest effective price per share paid for any share or securities convertible into shares following the date of the convertible loan agreement (save for certain customary exceptions). Refer also to Note 16b(1) in the consolidated financial statements.

Convertible bonds

On 20 September 2016, the Company issued bonds in an aggregate principal amount of €14.5 million, net of expenses, convertible into ordinary shares of the Company's issued share capital. The Company has the option to call for the conversion of the bonds only at the maturity of the bond term on 20 March 2020 or enforcement events. The bondholders have the right to convert at any time during the bond term. Subject to certain adjustment mechanisms, the initial bondholder conversion price is €1.50 per share (subject to certain adjustments) and the initial Company's conversion price is €0.70 per share (subject to certain adjustments). During the bond term, the bonds will bear fixed interest at 4.25% per annum, payable annually in arrears on 20 September of each year, commencing on 20 September 2017 up until maturity. Refer also to Note 16b(3) in the consolidated financial statements. As a result of the above, the bonds were classified as equity, where the interest component of the bonds has been classified within current liabilities.

Legal reserves of subsidiaries and associates

The legal reserves of subsidiaries and associates include the following reserves:

1. Reserve for participating interests amounting to €160,972 thousand (2015: €95,081 thousand)
2. Translation reserve amounting to €(53,575) thousand (2015: €(50,272) thousand)
3. Revaluation reserve amounting to €198,980 thousand (2015: €235,086 thousand)

The reserve for participating interests relates to reserves for which the Company cannot secure payment of dividend.

The translation reserve relates to the Company's investment in foreign subsidiaries that are translated into Euro in accordance with IAS 21 requirements.

The revaluation reserve relates to the unrealized result of the revaluation of investment properties held by subsidiary and associate companies.

In accordance with Dutch law provisions applicable to the Company, gains from fair value adjustments, which have not been realized, cannot be distributed as dividends. In addition, earnings of associates and joint ventures cannot be distributed as dividends, unless distributed by the associates and the joint ventures themselves. At the same time, according to Dutch law, these earnings can be distributed only after their conversion into share capital and a reduction in equity as a result of the dividend distribution.

Result for the period / Accumulated losses

The Board of Directors proposes to the General Meeting of the shareholders to add the 2016 result: an amount of €3,749 thousand to be deducted from the other reserves.

NOTE 8:- NON-CURRENT LIABILITIES

a. Debentures

Debentures analyzed as follows:

	31 December	
	2016	**2015**
	Euro in thousand	
Debentures	137,160	128,111
Less: Current maturities	(31,036)	(24,219)
Total non-current debentures	106,124	103,892

Below is information about the contractual terms of the debentures issued by the Company:

(1) Debentures (series A) amounting to €37.2 million (NIS150 million) (2015: €53.2 million (NIS226 million)), of which €18.7 million (NIS76 million) (2015: €17.8 million (NIS76 million)) are presented

as current maturities, are linked to the Israeli CPI, bear annual interest of 6.504% (2015: 6.504%) and are to be repaid in 7 annual instalments, commenced in December 2012.

(2) In November 2013, the Company had issued an additional series of debentures (series B) for a nominal value of $25 million (€22.9 million). The outstanding balance as of 31 December 2016 amounted to €22.7 million. The debentures were issued to private investors and are denominated in US dollar, bearing interest rate of 7% (2015: 7%) per annum. The debentures' amount is repayable in seven annual payments of unequal amounts on 31 December of each year from 2015 to 2021 (inclusive). Each of the first four repayments constitutes 6.25% of the debentures' amount and each of the last three payments will equal 25% of the debentures' amount. The debentures are secured by BCP shares.

The Company had undertaken, the following covenants with respect to series B debentures:

(a) The Company will not make any distribution of dividends and/or capital to its shareholders or purchase its shares if, as a result of such distributions or purchase, the equity of the Company (excluding non-controlling interests) will be reduced below $200 million or the ratio described in (d) below will exceed 37.5%.
(b) The Company's equity attributable to its shareholders (excluding non-controlling interests) shall not fall below $140 million.
(c) BCP's equity attributable to BCP's shareholders shall not fall below €135 million.
(d) The ratio between the net financial debt to the total capital and debt (CAP) of the Company shall not exceed 36.5% (Company's financial statements).
(e) The net financial debt to CAP ratio of BCP shall not exceed 45% (BCP's financial statements).

As of 31 December 2016, all the above mentioned covenants are met.

(3) On 5 December 2014, the Company issued bonds (series C) with an aggregate principal amount of $56,350 thousand (€51.7 million). In June 2015, the Company made an additional issue of bonds (series C) with an aggregate principal amount of $3,650 thousand (€3.3 million). On 3 March 2016, the Company has increased the issuance limit of bonds series C from $60 million (€54 million) to $180 million (€162 million). On 31 March 2016, the Company issued bonds (series C) with an aggregate principal amount of $18.4 million out of which $17.5 million remains outstanding (€16.4 million out of which €15.5 million remains outstanding). On 20 April 2016, the Company made an additional issue of bonds (series C) with an aggregate principal amount of $12.7 million out of which $12.1 million remains outstanding (€11.4 million out of which €10.9 million remains outstanding). The additional bonds issued during the period were consolidated and formed a single series with the existing bonds series C that were outstanding at the beginning of the year. The outstanding balance as of 31 December 2016 amounted to €77.3 million. The bonds bear interest rate of 6.5% (2015: 6.5%) per annum which is subject to adjustments of 0.25%-0.5% (up to a maximum of 1%) in the case of changes in the bonds' rating. The amount of bonds is repayable in eight annual payments of unequal amounts on 5 December of each year from 2015 to 2022 (inclusive). Each of the first two payments constituted 5% of the bonds' amount, the third and fourth payments constitute 10% each of the bonds' amount and each of the last four payments constitutes 17.5% of the bonds' amount.

The Company had undertaken, the following covenants with respect to series C debentures:

(a) The Company's equity attributable to its shareholders (excluding non-controlling interests) shall not fall below $140 million.
(b) The ratio between the net financial debt to the total assets of the Company's shall not exceed

75%.

(c) The Company will not make any distribution of dividends to its shareholders if, as a result of such distributions the equity of the Company (excluding non-controlling interests) will be reduced below $150 million or the ratio described in (b) above will exceed 70%.

As of 31 December 2016, the Company meets all the above mentioned covenants.

b. Other Loans

(1) On 10 December 2015, the Company entered into a loan agreement with a group of lenders for obtaining a loan facility amounting to $10.25 million (€9.4 million). The outstanding amount of the facility as of 31 December 2016 amounted to $6.3 million (€6 million) (2015: $10.25 million (€9.4 million)). The facility bears interest of 6.5% per annum which is payable semi-annually until the maturity of the facility on 31 December 2018, when the principal amount shall be also repaid in full. As a security for the loan, Company's subsidiaries pledged their rights in BCRE Funding Holdings LLC, an indirect subsidiary of the Company in the USA. Part of the group of lenders were related parties of the Company, who entered into the loan agreement in the same terms as per the other group of lenders in the total amount of $1.7 million (€1.6 million).

NOTE 9:- BANK LOAN

On 18 December 2014, the Company entered into a loan agreement with a financing bank for the amount of $5.1 million (€4.2 million). The loan facility bears fixed interest of 5.27% (2015: 5.27%) per annum and is repayable by quarterly instalments of $255 thousand (€210 thousand) plus accrued interest, commencing on 30 March 2015 up until the loan maturity date on 30 December 2019. The outstanding balance of the facility as of 31 December 2016 amounted to €2.9 million.

Pursuant to the financial covenants set forth in the loan agreement, throughout the loan term (1) the Company shall maintain liquid assets in an amount of no less than NIS20 million, (2) the Company shall ensure that its equity will not be less than $140 million, (3) the Company shall ensure that the equity of BCP will not be less than €135 million, (4) the Company shall ensure that the ratio between the net financial debt to the total capital and debt (CAP) of the Company will not exceed 36.5% (Company's financial statements), (5) the Company shall ensure that the net financial debt to CAP ratio of BCP shall not exceed 45% (BCP's financial statements) and (6) the Company shall not pay any forms of distributions to its present or future shareholders, if as a result of such distributions the Company's equity is reduced below $200 million or if the net financial debt to CAP ratio of the Company exceeds 37.5%.

As of 31 December 2016, all the above mentioned covenants are met.

NOTE 10:- AMOUNTS DUE TO RELATED PARTIES

Amounts due to related parties represents various short term loans received from other Group's related parties that do not bear any interest and are repayable on demand.

NOTE 11:- TRADE AND OTHER PAYABLES

	31 December	
	2016	2015
	Euro in thousand	
Provision for employees' compensation	473	820

Accounts payable to suppliers and trade creditors	463	118
Other liabilities	99	591
	1,035	1,529

NOTE 12:- CORPORATE INCOME TAX

The corporate income tax return for the fiscal year 2015 will be filed by the end of 30 June 2017.

No deferred income asset is recognized as the Company does not expect to recover any losses with future taxable income.

NOTE 13:- AUDIT FEES

With reference to section 2:382a (1) and (2) of the Netherlands Civil Code, the following audit fees for the financial year ended 31 December 2016 have been charged to the Company, its subsidiaries and other consolidated entities:

	Ernst & Young Accountants LLP, The Netherlands	Ernst & Young, Israel	Total
	Euro in thousand		
Audit and assurance services	97	391	488

For the financial year ended 31 December 2015, the following audit fees have been charged to the Company, its subsidiaries and other consolidated entities:

	Ernst & Young Accountants LLP, The Netherlands	Ernst & Young, Israel	Total
	Euro in thousand		
Audit and assurance services	76	391	467

NOTE 14:- EMOLUMENTS OF DIRECTORS

The emoluments, as intended in section 2:383 (1) of the Netherlands Civil Code, amounted to €425 thousand (2015: €463 thousand) for Directors. The composition of Directors emoluments is as follows:

Executive Directors:

	Year ended 31 December	
	2016	2015
	Euro in thousand	
Michiel Olland (executive)	52	40
Luca Tomesani Melotti (executive)	45	40
	97	80

Non-executive Directors:

	Year ended 31 December	
	2016	2015
	Euro in thousand	
Jan van Der Meer (non-executive)	36	30

	2016	2015
Harin Thaker (non-executive)	250	323
Daniel Aalsvel (non-executive)	42	30
	328	383

Total:

	Year ended 31 December	
	2016	**2015**
Executive and non-executive Directors:	**Euro in thousand**	
	425	463

Director fees in relation to Company's subsidiaries/associates for the year ended 31 December 2016 amounted to €33 thousand (2015: €264 thousand). For the year ended 31 December 2015, the total Director fees in relation to Company's subsidiaries/associates also include the fees paid to the Directors of BCP.

The Chairman of the Board, Mr. Harin Thaker, has an option to purchase 2.5% of the equity of any deal in which BCRE UK Properties B.V. ("BCRE UK") invests in accordance with the following terms: (a) term: 36 months from the closing of each deal; (b) exercise price: 2.5% of the equity invested by BCRE UK and the co-investment club, adjusted for distributions and additional investments; and (c) type: regular or cashless as determined by the chairman at the time of the exercise. In addition, the Chairman of the Board is entitled for an additional annual salary of £122,500 (€149,610) in his capacity as a member of the Investment Advisory Committee (besides his salary as a non-executive director). Following the disposal of the property held by the Group in the UK during the year ended 31 December 2016, the Chairman of the Board exercised the abovementioned option and realized a profit of £46,979 (€58,800) from this transaction.

In addition, during the year ended 31 December 2015 the Chairman of the Board received additional fees in the total amount £90,000 (€123,900) in relation to the provision of additional services within the Investment Advisory Committee. In relation to the year ended 31 December 2016, no other additional fees were paid to the Chairman of the Board.

NOTE 15:- SHARE BASED PAYMENTS

During 2012, the Company's Board of Directors approved the issuance of 4,086,000 fully vested warrants exercisable into 4,086,000 Company's shares (representing 3% of the Company's share capital at that point of time) to an investment committee member. The exercise price of the warrants is €1.32 per share. The fair value of the option granted is approximately €1,517 thousand (2015: €1,517 thousand).

On 28 May 2014, an entity beneficially owned by the family of senior manager A was granted 2,862,155 warrants under a warrant agreement entered into between the Company and the relevant entity, exercisable (subject to the warrants having vested) from the date of grant within seven years, to 2,862,155 shares. 50% of these warrants can be exercised at an exercise price of €1.4565 ("A Warrants"). The remaining 50% of the warrants can be exercised at an exercise price of €1.7801 ("B Warrants"). The warrant agreement also provides for a cashless exercise, at the option of the holder of the warrants. 50% of the A Warrants and 50% of the B Warrants vested immediately and 50% of the A Warrants and 50% of the B Warrants vested one year after the grant of the warrants. The holder of warrants is protected against dilution in the case of a bonus payment, rights offering, distribution of a cash dividend or any other distribution by the Company. The fair value of these warrants is approximately €1,413 thousand.

On 28 May 2014, senior manager B was granted 483,519 warrants under a warrant agreement entered into with the Company, exercisable (subject to the warrants having vested) from the date of grant within seven years, to 483,519 shares. These warrants can be exercised against an exercise price of €1.6183. 1/3rd of these warrants vested immediately, 1/3rd vested one year after the date of the grant of the warrants and the remaining 1/3rd shall vest two years after the date of the grant of the warrants. The warrant agreement also provides for a cashless exercise, at the option of the holder of the warrants. The holder of warrants is protected against dilution in the case of a bonus payment, rights offering, distribution of a cash dividend or any other distribution by the Company. The fair value of these warrants is approximately €241 thousand.

The expenses recognized in the Company's financial statements for the years ended 31 December 2016 and 31 December 2015, for the warrants granted are as follows:

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Share – based payments transactions	15	326

NOTE 16:- ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Director fees (Note 14)	425	463
Legal expenses and other professional services	2,135	2,262
Office rent and maintenance	140	119
Other administrative expenses	1,147	2,691
	3,847	5,535

NOTE 17:- WAGES AND SALARIES

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Wages and salaries	840	906
Social security charges	20	14
	860	920

NOTE 18- OTHER LOSSES

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Receivable amounts written-off (1)	3,083	7,264

(1) Relates to receivable balances written-off which are not considered collectible by the Company.

NOTE 19:- FINANCIAL INCOME

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Interest income on loans, receivables and deposits	408	1,656

NOTE 20:- FINANCIAL EXPENSES

	Year ended 31 December	
	2016	**2015**
	Euro in thousand	
Finance expenses on interest bearing loans and other borrowings	10,447	9,969

NOTE 21:- TAX

	Year ended 31 December	
	2016	2015
	Euro in thousand	
Current income tax	-	-

The Company incurred taxable loss for the year ended 31 December 2016 and as a result no income tax liability occurred for the year ended 31 December 2016.

The applicable tax rate is 25% (2015: 25%).

NOTE 22:- GUARANTEES PROVIDED BY THE COMPANY IN RELATION TO THE LIABILITIES OF OTHER GROUP COMPANIES

(1) Pursuant to the financing agreements entered into by two indirect subsidiaries of the Company in the USA with individual lenders for the amount of $57.6 (€54.8 million) in respect of the first subsidiary and the amount of amount of $38.5 million (€36.6 million) for the second, the Company has provided to these lenders payment guarantees for the amounts advanced to the indirect subsidiaries. The outstanding balance of the facilities provided to the first subsidiary as at 31 December 2016 amounted to $30.6 million (€29.1 million).

(2) Pursuant to the loan agreement entered into by an indirect subsidiary of the Company (Brack Capital USA B.V.) with a financing bank for the amount of $13.8 million (€13.1 million), a full payment guarantee was given to the financing bank, jointly by the Company and another wholly owned direct subsidiary of the Company. In addition, the Company and its wholly owned subsidiary guaranteeing this facility, have also undertaken that so long as the facility is still outstanding:

(a) Brack Capital USA B.V. should maintain a minimum net equity of $45 million.
(b) Brack Capital USA B.V. should maintain a minimum of shareholders' funds of $30 million.
(c) Brack Capital USA B.V. should maintain a minimum gross cash flow from operations of $5 million for each of the six-month periods during the first year of the loan term, then increasing to $10 million for each of the six-month periods for the remaining term of the loan.
(d) The Company should maintain a minimum net equity of $140 million.
(e) The ratio between the net financial debt of the Company to its total assets shall be maintained during the loan term within 0.75 to 1.00.

The above covenants relate to the consolidated financial statements of Brack Capital USA B.V. and of the Company, where applicable.

As of 31 December 2016, the Company and its subsidiary met all the covenants.

(3) Pursuant to a loan agreement entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a multifamily residential property, the Company has provided a guarantee in the favor of the bank as follows: (1) standard environmental indemnity and (2) standard "bad boy" carve-outs (*). The Company further undertakes to maintain a minimum net worth of $11.2 million (€10.3 million) and minimum liquid assets of $1.2 million (€1.1 million). Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees. As of 31 December 2016, all of the above covenants are met.

(4) Pursuant to the facility agreement entered into by an indirect subsidiary of the Group in the USA, the Company, jointly with another indirect subsidiary in the USA, provided a guaranty in favour of the financing bank as follows: (1) standard "bad-boy" carve-outs (*), (2) standard environmental indemnity (3) guaranty of additional required equity, (4) carry guarantee for the property, (5) completion guarantee and (6) rebalancing guarantee.

(5) A guaranty was provided by the Company, jointly and equally with its partner for the related project, with regards to a refinancing of the construction loan for the development of a property obtained by a an associate of the Company in the USA for a total amount of $103 million (€94 million) as follows:

(a) Principal Payment Guaranty equal to 12.5% of the outstanding amount of the loan, then decreasing to 5% after property achieves a 10.5% debt yield and then reducing to nil once the property achieves 11% debt yield.
(b) Debt Service Guaranty throughout the Loan term covering interest payments (not principal) for the first 3 year loan term and then for years 4 to 5 covering both interest and principal payments
(c) Standard "bad-boy" carve-outs (*) throughout the term of the Loan.
(d) Standard environmental indemnity.

Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees.

The Company had also undertaken, jointly with its partner for the related project, the following covenants with respect to this facility:

c) The Company shall maintain a minimum net equity of $100 million.
d) The Company shall maintain a minimum liquidity of $15 million.

As of 31 December 2016, all of the above covenants are met.

(6) Pursuant to the first loan facility entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a residential building for the total amount of $55 million (€49.6 million), the Company has provided a guarantee in the favor of the lender as follows: (1) standard environmental indemnity, (2) standard "bad boy" carve-outs (*) and (3) carry guarantee for the property. Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees

(7) Pursuant to a loan agreement entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a multifamily residential property amounting to $12.5 million (€11.9 million) as of 31 December 2016, the Company provided a guaranty in favor of the bank as follows: (1) standard "bad-boy" carve-outs (*) and (2) standard environmental indemnity. The Company further undertakes to maintain $12.8 million (€10.5 million) of net worth and $1.28 million (€1.05 million) of liquid assets. Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees. As of 31 December 2016, all of the above covenants are met.

(8) Pursuant to the financing agreements entered into by a joint venture of the Company in Russia for the amounts of $29.1 million (€27.7 million) and $86.8 million (€82.5 million), the joint venture entered into a refinancing agreement with the financing bank.

The key amendments to the existing loan facilities and to the corporate structure of the joint venture are, among other things, prolonging the final maturity dates by 3 to 5 years, amortisation payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a 'golden' share in each project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the joint venture. The 'golden' shares can be repurchased subject to meeting certain conditions. The completion of the refinancing is expected to be completed within a period of eight months after the signing of the relevant agreements and is subject to certain other conditions which need to fulfilled by the joint venture and the approval of the transfer of the 'golden' shares to the financing bank, by the Federal Antimonopoly Service of the Russian Federation.

Also, the joint venture undertaken to maintain a Debt Service Ratio of 1, from 1 September 2016 onwards, gradually increasing during the loan term. As of 31 December 2016, all the applicable covenants were met.

The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are not substantially different compared to the original facility and therefore accounted for the change in terms as a modification without any profit or loss effect.

The Company has provided a payment guarantee in the amount of $12.8 million (€12.2 million) for both facilities obtained by the joint venture. The partner participating in this project, has provided to the Company a guarantee amounting to $6.8 million (€6.5 million) in relation to the above.

(9) Following the refinancing agreement entered into by an indirect subsidiary of the Company in Russia for the total amount of $79.8 million (€75.9 million) as at 31 December 2016, the key amendments to the existing facility and to the corporate structure of the subsidiary are, among other things, prolonging the final maturity dates by 3 to 5 years, amortization payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a 'golden' share in each project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the subsidiary. The 'golden' shares can be repurchased subject to meeting certain conditions. The completion of the refinancing is expected to be completed within a period of eight months after the signing of the relevant agreements and is subject to certain other conditions which need to fulfilled by the subsidiary and the approval of the transfer of the 'golden' shares to the financing bank, by the Federal Antimonopoly Service of the Russian Federation.

Also, the indirect subsidiary under the existing terms, undertaken to maintain a Debt Service Ratio of 1, from 1 September 2016 onwards, gradually increasing during the loan term. As of 31 December 2016, all the applicable covenants were met.

The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are not substantially different compared to the original facility and therefore accounted for the change in terms as a modification without any profit or loss effect.

(10) Pursuant to the financing agreement entered into by an indirect subsidiary of the Company for the amount of $11.3 million (€10.7 million) as of 31 December 2016, the Company has provided to the lenders, jointly with another indirect subsidiary, a full payment guarantee. The facility is secured by BCP shares.

(11) Pursuant to the financing agreement entered into by an associate of the Group and a financing bank in Russia amounting to $37 million (€35.2 million) as of 31 December 2016, the associate entered into a refinancing agreement with the financing bank.

The key amendments to the existing loan facilities and to the corporate structure of the associate are, among other things, prolonging the final maturity dates by 3 to 5 years, amortization payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a ‘golden’ share in each project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the associate. The ‘golden’ shares can be repurchased subject to meeting certain conditions. The completion of the refinancing is expected to be completed within a period of eight months after the signing of the relevant agreements and is subject to certain other conditions which need to fulfilled by the associate and the approval of the transfer of the ‘golden’ shares to the financing bank, by the Federal Antimonopoly Service of the Russian Federation.

Also, the associate undertaken to maintain a Debt Service Ratio of 1, from 1 September 2016 onwards, gradually increasing during the loan term. As of 31 December 2016, all the applicable covenants were met.

The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are not substantially different compared to the original facility and therefore accounted for the change in terms as a modification without any profit or loss effect.

(12) Following the refinancing agreement entered into by an indirect subsidiary of the Company in Russia for the total amount of $31.4 million (€29.9 million) as of 31 December 2016, the key amendments to the existing facility and to the corporate structure of the subsidiary are, among other things, prolonging the final maturity dates by 3 to 5 years, amortization payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a ‘golden’ share in each project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the subsidiary. The ‘golden’ shares can be repurchased subject to meeting certain conditions. The completion of the refinancing is expected to be completed within a period of eight months after the signing of the relevant agreements and is subject to certain other conditions which need to fulfilled by the subsidiary and the approval of the transfer of the ‘golden’ shares to the financing bank, by the Federal Antimonopoly Service of the Russian Federation.

Also, the indirect subsidiary undertaken to maintain a Debt Service Ratio of 1, from 1 September 2016, gradually increasing during the loan term. As of 31 December 2016, all the applicable covenants were met.

The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are not substantially different compared to the original facility and therefore accounted for the change in terms as a modification without any profit or loss effect.

(*) A guaranty pursuant to which the guarantor agrees to be responsible for (i) actual losses suffered by the lender as result of certain bad acts committed by the borrower in the nature of misappropriating funds and (ii) for the entire loan in the event of major bad acts committed by the borrower.

NOTE 23:- STAFF

During the year, the average number of employees in the Group amounted to 100 (2015: 110), of which 97 (2015: 107) were employed outside The Netherlands. The average number of employees is analyzed as follows:

	31 December	
	2016	**2015**
Russia	35	38
USA	35	37
Others	30	35
Total employees	100	110

NOTE 24:- SUBSEQUENT EVENTS

On 10 January 2017, the Company cancelled 1,533,415 of its own shares, which were purchased under the share buyback programme. Following this cancellation, the Company's entire issued share capital consists of 160,076,649 shares, including 479,750 shares purchased under the share buyback programme which are not yet cancelled.

On 17 January 2017, an indirect subsidiary of the Company in the USA has acquired a new rented multifamily residential property in Dayton, Ohio comprising of 336 multifamily units (approximately 334,000 sq ft), for a total consideration, including related transaction costs, of $26.5 million (€25.2 million).

On 31 January 2017, BCP completed a public offering of 598,540 shares and 299,270 warrants exercisable into 299,270 shares of BCP, at a total gross consideration of €49.6 million. Following the offering the Company's share in BCP was 26.33% as of that date.

On 16 February 2017, the Company exercised the option provided, in the loan agreements with subsidiaries of BCH, to acquire 29,556 shares of BCP instead of receiving the principal amount and the accrued interest under the facilities amounting to €1.7 million on that date. Following the Company's share in BCP was 26.74% as of that date.

On 16 February 2017 and 27 February 2017, the Company issued bonds (series C) with an aggregated principal amount of $13.3 million out of which $12 million remains outstanding (€12.6 million out of which €11.4 million remains outstanding) and of $7.8 million out of which $7 million remain outstanding (€7.4 million out of which €6.7 million remains outstanding), respectively. These additional bonds will be consolidated and will form a single series with the existing bonds outstanding as at 31 December 2016.

Amsterdam, 28 April 2017

Board of Directors

Harin Thaker	Michiel Olland	Daniel Aalsvel	Luca Tomesani Melotti

OTHER INFORMATION

Provisions in the Articles of Association governing the appropriation of profit

In accordance with article 30 of the Company's Articles of Association, the Company's Board of Directors may determine which part of the profits shall be reserved. The part of the profit remaining after reservation shall be put at the disposal of the General Meeting.

Independent auditor's report

To: The shareholders and board of directors of BCRE-Brack Capital Real Estate Investments N.V.

Report on the audit of the financial statements 2016

Our opinion

We have audited the financial statements 2016 of BCRE-Brack Capital Real Estate Investments N.V., based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of BCRE-Brack Capital Real Estate Investments N.V. as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- the accompanying company financial statements give a true and fair view of the financial position of BCRE-Brack Capital Real Estate Investments N.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016
- the following statements for 2016: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows
- the notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- the company statement of financial position as at 31 December 2016
- the company income statement for 2016
- the notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing.
Our responsibilities under these standards are further described in the section of our report entitled "Our responsibilities for the audit of the financial statements".

We are independent of BCRE-Brack Capital Real Estate Investments N.V. in accordance with the Code of Ethics for Professional Accountants (Vio: Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Dutch Code of Ethics (VGBA: Verordening gedrags- en beroepsregels accountants).

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

Materiality

Materiality	EUR 4.6 million
Benchmark applied	0.5% of total assets
Explanation	We consider total assets the best benchmark for

	materiality taking into account the nature and size of the business operations and the users of the financial statements. This measurement basis is widely used in the industry. Since the Company measures its investment properties at fair value, the future value for investors is captured by the fair value measurement of investment properties. As such, this represents an important and relevant factor in measuring the Company's performance and stability.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the board of directors to report to them any misstatements identified during the audit in excess of EUR 230 thousands, as well as smaller misstatements that in our view must be reported on qualitative grounds.

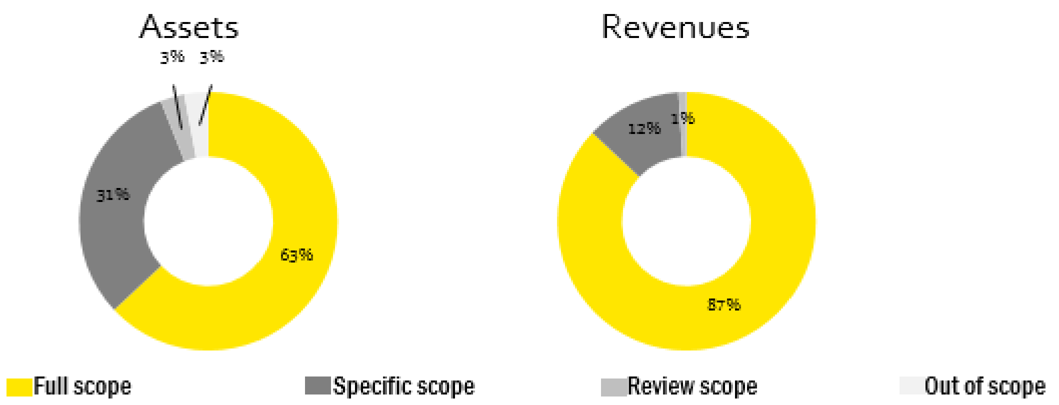
Scope of the group audit

BCRE-Brack Capital Real Estate Investments N.V. is at the head of a group of entities.
The financial information of this group is included in the consolidated financial statements of BCRE-Brack Capital Real Estate Investments N.V.

Our group audit mainly focused on significant group entities based on the relative size of the group entity on the total assets, including the size of the investment properties, inventory of land and apartments under construction and interest bearing loans and borrowings. Significant group entities are also determined based on specific risks of material misstatements. The group is organized on a country basis and we identified the investment in Brack Capital Properties N.V. ("BCP"), the Russian entities and the US entities as a full scope location. In joint operation with our local EY team in Israel we have:

- performed audit procedures at group entity BCRE-Brack Capital Real Estate Investments N.V.
- performed audit procedures for the significant group entities
- performed review procedures or specific audit procedures at the other group entities
- used the work of other auditors when auditing the entity Brack Capital Properties N.V., the associate in which the company holds a 28.74% share at 31 December 2016.

In total these procedures represent 97% of the group's total assets and 100% of gross revenues.



By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our 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. We have communicated the key audit matters to the board of directors. The key audit matters are not a comprehensive reflection of all matters discussed.

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.

Risk	Our audit approach
Valuation of investment properties (see notes 2n and 5)	
The valuation of the investment properties, including the investment properties held by investments in associates and joint ventures, is important to our audit as it represents a significant judgmental area and an important part of the total assets of the company. Because these properties are measured at fair value, the valuation of the investment properties is highly dependent on estimates. We therefore identified the valuation of investment properties as a significant risk. The group policy is that property valuations are performed by external appraisers at least once a year. These valuations are amongst others based on assumptions, such as estimated rental revenues, discount rates, occupancy rates, historical transactions, market knowledge and developers risk.	We considered the objectivity, independence and expertise of the external appraisers. We furthermore audited the correctness of source data as used in calculating the valuation. We involved our real estate valuation specialists in different countries and used their specific experience and knowledge in the local markets, to assist us in the review and testing of models, assumptions and parameters of the valuation. We further focused on the adequacy of the disclosures on the valuation of investment property.
Unfavourable economic conditions in Russia (see notes 2e, 2h, 2i, 2n, 3, 5, 7c)	
Since mid-2014 the Russian economy has experienced a serious deterioration which resulted, inter alia, in the weakening of the Russian Rouble in relation to the US dollar. In 2016 the Russian economy continued to present a negative growth, despite the fact that the Russian Rouble has strengthened a bit against the US dollar in 2016. The unfavourable economic conditions in Russia have a significant impact on the company's valuations of the Russian investment properties, investments in associates and joint ventures and the recoverability of accounts receivables. Consequently, a risk also exists that the loan covenants are not met. We therefore identified the unfavourable economic conditions in Russia and its impact on the valuation and/or financing of certain assets as a significant risk.	Our audit procedures included amongst others a detailed review of the valuations of the Russian investment properties (using local EY valuation experts), and investments in associates and joint ventures, verifying the recoverability of account receivables. We audited rent levels used in the valuation by current updated rent agreements and future market expectations. We assessed that the companies met the covenants as stated in the loan agreements. We have reviewed the refinancing agreements concerning the four major projects in Russia that became effective in 2016. We further focused on the adequacy of the disclosures on the unfavourable economic conditions in Russia, including the disclosures about investment properties and impairments.
Deconsolidation Brack Capital Properties N.V. (see note 4)	
The Company has several investments with co-investors or via different structures and types of companies. There is a risk that entities are consolidated while there is no (de facto) control based on the investments or voting rights through shareholders agreements. This risk mainly applied to the 34.76% investment in Brack Capital Properties N.V. (BCP), a Dutch entity	Our audit procedures included an assessment of whether the facts and circumstances and the minutes of shareholder's meetings substantiate the company's judgement about de facto control over BCP. In order to conclude on the Company's view we, amongst others, examined voting rights of investors as well as their attendance and voting in shareholders general meetings.

Risk	Our audit approach
listed on the Tel Aviv stock exchange. In prior years the Company included BCP in their consolidated financial statements, as it had determined that it had de facto control of BCP due to the size and nature of the voting rights held by the Company. On 28 September 2016, the Company reduced its share in BCP to 28.31%. Due to this, after careful consideration, the Company concluded that it no longer has control over BCP and should no longer consolidate BCP as from that date. Besides the judgement about de facto control we identified the risk that the accounting impact of the loss of control over BCP and the valuation of the remaining investment is not correctly applied in the financial statements of the Company.	We furthermore verified the correct accounting, including disclosures, regarding the application of IFRS 10 (derecognition of BCP assets and liabilities, application of equity method after measuring the remaining stake in BCP at fair value initially), and IFRS 5 (classification BCP operations as “discontinued operations”).
Impairment of investments and loans to associates and joint ventures (see note 2i, 2p,7)	
The Company holds interest in several associates and joint ventures accounted using the equity method. In addition, the Company granted loans to its investees. The investments in equity and loans as of 31 December 2016 amounts to EURO 197 million (of which EURO 160 million relates to BCP). At each reporting date, the Company determines whether there are indicators that these investments are impaired. We have determined that the assessment of possible impairment of investments in investees contains a risk, mainly due to the estimation uncertainty related to the future profitability of their operations and the fact that the investment properties of the investees are valued at fair value.	As the recoverability of these investments and loans mainly consists of the related real estate projects in these entities, our audit response included the procedures for investment properties and investment property under construction that are described in the first key audit matter. We furthermore evaluated new or continuing indicators of impairment and performed audit procedures on the company’s impairment analysis. This included testing procedures on the projects’ projected cash flows and budgets to ensure collectability of loans granted.

Report on other information included in the annual report

In addition to the financial statements and our auditor’s report thereon, the annual report contains other information that consists of:

- the Directors’ report
- other information pursuant to Part 9 of Book 2 on the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information and we have considered whether the other information contains material misstatements, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise. By performing these procedures, we have complied with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of the procedures performed in our audit of the financial statements.

The board of directors is responsible for the preparation of the other information, including the Directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the board of directors as auditor of BCRE-Brack Capital Real Estate Investments N.V. on 2 February 2015, as of the audit for the year 2014 and have operated as statutory auditor ever since that date.

Description of responsibilities for the financial statements

Responsibilities of board of directors for the financial statements

The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, Furthermore,
the board of directors is responsible for such internal control as the board determines is necessary to enable the preparation of the financial statements that are free from material misstatement,
whether due to fraud or error.

As part of the preparation of the financial statements, the board of directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board of directors should prepare the financial statements using the going concern basis of accounting unless the board of directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The board of directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The non-executive members of the board of directors are responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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
- Obtaining 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
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors in the financial statements.

- Concluding on the appropriateness of the board's use of the going concern basis of accounting, and deciding on the basis of the audit evidence obtained whether events or conditions exist 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
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the board of directors on matters including the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

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

From the matters communicated with the board of directors, we determine those matters that are 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, not communicating the matter is in the public interest.

Zwolle, 28 April 2017

Ernst & Young Accountants LLP

signed by M. Rooks