

UPDC REAL ESTATE INVESTMENT TRUST

**FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

**UPDC REAL ESTATE INVESTMENT TRUST
FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

CONTENTS	Page
Parties to the Trust	1
Trustees' report	2
Fund manager's report	5
Statement of the Fund Manager's responsibilities	9
Auditors' report	10
Statement of Comprehensive Income	14
Statement of Financial Position	15
Statement of changes in unit and reserves	16
Statement of cash flows	17
Notes to the financial statements	18
Other financial information:	
- Statement of value added	38
- Three year financial summary	39

**UPDC REAL ESTATE INVESTMENT TRUST
FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

PARTIES TO THE TRUST

Trustees

UBA Trustees Limited
UBA House (12th Floor)
57 Marina
Lagos
Telephone: (01) 2807032

Trustees

FBN Trustees Limited
16 Keffi Road
Off Awolowo Road, S.W. Ikoyi
Lagos
Telephone: (01) 4622673

Fund Manager

FSDH Asset Management Limited
8th Floor
1/5 Odunlami Street
Lagos Island
Lagos
Telephone: (01) 2704884-5

Property Manager

UACN Property Development Company Plc (UPDC)
REIT Business Manager
3rd Floors
1/5 Odunlami Street
Lagos Island, Lagos.
Telephone: (01) 2702201

Registrars

First Registrars Nigeria Limited
Plot 2 Abebe Village Road,
Iganmu
Lagos
Telephone: (01) 773086

Custodian

UBA Plc (Global Investor Services Division)
UBA House
57 Marina
Lagos
Telephone: (01) 2808349

Banker

United Bank for Africa Plc
Head Office Branch
UBA House
57 Marina
Lagos
Telephone: (01) 2808349

Auditor

PricewaterhouseCoopers
(Chartered Accountants)
Landmark Towers,
5B Water Corporation Drive
Victoria Island
Lagos
Telephone: (01) 2711700

Joint Trustees' Report on the UPDC Real Estate Investment Trust

For the Financial Statements for the period ended 31 December 2016

The Trustees present their report on the affairs of the UPDC Real Estate Investment Trust, together with the Financial Statements for the period ended 31 December, 2016.

Principal activity: The principal activity of the UPDC Real Estate Investment Trust (the "REIT") is to pool investment in a diversified portfolio of income-generating real estate in Nigeria with high growth potential in accordance with the Trustee Investments Act, the Investments and Securities Act (2007), the Securities and Exchange Commission's Rules and Regulations and the Trust Deed (the Applicable Regulations).

Results: The results for the period ended 31 December, 2016 are set out on pages 13 and 14.

Directors: The Directors of the Fund Manager who served during the period under review were:

Mr. Rilwan Belo-Osagie	(Chairman)
Mrs. Olumayowa Ogunwemimo	(Managing Director)
Mrs. Hamda A. Ambah	(Director)
Mrs. Morohunke Bammeko	(Appointed as Director on October 25, 2016)
Mrs. Folashade Ogunde	(Appointed as Director on December 5, 2016)

The Directors of the Sponsor who served during the period under review were:

Mr. Larry Ettah	(Chairman)
Mr. Hakeem Ogunniran	(Managing Director)
Mrs. Halima Alao	(Director)
Mr. Abdul Bello	(Director)
Mr. Adekunle Awojobi	(Director)
Prof. Okon A. Ansa	(Director)

Directors' and related parties' interest in the units of the REIT: The Directors of the Fund Manager and Sponsor with direct beneficial interest in the units of the REIT are detailed below:

Mr. Rilwan Belo-Osagie	1,000,000
Mr. Hakeem Ogunniran	1,000,000
Mrs. Folashade Ogunde	400,000
Mrs. Hamda A. Ambah	50,000
Mrs. Halima Alao	20,000

None of the directors of FBN Trustees Limited and United Capital Trustees Limited has any direct beneficial interest in the units of the REIT.

Responsibilities of the Fund Manager:

The Investments and Securities Act, 2007 requires the Fund Manager to keep proper books of Account and prepare Annual Financial Statements, which give a true and fair view of the state of affairs of the Real Estate Investment Trust during the period covered by the financial statements.

The Fund Manager was responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any point in time, the financial position of the REIT and enable the Fund Manager to ensure that the Financial Statements comply with the Applicable Regulations.

The Fund Manager is also responsible for maintaining adequate financial resources to meet its commitments and to manage the risks to which the Fund is exposed.

Responsibilities of the Trustees:

The responsibilities of the Trustees as provided by Securities and Exchange Commission's Rules and Regulations made pursuant to the Investments and Securities Act, 2007 are as stated below:

- Monitoring the activities of the Fund Manager and the Custodian on behalf of and in the interest of the Unit Holders;
- Ensuring that the Custodian takes into custody all of the Scheme's assets and holds them in trust for the holders in accordance with the Trust Deed and the Custodial Agreement;
- Monitoring the register of Unitholders or contributors;
- Ascertaining the Fund Manager's compliance with the Applicable Regulations;
- Ascertaining that the monthly and other periodic returns/reports relating to the Fund are sent by the Fund Manager to the Commission;
- Taking all steps and executing all documents which are necessary to secure acquisitions or disposals properly made by the Fund Manager in accordance with the Trust Deed and Custodial Agreement;
- Exercising any right of voting conferred on it as the registered holder of any investment and/or forward to the Fund Manager within a reasonable time all notices of meetings, reports, circulars, proxy solicitations and any other document of a like nature for necessary action;
- Ensuring that fees and expenses of the Fund are within the

- prescribed limits; and
- Acting at all times in the interest and for the benefit of unit holders of the Scheme.

Administration of the REIT: During the period under review, the asset allocation of the REIT did not conform with the provisions of the Trust Deed due to the dearth of investible Real Estate Assets. Apart from this breach, the Fund was administered in accordance with the applicable regulations, taking into cognisance prevailing market conditions as well as preserving and minimising possible losses to unit holders' funds.

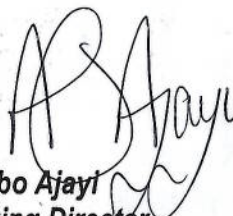
Charitable donations: The REIT did not make any charitable donations during the period.

Auditors: PricewaterhouseCoopers, the REIT's Auditors, have indicated their willingness to continue in office.

By Order of the Joint Trustees



Adekunle Awojobi
Managing Director
FBN Trustees Limited
16 Keffi Street, Ikoyi
Lagos, Nigeria
28 March, 2017



Tokunbo Ajayi
Managing Director
United Capital Trustees Limited
UBA House, 57 Marina
Lagos, Nigeria
28 March, 2017

UPDC REIT FUND MANAGER'S REPORT FOR DECEMBER 2016

Nigerian macroeconomic environment deteriorated further in 2016 and entered into a recession. This was as a result of the decline in oil production caused by the recent militant activities in the Niger Delta region; foreign exchange shortages; non-payment of salaries; weak electricity generation; and low investors' confidence.

The persistent and increased demand for foreign exchange led to a decline in the value of the Naira, with an attendant attrition of the external reserves. The demand pressure remained unabated and led to the consistent devaluation of the Naira. In order to stem the incessant outflow from the external reserves, the CBN adopted a flexible exchange rate policy in June 2016. This resulted in the closure of the official market, while the premium between the inter-bank and parallel market reduced to N46.15 from N165.90 on June 20, 2016. However, the premium has since increased significantly to about N180.

Year-on-Year, the value of the Naira depreciated by 34.73% and 45.01% to close 2016 at US\$/N305 and US\$/N491 at the inter-bank and parallel markets, respectively. The highest rate recorded at the inter-bank and parallel markets in 2016 were US\$/N350.22 and US\$/N493, respectively. The lowest values were US\$/N199.08 and US\$/N270, respectively.

According to the CBN, the 30-Day Moving Average of Nigeria's external reserves as at end of December 2016 decreased by 11.11%, to US\$25.84bn, from US\$29.07bn as at the end of December 2015. The external reserves dropped to a low of US\$23.90bn on October 19, 2016 but recovered consistently thereafter. The increase was a combination of the inflows from the International Money Transfer Operators (IMTOs), increase in oil production and inflows from the African Development Bank.

The inflation rate maintained upward momentum throughout 2016 and stood at 18.55% in December 2016 from 9.62% in January 2016. According to the National Bureau of Statistics (NBS), the lowest, highest and average inflation rates recorded between January 2016 and December 2016 are 9.62%, 18.55% and 15.62% respectively. The consistent rise in the inflation rate was caused by structural factors that include: high cost of power and energy, transport, production factors, and rising prices of imports as a result of the devaluation of the Naira.

The prices of fixed-income securities trended downwards while yields increased in the second half of the year. The increase in yield was as a result of the illiquidity in the market resulting from the existing reserve requirements and the Treasury Single Account (TSA) implementation by the FGN. In July 2016, the Monetary Policy Committee (MPC) increased the Monetary Policy Rate (MPR) to 14% from 12%.

The real estate market was adversely affected by the economic recession as a number of new developments recorded slower take-up rate* and rental income lowered, as tenants are requesting for a downward review of rent or a rent-free period.

The lack of access to FX on the interbank market and the continuous depreciation of the Naira on the parallel market resulted to higher costs for retailers looking to fit out and restock their stores. This also resulted in higher costs for the required periodic maintenance for a commercial building.

Despite the macroeconomic challenges, Novare Lekki Mall, Onitsha Mall and Maryland Mall were completed and opened to customers in 2016.

There is currently an oversupply of grade A office space. In order to attract tenants, Landlords had to reduce rental rates. There was also a shift of the demand for office spaces from the oil and gas sector to management, consulting, technology, finance and other services sector.

UPDC REIT PERFORMANCE

The REIT traded a total of 4.64 million units in 2016 and closed at a price of N10.00 on December 31, 2016. The earnings yield on investment in the REIT as at December 31, 2016 was 5.9%.

The current asset allocation of the REIT is as stated below;

S/N	ASSET CLASS	ASSET ALLOCATION
1	Real Estate Assets	79.84%
2	Real Estate Related Assets	2.73%
3	Liquid Assets	17.44%
	Total	100.00%

Although the allocation to Real Estate asset class exceeds the target minimum of 75%, the allocation to liquid asset exceeds the maximum investment of 10%. This is as a result of the inability to find qualifying real estate or real estate related assets that met UPDC REIT's requirements. In order to ensure that the target asset allocation is achieved, we will continue to seek additional investments in real estate or real estate related assets, in the next financial year.

The table below briefly describes the Real Estate assets held by the REIT, with the current rental yield and the class of tenants currently occupying the assets.

PROPERTY	LOCATION	CURRENT YIELD	PROPERTY TYPE	TENANTS	LENGTH OF TENANCY AGREEMENT	VACANCY RATE
Abebe Court	Ikoyi, Lagos	5.40%	Residential	A mix of corporate(84%) and individual(16%) client	80% annual; 20% biennially	11.54%

PROPERTY	LOCATION	CURRENT YIELD	PROPERTY TYPE	TENANTS	LENGTH OF TENANCY AGREEMENT	VACANCY RATE
Victoria Mall Plaza Phase 1	Victoria Island, Lagos	5.90%	Residential	Major international oil producing company	2011 - 2015	100%
Victoria Mall Plaza Phase 2	Victoria Island, Lagos	6.50%	Commercial	Major international auditing/ consulting firm	2015 – 2017	0%
UAC Office Block	CBD, Abuja	6.40%	Commercial	Various corporate clients including four(4) banks	30% annual; 50% biennially; 20% between 3 and 5 years	13.72%
1-2 Factory Road Aba	Aba	6.40%	Commercial	Various corporate clients including a leading logistics company	67% annual; 33% between 2 and 3 years	0%

The performance of the UPDC REIT was affected negatively by the challenging macroeconomic environment as VMP 1, which was occupied by Mobil Nigeria Limited until October 2015, is currently vacant and not generating income. In addition, the projections during the initial public offer of the REIT had assumed that the properties purchased by the REIT between 2014 and 2015 would be sold in 2016, and would generate some income. The expected income on the assumed sale will not come in as the REIT was unable to acquire additional properties between 2014 and 2015, partly due to the macroeconomic environment and also because the fund manager could not identify qualifying assets which meets the REITS benchmark returns. In order to compensate for the unearned rental income on VMP1, the Fund Manager in consultation with the Investment Committee decided to discontinue the sale of units of Abebe Court as the property is currently fully tenanted and generating rental income.

This implies that the REIT would not earn any capital appreciation on sale of property in 2016 and rental income on VMP1, as assumed in the projections.

These resulted in a negative variance of 58.37% between the projected income and actual income earned by the REIT as at June 30, 2016.

In this regard, the Investment Committee requested that the projections be revised in line with the achievable income.

The Fund Manager and Property Manager reviewed the projections for the second half of 2016, and same was approved for adoption by the Investment Committee on August 26, 2016.

Please note that from the revised projections, the expected earnings yield for year 2016 will be 4.71% down from 12.40% earlier projected.

The property manager is currently working to ensure that VMP 1 and other vacant spaces/flats are occupied and generating income.

The REIT has earned a total of N1.59 billion, which has resulted in an earnings yield of 5.9% as at December 31, 2016.

In line with the REIT's Trust Deed, which requires the payment of 90% of the REIT's income as distribution to unit holders, the total distribution to unit holders for the 12 months period will be N1.26 billion. This represents 90% of the realised income for the period. Further to the interim distribution of N613 million already paid, the Fund Manager is proposing a final distribution of N647 million.

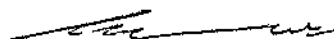
OUTLOOK

Despite the current economic challenges, over the long term, we expect that the Nigerian real estate sector would continue to improve as the growing population and middle class continue to generate the demand for commercial property (the retail sub-sector) and residential property, ranging from mass market affordable housing to high-end luxury properties. *UN forecasts suggest that the population of Lagos will grow by more than 70% during the 2010-2025 period, while the population of Africa will almost quadruple to more than four billion by 2100, with nearly one billion of these people in Nigeria alone. This projected growth in the population would continue to attract International real estate investors and property developers to the country, especially Lagos.

The UPDC REIT portfolio is diversified and positioned to benefit from the growth opportunities in both the residential and commercial sub-segment. In addition, the Fund Manager will continue to seek additional investment in quality real estate assets and real estate related assets and ensure that the REIT continues to maintain the quality of the real estate assets in its portfolio and also invest in high yielding investment grade real estate related assets in order to deliver on its promise to generate and distribute competitive returns to its unit holders.

**Africa Report 2015 – Knight Frank*

***Nigeria Retail & Office Market update 2016 - Broll Property Services Ltd*


Olumayowa Ogunwemimo
Managing Director, FSDH Asset Management Limited

**UPDC REAL ESTATE INVESTMENT TRUST
FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

STATEMENT OF THE FUND MANAGER'S RESPONSIBILITIES

The Fund Manager is responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Trust for the year ended 31 December 2016 and of the net income for the period ended 31 December 2016.

The responsibilities include ensuring that:

- i. the Trust keeps accounting records which disclose with reasonable accuracy the financial position of the Trust and which ensure that the financial statements comply with the requirements of the relevant accounting standards;
- ii. appropriate and adequate internal controls are established to safeguard the assets of the Trust and to prevent and detect fraud and other irregularities;
- iii. the Trust prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgments and estimates that are consistently applied; and
- iv. it is appropriate for the financial statements to be prepared on a going concern basis.

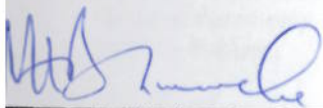
The Fund Manager accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with the International Financial Reporting Standards, Financial Reporting Council of Nigeria Act, Investments and Securities Act and relevant circulars issued by the Securities and Exchange Commission.

The Fund Manager is of the opinion that the financial statements give a true and fair view of the state of financial affairs of the Trust and of its financial performance.

The Fund Manager further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Fund Manager to indicate that the Trust will not remain a going concern for at least twelve months from the date of this statement.

BY ORDER OF THE FUND MANAGER
FSDH Asset Management Limited



Morohunke Bammeke
Director
FRC/2016/ICAN/00000015870
28 March 2017



Olumayowa Ogunwemimo
Director
FRC/2013/ICAN/00000001742
28 March 2017



Wasiu Shafe
Chief Financial Officer
FRC/2015/ICAN/00000012973
28 March 2017



Independent auditor's report

To the Members of UPDC Real Estate Investment Trust

Report on the audit of the financial statements

Our opinion

In our opinion, UPDC Real Estate Investment Trust's financial statements give a true and fair view of the financial position of the Trust as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Investments and Securities Act and the Financial Reporting Council of Nigeria Act.

What we have audited

UPDC Real Estate Investment Trust's financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in units and reserves attributable to unitholders for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Trust in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matter

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



Key audit matter

How our audit addressed the key audit matter

Valuation of Investment Properties – (refer to notes 4.4 and 15)

The investment property balance in the financial statements at year end amounted to ₦23.4 billion which is material to the financial statements.

We assessed the independence, qualifications and expertise of management expert to determine whether there were any matters that might have affected their objectivity or competence.

The valuation of the Trust's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income for that particular property as well as the estimation uncertainty.

We obtained the valuation reports for all properties and assessed whether the valuation approach for each property was in accordance with professional valuation standards and suitable for use in determining the fair value of Investment Properties.

We carried out procedures to test whether property-specific information supplied to the valuers by the Trust (such as rental income and title held on each property) reflected the underlying property records held by the Trust.

We evaluated the principal assumptions used in determining the fair value against independent sources for reasonableness.

We also reviewed the disclosure for compliance with International Financial Reporting Standards.

Other information

The Fund manager is responsible for the other information. The other information comprises; the Parties to the Trust, Trustees' report, Fund Manager's report, Statement of Fund Manager's responsibilities and Statement of value added, (but does not include the financial statements and our auditor's report thereon).

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

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

Responsibilities of the Fund manager and those charged with governance for the financial statements

The Fund manager is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Investment and Securities Act, the Financial Reporting Council of Nigeria Act, and for such internal control as the Fund



manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund manager is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Fund manager and/or the Trustees either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund manager.
- Conclude on the appropriateness of the Fund manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust'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 Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



pwc

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

For: **PricewaterhouseCoopers**
Chartered Accountants
Lagos, Nigeria
Engagement Partner: Sam Abu
FRC/2013/ICAN/0000001495



3 April 2017

**UPDC REAL ESTATE INVESTMENT TRUST
FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

STATEMENT OF COMPREHENSIVE INCOME

	Notes	31 December 2016 N'000	31 December 2015 N'000
Income from investment property	5	1,104,033	1,605,526
Interest income	6	750,272	1,261,700
Net (loss)/gain on financial assets held for trading	7	(98,166)	90,065
Net gain on financial assets at fair value through profit or loss	8	292,580	-
Other income	9	-	12,244
Fair value (loss)/gain on investment property	15	(204,637)	385,200
Net income		1,844,082	3,354,735
Operating expenses	10	(331,943)	(282,634)
Profit before tax		1,512,139	3,072,101
Tax	11	-	(82,575)
Profit after tax		1,512,139	2,989,526
Increase in net assets attributable to unit holders		1,512,139	2,989,526
Earnings per unit attributable to unit holders of the Trust			
Earnings per unit - basic and diluted (Naira)	24	0.57	1.12

The accompanying notes as set out from note 1 to 28 form an integral part of these financial statements.

UPDC REAL ESTATE INVESTMENT TRUST
 FINANCIAL STATEMENTS
 FOR YEAR ENDED 31 DECEMBER 2016

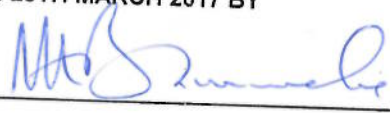
STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2016 N'000	31 December 2015 N'000
Assets:			
Bank balances			
Financial assets held for trading	12	7,307	2,799,647
Financial assets at fair value through profit or loss	13	5,484,515	3,992,646
Other assets	14	2,684,945	2,294,124
Investment property	16	258,645	254,553
Property and equipment	15	23,428,563	23,633,200
	17	126,651	-
Total assets		31,990,626	32,974,170
Liabilities:			
Accounts payable			
Rent received in advance	18	101,882	107,686
	19	1,036,993	1,819,178
Total liabilities		1,138,875	1,926,864
Net assets attributable to unit holders of the Trust		30,851,751	31,047,306
Represented by:			
Units and reserves attributable to unit holders of the Trust			
Unit holders' contributions			
Retained earnings	20	26,682,695	26,682,695
		4,169,056	4,364,611
		30,851,751	31,047,306

The accompanying notes as set out from note 1 to 28 form an integral part of these financial statements.

SIGNED ON BEHALF OF THE DIRECTORS OF THE FUND MANAGER ON 28TH MARCH 2017 BY

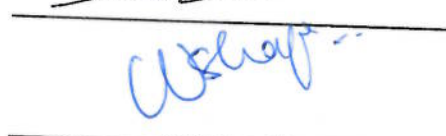
Morohunke Bammeke (Director of the Fund Manager)
 FRC/2016/ICAN/00000015870



Olumayowa Ogunwemimo (Director of the Fund Manager)
 FRC/2013/ICAN/00000001742



Wasiu Shafe (Chief Financial Officer of the Fund Manager)
 FRC/2015/ICAN/00000012973



UPDC REAL ESTATE INVESTMENT TRUST
 FINANCIAL STATEMENTS
 FOR YEAR ENDED 31 DECEMBER 2016

STATEMENT OF CHANGES IN UNITS AND RESERVES

ATTRIBUTABLE TO UNIT HOLDERS OF THE TRUST

	Unitholders' contributions	Retained earnings	Total
	N'000	N'000	N'000
At 1 January 2015	26,682,695	3,349,604	30,032,299
Profit for the period	-	2,989,526	2,989,526
Transactions with unit holders in their capacity as unit holders: Distribution paid to unit holders	-	(1,974,520)	(1,974,520)
	-	1,015,006	1,015,006
At 31 December 2015/1 January 2016	26,682,695	4,364,611	31,047,306
Profit for the period	-	1,512,139	1,512,139
		1,512,139	1,512,139
Transactions with unit holders in their capacity as unit holders: Distributions paid to unit holders	-	(1,707,692)	(1,707,692)
	-	(195,554)	(195,554)
At 31 December 2016	26,682,695	4,169,056	30,851,751

**UPDC REAL ESTATE INVESTMENT TRUST
FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

STATEMENT OF CASH FLOWS

	Notes	31 December 2016	19 months to 31 December 2015
		N'000	N'000
Cash flow from operating activities			
Cash generated from /(used in) operating activities	21	(147,947)	2,857,094
Interest received		676,172	1,111,735
Net cash flow generated from operating activities		528,225	3,968,829
Cash flows from investing activities			
Investment in real estate development	14	-	(1,475,635)
Proceeds from sale of investment property	14	-	471,646
Purchase of property and equipment	17	(150,065)	-
Net cash used in investing activities		(150,065)	(1,003,989)
Cash flows from financing activities			
Distributions paid to unit holders		(1,707,692)	(1,974,520)
Net cash flow used in financing activities		(1,707,692)	(1,974,520)
Net (decrease)/increase in cash and cash equivalent for the period		(1,329,532)	990,321
Analysis of changes in cash and cash equivalents:			
Cash and cash equivalents at end of period	22	1,470,115	2,799,647
Cash and cash equivalents at start of period		2,799,647	1,809,327
Net (decrease)/increase in cash and cash equivalent for the period		(1,329,532)	990,321

The statement of accounting policies and accompanying notes as set out from note 1 to 28 form an integral part of these financial statements.

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

1 General information

The UPDC Real Estate Investment Trust the "Trust", established in June 6 2013, is a close-ended Real Estate Investment Trust which is listed on the Nigerian Stock Exchange (NSE). The units of the Trust can be bought and sold through a licensed stockbroker on the floor of the exchange.

The primary objective of the Trust is to enable investors earn stable income while preserving capital over the long term. This is achieved by ensuring stable cash distributions from investments in a diversified portfolio of income-producing real estate property and to improve and maximize unit value through the ongoing management of the Trust's assets, acquisitions and development of additional income-producing real estate property.

These financial statements were authorised for issue by the Investment Committee on the 28 March 2016.

2. Basis of preparation

The financial statements for period ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board. Additional information required by national regulations is included where appropriate. The financial statements have been prepared in accordance with the going concern principle under the historical cost convention as modified by the measurement of certain financial assets and investment property held at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Fund Manager to exercise its judgement in the process of applying the Trust's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The Fund Manager believes that the underlying assumptions are appropriate and that the Trust's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The financial statements are presented in Naira, which is the Trust's functional and presentation currency. The figures shown in the financial statements are stated in thousands of Naira, unless otherwise stated.

2.1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

2.1.1 Changes in accounting policy and disclosures

a) International Financial Reporting Standards (IFRS) and amendments effective for the first time for 31 December 2016

A number of new standards and amendments to standards and interpretations were effective for the first time for the year ended 31 December 2016. None of these standards and amendments to standards have had an effect on the financial statements of the Trust.

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

(b) Standards and interpretations issued but not yet effective for 31 December 2016

The following standards and interpretations have been issued and are mandatory for the Trust's accounting but are not yet effective.

- **IAS 1** - 'Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative' (effective 1 January 2016)

In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment does not in any way affect the Trust nor its financial statements and accounting policies.

- **IFRS 15** - 'Amendment to IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2017) .

The standard outlines a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer. Early adoption is permitted.

The Fund manager is currently assessing the impact of the new rules to identify areas of impact on the Trust. At this stage, the Fund manager is not able to estimate the impact of the new rules on the Trust's financial statements.

- **IFRS 16** - Leases (effective 1 January 2019)

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. Under this standard, the lessor continues to classify its leases as operating leases or finance leases, and account for these types of leases differently. Hence, the standard will not have significant effect on the Trust.

- **IFRS 9**: Financial instruments: Classification and measurement (effective for periods beginning on or after 1 January 2018)

• **IFRS 9**: This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.

The Fund manager is currently assessing the impact of the new rules to identify areas of impact on the Trust. At this stage, the Fund manager is not able to estimate the impact of the new rules on the Trust's financial statements.

(c) Early adoption of standards

The Trust did not early adopt any new or amended standards in 2016.

2.2.1 Financial assets

The Trust classifies financial assets to the following IAS 39 categories: (a) financial assets held for trading (b) financial assets at fair value through profit or loss; and (c) loans and receivables. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets held for trading

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held for trading consist of debt instruments. They are recognised in the statement of financial position as 'Financial assets held for trading'.

Financial instruments included in this category are initially measured at fair value; transaction costs are taken directly to statement of comprehensive income and subsequently measured at fair value with gains and losses arising from changes in fair value recognised in 'Net gains / (losses) from financial instruments classified as held for trading' in the Statement of Comprehensive Income. Interest income and dividend income on financial assets held for trading are included in 'Interest income' and 'other income' respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Trust has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

(b) Financial assets at fair value through profit or loss

These are investments in associates, which the Trust upon initial recognition, elected to measure at fair value with fair value changes recognised in profit or loss.

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

These investments are initially measured at fair value; transaction costs are taken directly to statement of comprehensive income and subsequently measured at fair value with gains and losses arising from changes in fair value recognised in 'Net gains / (losses) from financial instruments at fair value through profit or loss' in the Statement of Comprehensive Income. Interest income and dividend income on financial assets at fair value through profit or loss, are included in 'Interest income' and 'other income' respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Trust has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- (1) those that the Trust intends to sell immediately or in the short term, which are classified as held for trading, and those that the Trust upon initial recognition designates as at fair value through profit or loss;
- (2) those that the Trust upon initial recognition designates as available for sale; or
- (3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the asset including any transaction costs – and measured subsequently at amortised cost.

The Trust's loans and receivables include the following: placement with banks and rent receivables.

Recognition

Financial assets are recognised on settlement dates. The varying class and nature of the financial assets determines the settlement which may be different from the trade date. Financial instruments such as debt and equity securities are recognised on settlement date other than the trade date while receivables are recognised on trade date which represents its settlement date.

2.2.2 Financial liabilities

The Trust's holding in financial liabilities represent mainly payables recorded in 'Other liabilities'. Payables are obligations to pay for services that have been received in the ordinary course of business from suppliers. Payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Payables are recognised at amortised cost but where the impact of discounting is deemed immaterial, they are recognised at cost.

2.2.3 Determination of fair value

At initial recognition, the best evidence of the fair value of a financial instrument is the transaction price (i.e. the fair value of the consideration paid or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets

Subsequent to initial recognition, for financial instruments traded in active markets, the determination of fair value of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges for example, Nigerian Stock Exchange (NSE) and broker quotes from the Financial Markets Dealers Quotations (FMDQ). The Trust, though permitted to hold quoted equities of real estate companies, has not invested in any equity since inception.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, Nigeria Interbank offer rate) existing at the dates of the statement of financial position. However, for illiquid financial instruments, the fair values are further adjusted to compensate for the credit risks attached to the issuers.

2.2.4 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Trust tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.2.5 Reclassification of financial assets

The Trust may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Trust may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading category if the Trust has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made.

2.2.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise 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 and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.3 Investment property

Investment property include income producing properties and property under development (land or building, or part of a building, or both) that are held by the Trust, or leased by the Trust as a lessee under a finance lease, to earn rentals or for capital appreciation or both but are not for sale in the ordinary course of business, use in the production or supply of goods and services or for administrative purposes.

The Trust invests primarily in a diversified portfolio of quality residential and commercial real estate properties in Nigeria.

Investment property are initially recognized at property cost including related transaction costs.

After initial recognition, investment property is carried at fair value. Investment property under construction is measured at fair value. Investment property under construction for which the fair value cannot be determined reliably, but for which the Trust expects that the fair value of the property will be reliably determinable when construction is completed, are measured at cost less impairment until the fair value becomes reliably determinable or construction is completed - whichever is earlier. Fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Trust uses alternative valuation methods, such as recent prices on less active markets. These valuations form the basis for the carrying amounts in the financial statements. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Changes in fair values are recognised in the statement of comprehensive income. Investment property are derecognised when they have been disposed or when no further economic benefits are expected from the property.

For investment property, the fair valuation is carried out by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment property valued. For all investment property, their current use equates to the highest and best use.

Income on disposal of investment properties are recognised in the statement of comprehensive income under 'income from investment property'.

2.4 Interest income and expense

Interest income for all interest-bearing financial instruments are recognised within 'interest income' in the statement of comprehensive income using the effective interest method. The Trust does not have any interest expense as at the reporting date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Trust estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.5 Rental income from property

Rental income from investment property is recognised on a straight-line basis over the lease term. When the Trust provides incentives to its tenants, the cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income. Rental Income earned but yet to be paid by the tenant(s) is recorded as "rent receivables" in the notes to the account and reported under "other assets" in the statement of financial position.

Rent paid in advance and yet to be earned are recorded as "Rent received in advance" in the statement of financial position.

2.6 Dividend income

Dividend on investments in quoted equities of real estate companies are recognised when such dividends are declared at the annual general meetings of the dividend paying companies. Dividend is accrued on the basis of the units of shares held by the Trust as at the share register closure date and is accounted for at gross of withholding tax. The resultant tax is separately accounted for and disclosed in the statement of comprehensive income as "Tax".

2.7 Impairment of financial assets

Assets carried at amortised cost

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal repayments, the probability that they will enter bankruptcy or other financial re-organisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate to defaults.

Rent receivables, the Fund Manager, with the assistance of the property manager, assesses at each reporting date of the Trust whether there is objective evidence that a rent receivable is impaired. Each owing tenant are assessed for their ability to pay based on previous payment history. The property manager engages the tenant(s) a month before tenancy expiration, reminder letters are sent to the tenants and meetings held where applicable. When it is evidenced that a receivable is impaired, such losses are recognised in the statement of comprehensive income as a reduction of the rental income. If, in a subsequent period, the rent is received, it will be recognised as a reversal through the statement of comprehensive income as "other income".

For loans and receivable category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in statement of comprehensive income. If a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

2.8 Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. An asset is recognised when it is probable that economic benefits associated with the item flow to the Company and the cost of the item can be reliably measured.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognized net within other operating income in statement of comprehensive income.

The assets' carrying values and useful lives are reviewed, and written down if appropriate, at each date of the statement of financial position. Assets are impaired whenever events or changes in circumstances indicate that the carrying amount is less than the recoverable amount.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in statement of comprehensive income.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis to write down the cost of each asset, to their residual values over the estimated useful lives of each part of an item of property and equipment. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives.

Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with IFRS 5. A non-current asset or disposal company is not depreciated while it is classified as held for sale.

The estimated useful lives for the period are as follows:

-Office equipment - 33.33%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

2.9 Cash and cash equivalents

For the purposes of statement of cash flow, cash and cash equivalents are balances that are held for the primary purpose of meeting short term cash commitments. Hence this includes cash in hand and cash equivalents that are readily convertible to known amount of cash, are subject to insignificant risk of changes in value and whose original maturity is three months or less. This includes placements with banks and other short-term highly liquid investments which originally matures in three months or less (such as treasury bills with less than 3 months maturity)

2.10 Taxation

The Trust is domiciled in Nigeria. There is no income, estate, corporation, capital gains or other gains or taxes payable by the Trust. The Trust only incurs withholding taxes on dividend and rental income. The Trust did not earn any dividend income during the period ended 31 December 2016 (December 2015: Nil). The Trust also charges value added tax on sale of investment property or any part thereof and remits same to the responsible tax authorities.

2.11 Distributions

Distributions are recognised in retained earnings in the period in which they are approved by the Joint Trustees. Distributions for the year that are declared after the date of the statement of financial position are dealt with in the subsequent events note in the financial statement.

2.12 Unit holding

Holdings of the Trust are classified as unit holding. Incremental costs directly attributable to the issue of new units, are shown as a deduction against unitholders contributions.

2.13 Earnings per unit

Basic earnings per unit is calculated by dividing the profit/(loss) for the year by the weighted average number of units in issue during the period.

Diluted earnings per unit is calculated by adjusting the weighted average number of units outstanding to assume conversion of all dilutive potential units.

UPDC REAL ESTATE INVESTMENT TRUST
 NOTES TO THE FINANCIAL STATEMENTS
 FOR YEAR ENDED 31 DECEMBER 2016

3 Risk Management Objective and Policies

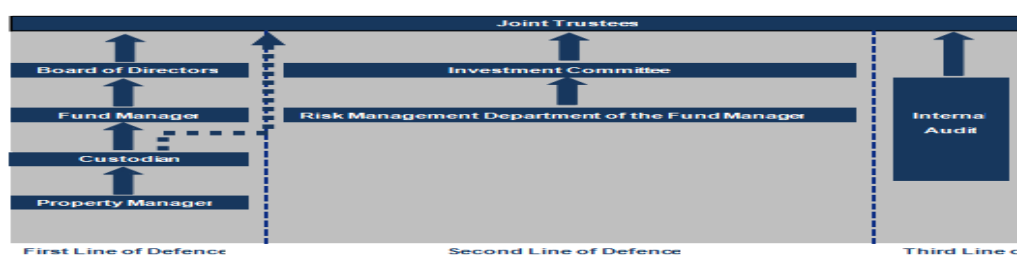
3.1 Financial risk management

The Trust generates revenues for unit holders by investing in various income generating activities which include rental income on investment property, trading real estate equity securities on the stock exchange and trading in government securities. These activities expose the Trust to a variety of financial risks, including credit, liquidity risk and the effects of changes in debt and equity market prices and interest rates. The Trust's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the Fund Managers under direction of the Investment Committee and FSDH Merchant Bank Limited's Group Risk Management Department. The Investment Committee works within policies approved by the Trust's Trustee. Fund Managers review the market trends and information available to evaluate the potential exposures. They then arrive at strategies to mitigate against these risks. The Group Risk Department provides the Fund Managers with written guidelines for appropriate investments. These guidelines are reviewed on a regular basis and are within the Collective Investment Scheme regulations issued by the Securities and Exchange Commission (SEC).

The investment risk management framework also adheres to regulatory requirements in relation to investment policies; assets mix, valuation, diversification, asset and liability matching, and risk management. It also includes setting market, credit, liquidity and other investment risk management strategies and policies, developing management procedures to ensure that investments are only transacted in line with these policies, and having an appropriate system of measurement, monitoring, reporting and control underpinning investment activities.

Risk Management Governance structure



The Trust investments are made by the Fund Manager with the consent and approval of the Investment Committee in any of the following asset classes and in accordance with the maximum limit allowed. The limit allowed for each investment class is as stated below:

Asset Class	Minimum Limit	Maximum Limit
Real estate property	75.00%	100.00%
Real estate related assets	0.00%	25.00%
Liquid assets	0.00%	10.00%

This implies that:

1. A maximum of 100% or a minimum of 75% of the REIT's assets may be invested in real estate (property)
2. A maximum of 25% or a minimum of 0% of the REIT's assets may be invested in real estate related assets such as equities of a real estate company
3. A maximum of 10% or a minimum of 0% of the REIT's assets may be invested in liquid assets

The Investment Committee is made up of three independent members (one of whom is the Chairman) who are seasoned professionals in real estate business and two representatives each of the Fund manager, trustees and property manager.

The Trust's financial instruments are categorised as follows:

31 December 2016	Financial Assets			Financial Liabilities
	Loans and receivables	Held-for-trading	Financial assets at fair value through profit or loss	At amortised cost
In thousands of Nigerian Naira				
Financial assets:	N'000	N'000	N'000	N'000
Bank balances				
- Placement with banks	7,307	-	-	-
Financial assets held for trading				
- Treasury bills	-	3,440,173	-	-
- Corporate bonds	-	581,534	-	-
Financial assets at fair value through profit or loss				
- Equity investment in First Festival Mall	-	-	240,201	-
- Loan to investee (First Festival Mall)	-	-	812,539	-
- Investment in real estate development	-	-	1,632,205	-
Other assets				
- Rent receivables	61,722	-	-	-
- Receivable from property manager	165,151	-	-	-
Financial liabilities:				
Other liabilities:				
Other payable	-	-	-	98,832

UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016

31 December 2015	Financial Assets			Financial Liabilities
In thousands of Nigerian Naira	Loans and receivables	Held-for-trading	Financial assets at fair value through profit or loss	At amortised cost
	N'000	N'000	N'000	N'000
Financial assets:				
Bank balances				
- Placement with banks	2,799,647	-	-	-
Financial assets held for trading				
- Treasury bills	-	-	-	-
- Corporate bonds	-	303,557	-	-
Financial assets at fair value through profit or loss				
- Equity investment in First Festival Mall	-	-	104,190	-
- Loan to investee (First Festival Mall)	-	-	714,299	-
- Investment in real estate development			1,475,635	
Other assets				
- Rent receivables	36,712	-	-	-
- Receivable from property manager	165,151			
Financial liabilities:				
Other liabilities:				
Other payable	-	-	-	58,636

3.2 Liquidity risk

Liquidity risk is the risk that the Trust though solvent, has insufficient liquid assets to meet its obligations such as operational costs and distribution to unit holders when they fall due. The liquidity profile of the Trust is a function of the asset mix as enunciated in the investment guidelines. To the extent that they are predictable, immediate demands for cash are not expected to pose undue liquidity risk for the Trust. An immediate demand for cash can only be a risk if there is liquidity shortage. The Trust will invest 10% of its total portfolio in liquid assets of diversified nature and staggered tenors in order to ensure that it is always able to meet its obligations.

The Trust being a closed ended Trust would not be faced with liquidity requests for redemption of units as units can only be sold to willing buyer(s) on the floor of the Nigerian Stock Exchange (NSE)

Liquidity maturity analysis

The tables below analyse the Trust's financial assets and financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2016

	Due within 3 months	Due within 3 & 12 months	More than 1 year	Total
	N'000	N'000	N'000	N'000
Financial assets				
Bank balances				
- Placement with banks	7,307	-	-	7,307
Rent receivable	61,722	-	-	61,722
Receivable from property manager	-	-	165,151	165,151
Financial assets held for trading				
- Treasury bills	3,789,000	1,396,000	-	5,185,000
- Corporate bonds	-	97,500	943,500	1,041,000
Financial assets at fair value through profit or loss				
- Loan to investee (First Festival Mall)	-	-	812,539	812,539
- Investment in real estate development		1,632,205	-	1,632,205
	<u>3,858,029</u>	<u>3,125,705</u>	<u>1,921,190</u>	<u>8,904,924</u>
Financial liabilities	<u>98,832</u>	-	-	<u>98,832</u>
Net financial asset	<u>3,759,197</u>	<u>3,125,705</u>	<u>1,921,190</u>	<u>8,806,092</u>
Net assets attributable to equity holders				<u>30,851,751</u>
Percentage of liquid financial assets to Net assets attributable to equity holders				29%

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

31 December 2015

	Due within 3 months	Due within 3 & 12 months	More than 1 year	Total
	N'000	N'000	N'000	N'000
Financial assets				
Bank balances				
- Placement with banks	2,799,647	-	-	2,799,647
Rent receivable	36,712	-	-	36,712
Receivable from property manager	-	-	165,151	165,151
Financial assets held for trading				
- Treasury bills	2,046,000	1,675,000	-	3,721,000
- Corporate bonds	-	97,500	486,000	583,500
Financial assets at fair value through profit or loss				
- Loan to investee (First Festival Mall)	-	-	3,025,692	3,025,692
	4,882,359	1,772,500	3,676,842	10,331,701
Financial liabilities	58,636	-	-	58,636
Net financial asset	4,823,723	1,772,500	3,676,842	10,273,065
Net assets attributable to equity holders				31,047,306
Percentage of liquid financial assets to Net assets attributable to equity holders				33%

3.3 Credit risk

The Trust is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main concentration to which the Trust is exposed arises from the Trust's investments in debt securities. The Trust is also exposed to counterparty credit risk on cash and cash equivalents, and rent receivable from tenants. All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal.

The Trust considers the credit exposure to geographical sectors as immaterial as all the credit risk exposures are domiciled in Nigeria for all periods.

The maximum exposure to credit risk is the carrying amount of the financial assets as set out below.

Sector analysis of credit risk exposure

31 December 2016

	Bank balances	Financial assets held for trading	Financial assets at fair value through profit or loss	Receivables	Maximum Exposure
	N'000	N'000	N'000	N'000	N'000
Government	-	4,902,981	-	-	4,902,981
Financial Institutions	7,307	-	-	-	7,307
Corporate	-	581,534	812,539	-	1,394,073
Others	-	-	-	226,873	226,873
	7,307	5,484,515	812,539	226,873	6,531,234

31 December 2015

	Bank balances	Financial assets held for trading	Financial assets at fair value through profit or loss	Receivables	Maximum Exposure
	N'000	N'000	N'000	N'000	N'000
Government	-	-	-	-	-
Financial Institutions	2,799,647	-	-	-	2,799,647
Corporate	-	303,557	714,299	-	1,017,856
Others	-	-	-	201,863	201,863
	2,799,647	303,557	714,299	201,863	4,019,366

The financial assets to which the Trust is exposed are mainly Federal Government of Nigeria (FGN) treasury bills to which as Nigeria's sovereign obligations, have low credit risk, corporate bonds and placement with banks.

A rating grid which shows the ratings of debt securities is illustrated below.

	31 December 2016 N'000	31 December 2015 N'000
A+	7,307	2,799,647
Unrated	6,523,927	1,219,719
	6,531,234	4,019,366

The credit quality above was assessed with reference to Agosto & Co's rating (credit rating agency) at 31 Decembre 2016 and 31 Decembre 2015.

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

Past due but not impaired

As at 31 December 2016, receivables of N226.87million (2015: N201.86million) were past due but not impaired. These relate to a number of tenants and the Property Manager for whom there are no recent history of default. The ageing analysis of these rent receivables is as follows:

	31 December 2016 N'000	31 December 2015 N'000
Up to 3 months	209,367	201,863
3 to 6 months	17,506	-
	<u>226,873</u>	<u>201,863</u>

All other financial assets were neither past due nor impaired.

3.4 Market risk

(a) Price risk

This is the risk that prevailing market forces of demand and supply may negatively impact the Trust's underlying asset values and its ability to attain projected performance based on declining rental income and therefore result in reduced distributions to investors.

The Trust's exposures to the capital market make it susceptible to movements of prices of debt securities' in its portfolio. It is expected that some of the Trust's equity investments may be quoted on the Nigerian Stock Exchange (NSE). In managing the risk arising from this class of investments, the Trust ensures diversification of its portfolio to include different sectors of the economy. Diversification of the portfolio is done in accordance with limits set by the Trust's Trust Deed and Investment Committee which provides for investments subject to a maximum of 25% of the value of the Trust in equities. The Trust's investment in treasury bills and corporate bonds are also quoted on the Financial Market Dealers Quotations (FMDQ).

The Trust's investment in equity during the year ended 31 December 2016 is in First Festival Mall Limited and James Pinnock Estate (two special purpose vehicle set up to hold 100% interest in Festival Mall and James Pinnock Estate which are under construction). The investments are not affected by price movement because they are unquoted.

Over-supply and/or softening demand for real estate as a function of general economic conditions, will impact property values and rental income, as demand and supply imbalance will have a negative impact on real estate prices. Consequently, reduced occupancy levels and declining rental values will affect the Trust's operating performance, portfolio valuation and ultimately its capacity to distribute returns to investors.

With the expertise and track record of the Fund Manager, Property Manager and members of the Investment Committee, we expect that adverse changes in market conditions shall be effectively managed to ensure minimal impact on the operations and value of the Trust. Potential changes in market risk indicators such as adverse economic conditions that impact price of the underlying asset values are expected to be tabled before the Investment Committee by the Fund Manager for deliberation to ensure effective and proactive assessment and management of the risk.

Classification of financial assets

	31 December 2016 N'000	31 December 2015 N'000
Financial assets held for trading	5,484,515	3,992,646
	<u>5,484,515</u>	<u>3,992,646</u>

The impact on the Trust's net asset attributable to unit holders if prices of financial asset held had increased or decreased by 5% with all other variables held constant is shown below:

Increase	274,226	199,632
Decrease	-274,226	-199,632

(b) Cashflow and fair value Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cashflows. The Trust's exposure to cashflow interest rate risk which is the risk that the future cashflows of a financial asset will fluctuate because of changes in market interest rates is minimal as it holds mainly cash and cash equivalents with fixed interest and has no interest bearing financial liabilities.

The Trust also holds fixed interest securities which expose the Trust to fair value interest rate risk. The Trust's fixed interest rate financial assets are government securities (treasury bills) and call placement with financial institutions.

However, the Trust may be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Trust invests. The sensitivity of this on the Trust's net assets attributable to equity holders is represented in the table below.

The table below shows the impact on the Trust's profit before tax if interest rates on the financial assets held for trading had increased by 100 basis points, with all other variables held constant.

	31 December 2016 N'000	31 December 2015 N'000
Effect of 100 basis points movement on profit before tax		
Increase	54,845	39,926
Decrease	(54,845)	(39,926)

(c) Foreign exchange risk

The Trust did not have investments denominated in foreign currency as at 31 December 2016 (December 2015: Nil) and as a result was not exposed to foreign exchange risk.

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

3.5 Capital management

The capital of the Trust is represented by equity. The Trust is a closed-ended Trust as such there are no daily subscriptions and redemptions that can affect the capital of the Trust as the Trust can only be traded at prices determined by the forces of demand and supply on the Nigerian Stock Exchange.

The Fund Manager's objectives when managing capital are to safeguard the Trust's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders.

In order to maintain or adjust the capital structure, the Trust may adjust the amount of distributions paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt. Also there is no regulatory capital requirement for the Trust.

3.6 Fair value estimation

Financial assets and liabilities not measured at fair value

	31 December 2016	
	Carrying Value N'000	Fair value N'000
Financial assets		
Bank balances		
- Placement with banks	7,307	7,307
- Other assets	226,873	226,873
	<u>234,180</u>	<u>234,180</u>
Financial Liabilities		
Other liabilities	98,832	98,832
	<u>98,832</u>	<u>98,832</u>
	31 December 2015	
	Carrying Value N'000	Fair value N'000
Financial assets		
Bank balances		
- Placement with banks	2,799,647	2,799,647
- Other assets	201,863	201,863
	<u>3,001,510</u>	<u>3,001,510</u>
Financial Liabilities		
Other liabilities	58,636	58,636
	<u>58,636</u>	<u>58,636</u>

For financial assets and liabilities not measured at fair value, their carrying values are reasonable approximation of their fair value.

Fair value hierarchy of financial assets and liabilities not measured at fair value is shown below.

At 31 December 2016 (N'000)

	Level 1	Level 2	Level 3	Total
Bank balances	-	-	7,307	7,307
Other assets	-	-	226,873	226,873
	<u>-</u>	<u>-</u>	<u>234,180</u>	<u>234,180</u>
Other liabilities	-	-	98,832	98,832
	<u>-</u>	<u>-</u>	<u>98,832</u>	<u>98,832</u>

At 31 December 2015 (N'000)

	Level 2	Level 2	Level 3	Total
Bank balances	-	-	2,799,647	2,799,647
Other assets	-	-	201,863	201,863
	<u>-</u>	<u>-</u>	<u>3,001,510</u>	<u>3,001,510</u>
Other liabilities	-	-	58,636	58,636
	<u>-</u>	<u>-</u>	<u>58,636</u>	<u>58,636</u>

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

Financial instruments measured at fair value

Treasury bills and bonds

Treasury bills represent short term instruments issued by the Central Bank of Nigeria. Bonds are debt instruments or contracts issued for an agreed period of time. The investor lends an amount of money to the issuer and earns interest on the investment until the maturity of the bond when the principal will be repaid. The fair value of actively traded treasury bills and bonds are determined with reference to quoted prices (unadjusted) in an active market for identical assets.

The fair values for bonds are obtained from the Financial Markets Dealers Quotations (FMDQ) bond price index. The bond prices are model prices derived from a modelled yield. The modelled yield is calculated by adding a risk premium to the valuation yield (corresponding tenor to maturity (TTM) yield interpolated off the FGN bond theoretical spot rate curve). This is used to calculate the bond bid price.

Risk premiums are derived by 2 methods described below;

1. Apply risk spread on latest acceptable trade for the respective bonds i.e. determine the spread between the bond yield on the latest acceptable trade and the FGN bond spot rate of comparable TTM.

2. Apply risk spread at issuance i.e. determine the spread between the bond yield at issuance and the FGN bond spot rate of comparable TTM. However, where the risk spread at issuance is less than 1% (100 basis points), a base risk premium of 100 basis points is applied.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Trust's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs) This hierarchy requires the use of observable market data when available.

The Trust considers relevant and observable market prices in its valuations where possible.

Fair value hierarchy of financial assets is shown below

At 31 December 2016 (N'000)

	Level 1	Level 2	Level 3	Total
Financial assets				
- Held for trading	4,902,981	581,534	-	5,484,515
- Financial assets at fair value through profit or loss	-	-	2,684,945	2,684,945
	<u>4,902,981</u>	<u>581,534</u>	<u>2,684,945</u>	<u>8,169,460</u>

At 31 December 2015 (N'000)

	Level 1	Level 2	Level 3	Total
Financial assets				
- Held for trading	-	303,557	-	303,557
- Financial assets at fair value through profit or loss	-	-	2,294,124	2,294,124
	<u>-</u>	<u>303,557</u>	<u>2,294,124</u>	<u>2,597,681</u>

Reconciliation of Level 3 items

The following table presents the changes in level 3 items for the periods ended 31 December 2016 and 31 December 2015:

	31 December 2016			31 December 2015		
	Equity securities N'000	Loan to investee N'000	Total N'000	Equity securities N'000	Loan to investee N'000	Total N'000
Opening balance	1,579,825	714,299	2,294,124	104,190	590,410	694,600
Acquisition	-	-	-	1,475,635	-	1,475,635
Fair valuation gain/(loss)	292,580	-	292,580	-	-	-
Interest recognised in statement of comprehensive income	-	98,240	98,240	-	123,889	123,889
Closing balance	<u>1,872,405</u>	<u>812,539</u>	<u>2,684,944</u>	<u>1,579,825</u>	<u>714,299</u>	<u>2,294,124</u>

Valuation techniques used valuation of Level 3 items:

- Equity investment in Festival Mall Limited: The Asset-based Approach
- Loan to Investee: Market approach
- Investment in James Pinnock Estate: Discounted cash flow approach

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

Sensitivity Analysis of Festival Mall investment on level 3:

Below is the sensitivity analysis of changes in parameter used in the valuation of the Festival Mall property. This shows the effect on the valuation if there is a plus or minus 2.50% in the valuation table scale used.

	31 December 2016 N'000	31 December 2015 N'000
Fair Value of investment in Festival Mall	240,201	104,190
Impact on the Trust's net asset value if valuation scale/rate used increase by 2.5%	6,005	2,605
Impact on the Trust's net asset value if valuation scale/rate used decrease by 2.5%	<u>(6,005)</u>	<u>(2,605)</u>

4 Critical accounting estimates and judgements

The Trust's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Fund Manager makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standards. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Fund Manager's judgements for certain items are especially critical for the Trust's results and financial situation due to their materiality. These include:

4.1 Equity holders classification

The units of the Trust are not redeemable and are therefore not carried as financial liabilities. The Trust is a close-ended trust.

Units are bought or redeemed at prices determined by the forces of demand and supply on the Nigerian Stock Exchange (NSE) with no guarantees to the equity holders of principal or return.

The units are treated as equity in line with IAS 32.

4.2 Investment in real estate development

The development of James Pinnock Estate, in which the Trust invested, is still on going. The Trust has determined that it has significant influence in this project as it holds a 49% interest and participates in decision making relating to the investment. The Trust has taken the IAS 28 exemption not to equity account for this investment and has consequently classified the investment at fair value through profit or loss.

4.3 Classification and measurement of financial assets

Financial assets that are measured on the basis of fair value are designated at fair value through profit or loss at initial recognition. The Trust has elected to measure its investment in First Festival Mall Limited and James Pinnock Estate at fair value through profit or loss.

4.4 Valuation of investment property

Investment property include income producing property and property under development (land or building, or part of a building, or both) that are held by the Trust, or leased by the Trust as a lessee under a finance lease, to earn rentals or for capital appreciation or both.

The Trust's investment property are measured at fair value. The Trust holds five investment property being office and residential buildings in Lagos, Abuja and Aba. The buildings are as listed below:

Property State	Abebe Court, Ikoyi Lagos N'000	VMP I, Victoria Island Lagos N'000	VMP II, Victoria Island Lagos N'000	UAC Commercial Complex, Abuja FCT Abuja N'000	No 1 -2 Factory Road, Aba Abia N'000	Total N'000
Beginning balance	4,136,000	8,725,800	8,492,000	1,483,000	796,400	23,633,200
Disposals	-	-	-	-	-	-
Unrealised fair value gain/(loss) recognised in the statement comprehensive income	(880)	(1,350)	(145,617)	(490)	(56,300)	(204,637)
Fair value at 31 December 2016	4,135,120	8,724,450	8,346,383	1,482,510	740,100	23,428,563

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

Valuation Process

The fair value is based on valuation prepared by professional valuers who holds recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

The professional valuer engaged for the preparation of the valuation reports are JOE AKHIGBE & ASSOCIATES, FRCN number (FRC/2012/NIESV/0000000292). The same valuers were used in 2015.

After the submission of the valuation report from the valuer, the Investment Committee which comprises of highly knowledgeable professionals in real estate business reviews the report.

At the financial year end, the Fund Manager and the Property Manager:

- verify all major inputs to the independent valuation report;
- assess property valuation method used and movements when compared to the prior year valuation report;
- hold discussions with the independent valuer.

Valuation techniques

In carrying out the valuation, below are the various methods adopted by the valuer in determining the market value of investment property.

- Direct market comparison method
- Investment/income capitalisation method
- Cost method or depreciated replacement cost (DRC)

The adoption of these methods for a particular property depends on the type and market condition of the property. Two or all of the above methods could be used for a particular property at a particular time by way of cross-checking figures. The valuer uses his discretion to adopt the most appropriate method suitable to that type of property being valued.

Direct market comparison is the most reliable and used where there is a form of recent sales price and current construction cost rate. This method was adopted for the valuation of the Abebe Court, Ikoyi because there is evidence of recent sales price of two flats in the property. This prices were analysed and compared with the prevailing market prices of similar property within the neighbourhood.

Investment/income capitalisation method is usually adopted in determining the market value of an income producing property in the form of rentals. This method stands more appropriate in the absence of direct market comparison discussed above.

This method was adopted for the VMP I, VMP II, and UAC commercial complex, Abuja because these property are income generating and there are evidence of current rentals earned on the property

Depreciated Replacement Cost Method of valuation. This method assumes that a prospective buyer would be prepared to pay for the accommodation provided by reference to what it would cost him to provide similar accommodation elsewhere. This involves estimating the current replacement cost of the buildings and other improvements on the site in today's market. This method was adopted for 1 - 2 Factory road, Aba because it seems the most appropriate to the condition and use of the property.

Investment property and valuation methods and assumptions used

Property State	Abebe Court, Ikoyi Lagos N'000	VMP I, Victoria Island Lagos N'000	VMP II, Victoria Island Lagos N'000	UAC Commercial Complex, FCT Abuja N'000	No 1 -2 Factory Road, Aba Abia N'000
Valuation method	Market value	Investment / Income capitalisation	Investment / Income capitalisation	Investment / Income capitalisation	Depreciation replacement cost method
Reasons for method used	Availability of evidence of recent sale	Available rental income	Available rental income	Available rental income	No comparable rent in the environment
Assumptions used on income capitalisation method					
Number of years	N/A	Unexpired lease in the property is 88yrs	Unexpired lease in the property is 88yrs	Unexpired lease in the property is 72yrs	Unexpired lease in the property is 82yrs
Rate of outgoing (deduction for repairs & maintenance)		8.5%	13.5%	16%	
Valuation table scale used	N/A	YP 5.5% by 2.5%	YP 6% by 2.5%	YP 5.5% by 2.5%	N/A

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

Fair value hierarchy of investment property is shown below

At 31 December 2016 (N'000)

	Level 1	Level 2	Level 3	Total
Investment property:				
- Abebe Court, Ikoyi, Lagos	-	4,135,120	-	4,135,120
- VMP I, Victoria Island, Lagos	-	-	8,724,450	8,724,450
- VMP II, Victoria Island, Lagos	-	-	8,346,383	8,346,383
- UAC Commercial Complex, Abuja	-	-	1,482,510	1,482,510
- No 1 -2 Factory Road, Aba	-	-	740,100	740,100
	<u>-</u>	<u>4,135,120</u>	<u>19,293,443</u>	<u>23,428,563</u>

At 31 December 2015 (N'000)

	Level 1	Level 2	Level 3	Total
Investment property:				
- Abebe Court, Ikoyi, Lagos	-	4,136,000	-	4,136,000
- VMP I, Victoria Island, Lagos	-	-	8,725,800	8,725,800
- VMP II, Victoria Island, Lagos	-	-	8,492,000	8,492,000
- UAC Commercial Complex, Abuja	-	-	1,483,000	1,483,000
- No 1 -2 Factory Road, Aba	-	-	796,400	796,400
	<u>-</u>	<u>4,136,000</u>	<u>19,497,200</u>	<u>23,633,200</u>

Sensitivity Analysis of property on level 3:

Below is the sensitivity analysis of changes in parameter used in the valuation of the investment property. This shows the effect on the valuation if there is a plus or minus 0.50% in the valuation table scale used for the purpose of the valuation.

property:	Abebe Court, Ikoyi Lagos	VMP I, Victoria Island Lagos	VMP II, Victoria Island Lagos	UAC Commercial Complex, Abuja FCT Abuja	No 1 -2 Factory Road, Aba Abia
Valuation Method	Market value	Income capitalisation	Income capitalisation	Income capitalisation	Depreciation replacement cost method
Valuation Rate/Basis	No of years in the property is 30yrs	No of years in the property is 89yrs	No of years in the property is 89yrs	No of years in the property is 71yrs	No of years in the property is 83yrs
Valuation table scale used	N/A	YP 5.5% by 2.5%	YP 6% by 2.5%	YP 5.5% by 2.5%	N/A
Fair Value	4,135,120	8,724,450	8,346,383	1,482,510	740,100
Sensitivity Analysis:	<u>+/- 5% of Market Value</u>	<u>+/- 0.5% on YP 5.5%</u>	<u>+/- 0.5% on YP 5.5%</u>	<u>+/- 0.5% on YP 5.5% by 2.5%</u>	<u>+/- 5% of Market Value</u>
Impact of increase in valuation scale/rate	<u>(206,756)</u>	<u>(727,148)</u>	<u>(653,241)</u>	<u>(123,607)</u>	<u>(37,005)</u>
Impact of decrease in valuation scale/rate	<u>206,756</u>	<u>872,577</u>	<u>772,012</u>	<u>148,329</u>	<u>37,005</u>

UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016

	31 December 2016	31 December 2015
	N'000	N'000
5 Income from investment property		
Rental Income	1,104,033	1,605,526
	<u>1,104,033</u>	<u>1,605,526</u>
6 Interest income		
Placements with banks	12,851	137,783
Corporate bonds	47,207	3,557
Treasury bills	591,974	996,471
Loans to investee company	98,240	123,889
	<u>750,272</u>	<u>1,261,700</u>
7 Net gain/(loss) on financial assets held for trading		
Treasury bill trading income	1,792	414
Fair value (loss)/gain on held for trading instruments	(24,632)	89,651
	<u>(22,840)</u>	<u>90,065</u>
8 Net gain on financial assets at fair value through profit or loss		
Fair value gain on assets at fair value through profit or loss	292,580	-
	<u>292,580</u>	<u>-</u>
9 Other income		
Recovery and insurance claim	-	598
Gain on sale of investment property	-	11,646
	<u>-</u>	<u>12,244</u>
10 Operating expenses		
Audit fees	6,000	7,500
Fund manager's fee	112,545	112,171
Property maintenance expenses	73,862	41,654
Registrar's fees	125	375
Trustees' fees	2,200	3,000
Professional fees	43,821	24,558
Custodian fees	22,367	21,976
AGM Expenses	1,265	4,855
Printing, advert and travels	2,382	1,202
Statutory fees	-	5,602
Property manager's fees	31,174	47,564
Insurance premium	8,099	7,259
Depreciation(see note 16)	23,414	-
Other operating expenses	4,689	4,918
	<u>331,943</u>	<u>282,634</u>

UPDC REAL ESTATE INVESTMENT TRUST
 NOTES TO THE FINANCIAL STATEMENTS
 FOR YEAR ENDED 31 DECEMBER 2016

11 Tax

As stated in Note 2.12, the Trust is not subject to tax other than withholding taxes arising on rental and dividend income.

	31 December 2016	31 December
	N'000	2015
		N'000
Withholding tax deducted on rental income	-	82,575
	<u>-</u>	<u>82,575</u>

12 Bank balances

Placements with banks	<u>7,307</u>	2,799,647
	<u>7,307</u>	<u>2,799,647</u>
Current	<u>7,307</u>	<u>2,799,647</u>

13 Financial assets held for trading

	31 December 2016	31 December
	N'000	2015
		N'000
Treasury bills with maturity of 90 days or less	1,462,808	-
Treasury bills with maturity above 90 days	3,440,173	3,689,089
Corporate bonds	581,534	303,557
	<u>5,484,515</u>	<u>3,992,646</u>
Current	4,902,981	3,689,089
Non-Current	<u>581,534</u>	<u>303,557</u>
	<u>5,484,515</u>	<u>3,992,646</u>

14 Financial assets at fair value through profit or loss

- Equity investment in First Festival Mall	240,201	104,190
- Loan to investee (First Festival Mall)	812,539	714,299
- Investment in real estate development (James Pinnock Estate)	1,632,205	1,475,635
	<u>2,684,945</u>	<u>2,294,124</u>
Current	1,632,205	-
Non-Current	<u>1,052,740</u>	<u>2,294,124</u>
	<u>2,684,945</u>	<u>2,294,124</u>

UPDC REAL ESTATE INVESTMENT TRUST
 NOTES TO THE FINANCIAL STATEMENTS
 FOR YEAR ENDED 31 DECEMBER 2016

15 Investment property

Beginning balance	23,633,200	23,708,000
Disposals	-	(460,000)
Fair value (loss)/gain	(204,637)	385,200
	<u>23,428,563</u>	<u>23,633,200</u>
Non-Current	<u>23,428,563</u>	<u>23,633,200</u>

Details of the investment property is in note 4.4.

	31 December 2016 N'000	31 December 2015 N'000
16 Other assets		
Financial:		
Rent receivables	61,722	36,712
Receivable from property manager	165,151	165,151
	<u>226,873</u>	<u>201,863</u>
Non financial:		
Prepaid expenses	31,772	52,690
	<u>31,772</u>	<u>52,690</u>
	<u>258,645</u>	<u>254,553</u>
Current	93,494	67,107
Non-Current	165,151	187,446
	<u>258,645</u>	<u>254,553</u>

	31 December 2016 N'000	31 December 2015 N'000
17 Property and equipment		
Cost		
At 1 January	-	-
Additions	150,065	-
At 31 December	<u>150,065</u>	-
Accumulated depreciation		
At 1 January	-	-
Charge for the year	23,414	-
At 31 December	<u>23,414</u>	-
Net book amount at 1 January	-	-
Net book amount at 31 December	<u>126,651</u>	-

Property and equipment relates to office equipment acquired during the year

UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016

18 Other liabilities

Financial liabilities:

Fund manager's fee payable	27,832	28,022
Custodian fees payable	5,761	5,332
Dividend payable	1,886	-
Accrued expenses	63,353	25,282
	<u>98,832</u>	<u>58,636</u>

Non financial Liabilities

VAT payable	3,050	49,050
	<u>3,050</u>	<u>49,050</u>
	<u>101,882</u>	<u>107,686</u>

Current	101,882	107,686
---------	---------	---------

	31 December 2016 N'000	31 December 2015 N'000
19 Rent received in advance		
Rent received in advance	1,036,993	1,819,178
	<u>1,036,993</u>	<u>1,819,178</u>
Current	977,370	922,552
Non-Current	59,623	896,626
	<u>1,036,993</u>	<u>1,819,178</u>

20 Unit holders' contribution

Authorised

3,000,000,000 units of N10 each	<u>30,000,000</u>	<u>30,000,000</u>
---------------------------------	-------------------	-------------------

Issued and fully paid

2,668,269,500 units of N10 each	<u>26,682,695</u>	<u>26,682,695</u>
---------------------------------	-------------------	-------------------

		31 December 2016 N'000	31 December 2015 N'000
21 Cash generated from operations	Notes		
Reconciliation of profit after tax to cash generated from operations:			
Profit after tax		1,587,465	2,989,526
Adjustment for:			
– Fair value gain on investment property	15	204,637	(385,200)
– Depreciation (note 16)		23,414	-
– Fair value loss/(gain) on financial assets held for trading	7	24,632	(89,651)
– Fair value gain on financial assets at fair value through profit or loss	8	(292,580)	
– Net interest income	6	(750,272)	(1,261,700)
– Gain on sale of investment property	9	-	(11,646)
Net Changes in operating assets and liabilities:			
–Financial assets held-for-trading		(153,162)	808,781
–Other assets		(4,092)	(225,092)
–Account payables		(5,804)	1,032,076
–Rent received in advance		(782,185)	-
Cash generated from /(used in) operations		<u>(147,947)</u>	<u>2,857,094</u>

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

22 Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents comprises:

- Treasury bills	1,462,808	-
- Placements with banks (Note 11)	7,307	2,799,647
	1,470,115	2,799,647

For the purposes of statement of cash flow, cash and cash equivalents are balances that are held for the primary purpose of meeting short term cash commitments. This includes deposit held on call with banks and other short-term highly liquid investments which originally matures in three months or less from when the Trust became a party to the instrument.

23 Related party transactions

The Trust is managed by FSDH Asset Management Limited (FSDH AM). FSDH AM is a subsidiary of FSDH Merchant Bank Limited which owns 99.7% of the Company's share capital. The Company is a co-subsiidairy with FSDH Securities Limited, a company engaged in stockbroking activities.

During the period, the following related party activities occurred:

Entity	Relationship	Type of transaction	2016 balance N'000	2015 balance N'000
FSDH Asset Management	Fund manager	Management fee	112,545	112,171
UACN Property Development Company Plc	Property manager	Property management fee	31,174	47,564
First Festival Mall Limited	Investee	Shareholder Loan to investee	812,539	714,299
First Festival Mall Limited	Investee	Interest income on loan to investee	98,240	123,889

Key management staff has been defined as members of management staff of the Fund Manager and its other related companies. No compensation was paid to key management staff during the period (December 2015: Nil).

Units held by related parties to the Trust are listed below:

	31 December 2016	31 December 2015
	Units N'000	Units N'000
Direct - UPDC	1,661,730	1,661,730

24 Earnings per unit

(i) Basic

Basic earnings per unit is calculated by dividing the net profit after tax attributable to the unit holders of the Trust by the number of units in issue during the period.

	31 December 2016	31 December 2015
Profit after tax attributable to unit holders of the Trust (N'000)	1,587,465	2,989,526
Number of ordinary units in issue (000)	2,668,270	2,668,270
Basic earnings per unit (expressed in Naira per share)	0.59	1.12

(ii) Diluted

The Trust does not have potential units with convertible options and therefore there is no dilutive impact on the profit attributable to the equity holders.

Diluted earnings per unit (expressed in Naira per share)	0.59	1.12
--	-------------	------

**UPDC REAL ESTATE INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2016**

25 Distributions	31 December 2016	31 December 2015
	N'000	N'000
Proposed distribution	1,261,154	2,329,173

In line with the provisions of the Trust Deed, minimum of 90% of the Trust's distributable income will be distributed to unit holders at the end of every financial year. Distributable income represents the "profit after tax" less unrealised fair value gain on investment property plus realised gain on disposed investment property.

Final distributions are not accounted for until they have been ratified at the Annual General Meeting (AGM) of the unit holders. Interim distribution was approved by the Joint Trustees. Interim distribution of 23 Kobo (December 2015 was 43 Kobo) per share totalling N613.70million (Dec 2015 was N1.15billion) was paid for the six months ended 30 June 2016 while 24 Kobo totalling N647.45million (Dec 2015 was N1.09billion) is being proposed as final distribution for the year ended 31 December 2016.

The proposed final distribution of 24 kobo will be accounted for, as an appropriation of retained earnings in the year ending 31 December 2017.

Reconciliation of distribution	N'000	N'000
Profit after tax	1,512,139	2,989,526
Less interest on investee loan - First Festival Mall Limited	(98,240)	(123,889)
Less fair value gain on assets at fair value through profit or loss	(292,580)	(385,200)
Add fair value loss on investment property	204,637	-
Distributable income	1,325,956	2,480,437
Proposed distribution at 90% of distributable income	1,261,154	2,232,393
Interim distribution paid	613,702	1,147,356
Distribution proposed	647,452	1,085,037
Total distribution	1,261,154	2,232,393
Interim distribution paid per unit (Naira)	0.23	0.43
Distribution proposed per unit (Naira)	0.22	0.41
Total distribution per unit (Naira)	0.45	0.84

26 Events after statement of financial position date

There were no events subsequent to the financial position date which require adjustments to, or disclosure in these financial statements.

27 Capital commitments

The Trust had no capital commitments as at end of the period ended 31 December 2016 (31 December 2015: Nil). However, the Trust may be required to provide additional funding on a prorata basis to the James Pinnock Estate development where required.

28 Contingent liabilities

The Trust had no contingent liabilities as at end of the period ended 31 December 2016 (31 December 2015: Nil).

**UPDC REAL ESTATE INVESTMENT TRUST
OTHER NATIONAL DISCLOSURES
FOR YEAR ENDED 31 DECEMBER 2016**

	Dec 2016	%	Dec 2015	%
	N'000		N'000	
Gross income	1,919,408	113	3,354,735	105
Bought-in-materials and services	(219,398)	(13)	(170,463)	(5)
Value added	<u>1,700,010</u>	100	<u>3,184,272</u>	100
Distribution of value added:				
To Government:				
Tax	-	-	82,575	3
To Fund Manager:				
Fund manager's fee	112,545	7	112,171	4
Retained in the fund:				
Retained earnings	<u>1,587,465</u>	93	<u>2,989,526</u>	94
	<u>1,700,010</u>	100	<u>3,184,272</u>	100

**UPDC REAL ESTATE INVESTMENT TRUST
OTHER NATIONAL DISCLOSURES
FOR YEAR ENDED 31 DECEMBER 2016**

	Dec 2016	Dec 2015	19 months to Dec 2014
	N'000	N'000	N'000
ASSETS			
Bank balances	7,307	2,799,647	72,889
Financial assets held for trading	5,484,515	3,992,646	6,422,138
Financial assets at fair value through profit or loss	2,684,945	2,294,124	694,600
Investment property	23,428,563	23,633,200	23,708,000
Other assets	258,645	254,553	29,460
Property and equipments	126,651	-	-
TOTAL ASSETS	31,990,626	32,974,170	30,927,087
LIABILITIES			
Other liabilities	1,138,875	1,926,864	894,788
Net assets attributable to unitholders	30,851,751	31,047,306	30,032,299
Represented by:			
Unit holders' contributions	26,682,695	26,682,695	26,682,695
Retained earnings	4,169,056	4,364,611	3,349,604
	30,851,751	31,047,306	30,032,299
Income from investment property	1,104,033	1,605,526	1,979,057
Interest income	750,272	1,261,700	1,390,874
Net (loss)/gain on financial assets held for trading	(22,840)	90,065	(7,506)
Net (loss)/gain on financial assets at fair value through profit o	292,580	-	-
Other income	-	12,244	69,235
Fair value gain on investment property	(204,637)	385,200	2,255,865
Operating expenses	(331,943)	(282,634)	(843,690)
	1,587,465	3,072,101	4,843,835
Tax	-	(82,575)	-
	1,587,465	2,989,526	4,843,835