

**(CONVENIENCE TRANSLATION OF THE REPORT AND THE FINANCIAL  
STATEMENTS ORIGINALLY ISSUED IN TURKISH)**

**HALK GAYRİMENKUL YATIRIM  
ORTAKLIĞI A.Ş.**

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2017  
AND INDEPENDENT AUDITOR'S  
OPINION

**(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR’S REPORT  
ORIGINALLY ISSUED IN TURKISH)**

**INDEPENDENT AUDITOR’S REPORT**

To the Board of Directors of  
Halk Gayrimenkul Yatırım Ortaklığı A.Ş

**A) Independent Audit of Financial Statements**

**1) Opinion**

We have audited the accompanying financial statements of Halk Gayrimenkul Yatırım Ortaklığı A.Ş. (“the Company”), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Halk Gayrimenkul Yatırım Ortaklığı A.Ş. as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards.

**2) Basis for Opinion**

We conducted our audit in accordance with Standards on Independent Auditing as published by the Capital Markets Boards and Standards on Independent Auditing (“SIA”) which is a part of the Turkish Auditing Standards as published by Public Oversight, Accounting and Auditing Standards Authority. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**3) Emphasis of Matter**

We draw attention to the following:

As detailed in Note 1, one of the former directors of the Company’s main shareholder, Türkiye Halk Bankası A.Ş. (main shareholder Bank), has been convicted for some of the charges in the first phase of the trial by the jury in the United States of America (“USA”).

Main shareholder Bank is not a trialist or defendant in this case. The respective court in this trial has not issued any administrative or monetary decision against the main shareholder Bank.

Separate from this trial, there is an uncertainty of any negative decisions by the USA authorities against the main shareholder Bank affecting its financial position, if any and their effects on the Company. The main shareholder Bank’s management indicated that there are no enforcement or other actions against the main shareholder Bank at this stage. Our opinion is not modified in respect of this matter.

#### 4) Key Audit Matters

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

Key Audit Matter	How this issue was addressed in the audit
<p><b>1) Presentation of investment properties in the financial statements and significant disclosures</b></p> <p>The Company accounts for its investment properties at fair value.</p> <p>The fair values of the investment properties presented in the financial statements amounting to TL 1.813.320.839 as of 31 December 2017 have been determined by an independent appraiser firm.</p> <p>Due to the fact that approximately 77% of the Company's total assets consists of investment properties and valuation methods applied at fair value include significant estimates and assumptions, we have determined the accuracy of work performed for determination of fair value of the investment properties and principles related to presentation of investment properties in the financial statements as a key audit mater.</p> <p>(For the respective accounting policy please refer to "Note 2 Summary of Significant Accounting Policies" and for the details of investment properties please refer to Note 8)</p>	<p>The following procedures were performed within the scope of our audit work:</p> <ul style="list-style-type: none"> <li>• As part of our Audit procedures, we evaluated the design and implementation of the key controls of the Company's management over the indepeudent appraisal reports.</li> <li>• The qualifications, competencies and impartiality of real estate appraisers appointed by the management have been evaluated.</li> <li>• The appropriateness of methods used by the Company's appraisers in their valuation reports for investment properties.</li> <li>• The reconciliation of the amounts disclosed in note 8 for investment properties and the values determined by the appraisers in their reports.</li> <li>• The assumptions used by appraisers (including rate of increase, real discount rate, market rents and estimated occupancy rates) include the analysis of the market data in their determination of fair value of investment properties. We have engaged another independent external expert (real estate appraiser) in our work in order to assess such analysis.</li> <li>• In line with the above procedures, we have evaluated as to whether the values appreciated by valuation specialists are within an acceptable range, considering the existence of high level judgments used in valuation reports, as well as alternative estimates and valuation techniques.</li> <li>• Additionally, the appropriateness of the information disclosed in the financial statements and in the explanatory notes was controlled taking into consideration the significance of the disclosures to draw attention of the users..</li> </ul>
<p><b>2) Inventories</b></p> <p>Inventories amounting to TL 252.004.404 which were accounted for under current assets in the financial statements of the Company consist of costs of lands on which development of various construction projects are planned in a short term and on which project development and construction activities have already begun.</p> <p>We have determined project inventories as a key audit matter evaluating that they form a significant balance in the Company's total assets and also taking the accounting principles applied for acquisition and other costs into consideration.</p> <p>(For the respective accounting policy, please refer to "Note 2 Summary of Significant Accounting Policies" and Note 6 for details of inventories.)</p>	<p>We have performed the following within the scope of our audit procedures:</p> <ul style="list-style-type: none"> <li>- Comparison of the construction and development costs incurred in the current period with underlying documentation such as invoices and interim payment certificates on a sampling basis.</li> <li>- Testing of disposal of inventories as a result of sales and recording of related costs in profit or loss using sampling method,</li> <li>- Control of the net realizable value of inventories using appraisal reports and realised sales.</li> </ul>

## **5) Other Matters**

The financial statements of the Company as at and for the year ended 31 December 2016 were audited by the another auditor who expressed an unqualified opinion on 13 February 2017.

## **6) Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with TFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## **7) Auditor's Responsibilities for the Audit of the Financial Statements**

In an independent audit, our responsibilities as independent auditors are as follows:

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 the Independent Auditing Standards published by the Capital Markets Board 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 Standards on Independent Auditing as published by the Capital Markets Boards and SIA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

## **B) Report on Other Legal and Regulatory Requirements**

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 (“TCC”), the auditor’s report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 14 February 2018

In accordance with paragraph four of the Article 402 of the TCC, nothing has come to our attention that may cause us to believe that the Company’s set of accounts and financial statements prepared for the period 1 January-31 December 2017 does not comply with the TCC and the provisions of the Company’s articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of the TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

The independent audit herein, is conducted and concluded by the engagement partner Hasan Kılıç.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.  
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Hasan Kılıç, SMMM  
Partner

İstanbul, 14 February 2018

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**HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

AUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

**Hata! Bağlantı geçersiz.**

The accompanying notes from an integral part of these financial statements.

**HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.****AUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017**

(Amounts expressed in Turkish Lira (TL))

		<b>Audited</b>	<b>Audited</b>
		<b>31 December</b>	<b>31 December</b>
<b>LIABILITIES</b>	<b>Notes</b>	<b>2017</b>	<b>2016</b>
<b>Current Liabilities</b>		<b>490,493,887</b>	<b>200,036,884</b>
Financial Borrowings		216,796,919	-
Current Portion of Long Term Borrowings	22	3,397,671	3,397,355
<i>Short Term Financial Borrowings From Related Parties</i>		3,397,671	3,397,355
Trade Payables	5	18,025,957	534,202
<i>Trade Payables To Related Parties</i>		416,723	63,264
<i>Trade Payables To Third Parties</i>		17,609,234	470,938
Deferred Income	7	242,418,401	190,060,630
<i>Deferred Income From Third Parties</i>		242,418,401	190,060,630
Provisions		1,079,771	868,915
<i>Short Term Portion of Provisions Relating to Employee Benefits</i>	12	970,803	801,155
<i>Other Current Provisions</i>	11	108,968	67,760
Other Current Liabilities		8,775,168	5,175,782
<i>Other Current Liabilities</i>	13	8,775,168	5,175,782
<b>Non-Current Liabilities</b>		<b>7,038,201</b>	<b>9,354,658</b>
Financial Borrowings	22	6,719,830	9,152,608
<i>Long Term Financial Borrowings From Related Parties</i>		6,719,830	9,152,608
Long Term Provisions	12	318,371	202,050
<i>Long Term Portion of Provisions Relating to Employee Benefits</i>		318,371	202,050
<b>EQUITY</b>		<b>1,879,401,652</b>	<b>1,630,195,744</b>
Share Capital	14	820,000,000	790,000,000
Treasury Shares	14	(23,117,578)	(22,271,814)
Share premium		49,945,096	49,945,096
Other comprehensive income that will not be reclassified to profit or loss		13,198	649
- <i>Gains on Remeasurement of Defined Benefit Plans</i>		13,198	649
Restricted Reserves	14	39,266,359	37,486,655
Retained Earnings		741,185,806	667,368,102
Net Profit For The Period		252,108,771	107,667,056
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,376,933,740</b>	<b>1,839,587,286</b>

The accompanying notes from an integral part of these financial statements.

**HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.****AUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017**

(Amounts expressed in Turkish Lira (TL))

	<b>Notes</b>	<b>Audited 1 January- 31 December 2017</b>	<b>Audited 1 January- 31 December 2016</b>
Revenue	15	82,240,682	79,567,962
Cost of Sales	15	(15,812,566)	(14,222,613)
<b>GROSS PROFIT</b>		<b>66,428,116</b>	<b>65,345,349</b>
General administrative expenses (-)	17	(11,584,483)	(9,479,882)
Marketing and selling expenses (-)	17	(3,421,687)	(5,098,168)
Other operating income from main activities	18	2,932,688	353,342
Other operating loss from main activities (-)	18	(4,426,514)	(3,712,366)
<b>OPERATING PROFIT</b>		<b>49,928,120</b>	<b>47,408,275</b>
Investment Property Revaluation Gains		<b>207,300,100</b>	<b>61,699,278</b>
<b>FİNANSMAN GİDERİ ÖNCESİ FAALİYET KARI/ZARARI</b>		<b>252,228,220</b>	<b>109,107,553</b>
Finance costs (-)	19	(5,119,449)	(1,440,497)
<b>PROFIT BEFORE TAX</b>		<b>252,108,771</b>	<b>107,667,056</b>
<b>NET PROFIT FOR THE PERIOD</b>		<b>252,108,771</b>	<b>107,667,056</b>
Earnings per share		0.3074	0.1313
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Other comprehensive income that will not be reclassified to profit or loss</b>			
Gains/(Losses) on Remeasurement of Defined Benefit Plans		12,549	(2,797)
<b>OTHER COMPREHNSIVE INCOME/(LOSS)</b>		<b>12,549</b>	<b>(2,797)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>252,121,320</b>	<b>107,664,259</b>

The accompanying notes from an integral part of these financial statements.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

	Notes	Share Capital	Treasury Shares	Share Premium	Other Comprehensive Income That Will Not Be Reclassified to Profit or Loss	Accumulated Profits			Equity
					Accumulated Gains/(Losses) on Remeasurement of Defined Benefit Plans	Restricted Reserves	Retained Earnings	Net Profit For The Period	
<b>Balance at 1 January 2016</b>		<b>743,000,000</b>	<b>(20,946,784)</b>	<b>49,945,096</b>	<b>3,446</b>	<b>32,833,600</b>	<b>520,046,712</b>	<b>202,920,402</b>	<b>1,527,802,472</b>
Transfers		-	-	-	-	4,653,055	198,267,347	(202,920,402)	-
Total Comprehensive Income		-	-	-	(2,797)	-	-	107,667,056	<b>107,664,259</b>
Capital Increase		47,000,000	(1,325,030)	-	-	-	(45,674,970)	-	-
Dividends	1	-	-	-	-	-	(5,270,987)	-	<b>(5,270,987)</b>
<b>Balance at 31 December 2016</b>		<b>790,000,000</b>	<b>(22,271,814)</b>	<b>49,945,096</b>	<b>649</b>	<b>37,486,655</b>	<b>667,368,102</b>	<b>107,667,056</b>	<b>1,630,195,744</b>
<b>Balance at 1 January 2017</b>		<b>790,000,000</b>	<b>(22,271,814)</b>	<b>49,945,096</b>	<b>649</b>	<b>37,486,655</b>	<b>667,368,102</b>	<b>107,667,056</b>	<b>1,630,195,744</b>
Transfers		-	-	-	-	1,779,704	105,887,352	(107,667,056)	-
Total Comprehensive Income		-	-	-	12,549	-	-	252,108,771	<b>252,121,320</b>
Capital Increase		30,000,000	(845,764)	-	-	-	(29,154,236)	-	-
Dividends	1	-	-	-	-	-	(2,915,412)	-	<b>(2,915,412)</b>
<b>Balance at 31 December 2017</b>		<b>820,000,000</b>	<b>(23,117,578)</b>	<b>49,945,096</b>	<b>13,198</b>	<b>39,266,359</b>	<b>741,185,806</b>	<b>252,108,771</b>	<b>1,879,401,652</b>

The accompanying notes from an integral part of these financial statements.

**HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.****AUDITED STATEMENT OF CASH FLOWS  
FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2017**

(Amounts expressed in Turkish Lira (TL))

		<b>Audited 1 January- 31 December 2017</b>	<b>Audited 1 January- 31 December 2016</b>
<b>Cash flows from operating activities</b>	<b>Notes</b>		
<b>A. Cash flows from operating activities</b>			
<b>Profit/loss for the year</b>		<b>252,108,771</b>	<b>107,667,056</b>
<b>Adjustments to reconcile profit/loss for the year</b>			
- Adjustments related to depreciation and amortization expenses	9-10	412,293	417,805
- Adjustments related to provisions	11-12	327,177	182,222
- Adjustments related to interest income and expenses	15-19	(2,371,618)	(5,617,645)
- Adjustments related to fair value gains / losses	8	(207,300,100)	(61,699,278)
<b>Changes in working capital</b>			
- Adjustments related to increase/decrease in inventories	6	(99,183,502)	(54,856,002)
- Adjustments related to increase/decrease in trade receivables		(5,613,101)	(23,032,032)
- Adjustments related to increase/decrease in prepaid expenses		(11,665,431)	(48,821,050)
- Adjustments related to increase/decrease in other assets		(26,824,808)	(2,223,884)
- Adjustments related to increase/decrease in trade payables		17,491,755	(1,307,158)
- Adjustments related to increase/decrease in deferred revenue		52,357,771	130,428,961
- Adjustments related to increase/decrease in other liabilities		3,599,386	2,317,396
<b>Cash generated from operations</b>		<b>(26,661,407)</b>	<b>43,456,391</b>
Interest received		7,276,915	6,529,737
Other		1,779	(49,897)
		<b>(19,382,713)</b>	<b>49,936,231</b>
<b>B. Cash flows from investing activities</b>			
Cash inflows from sale of property, plant and equipment and intangible assets	9	-	4,140
Cash outflows for purchase of property, plant and equipment and intangible assets	9-10	(50,946)	(41,697)
Cash outflows for investment properties	8	(116,139,662)	(6,653,626)
Cash inflows from sales of investment properties	8	862,650	-
		<b>(115,327,958)</b>	<b>(6,691,183)</b>
<b>C. Cash flows from financing activities</b>			
Proceeds from borrowings	22	257,808,062	-
Cash used for repayment of borrowings	22	(43,443,605)	(2,261,502)
Dividends paid	1	(2,915,412)	(5,270,987)
Interest paid		(4,905,297)	(1,318,540)
		<b>206,543,748</b>	<b>(8,851,029)</b>
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>		<b>71,833,077</b>	<b>34,394,019</b>
<b>D. Cash and cash equivalents at the beginning of the period</b>		<b>50,787,686</b>	<b>16,393,667</b>
<b>Cash and cash equivalents at the end of the period (A+B+C+D)</b>	26	<b>122,620,763</b>	<b>50,787,686</b>

The accompanying notes from an integral part of these financial statements.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 1. ORGANIZATION AND OPERATIONS OF THE COMPANY

The main activity of Halk Gayrimenkul Yatırım Ortaklığı AŞ (the “Company”) is to invest in properties, property projects, rights on properties, property related capital market instruments and portfolio including other rights and assets as deem appropriate by the Capital Markets Board of Turkey (“CMB”). In accordance with the relevant articles of the CMB’s Communiqué on the Principles of Real Estate Investment Trusts, the main objective of the Company is to invest in properties, property projects, property rights and capital market instruments.

The operations of the Company, its portfolio management policies and limitations are consistent with the regulatory requirements of the CMB. Investment property portfolio of the Company consists of lands and rental properties which are used as bank branches and bank headquarter. The Company obtained its license to operate by the CMB’s approval dated 24 September 2010 and numbered 9546, and registered in the CMB. The registered capital ceiling of the Company is TL 1,500,000,000. The paid in capital of the Company is TL 820,000,000 of which TL 196,217,979 was paid in cash whereas TL 513,282,021 was paid in kind and TL 110,500,000 was incorporated from reserves internally appropriated.

The headquarter of the Company is registered in Şerifali Çiftliği Tatlısu Mah. Ertuğrulgazi Sok. No:1 34774 Yukarı Dudullu Ümraniye/İstanbul.

As at 31 December 2017, the number of personnel employed in the Company is 40 (31 December 2016: 40).

The Company is a subsidiary of Türkiye Halk Bankası AŞ (“Halkbank”) and was registered on 18 October 2010. With the amendment dated 31 December 2009 made by the CMB the Communiqué on the Principles of Real Estate Investment Trusts, it is obligatory that the shares of trusts representing a minimum 25% of their capital be issued within three months of either the establishment of the investment trust or the related amendment to the articles of association being registered with the Trade Registry, are offered to public and that they apply to the CMB with the request that all shares to be registered.

The Company has applied to the CMB on 29 August 2012 to increase the issued capital from TL 477,000,000 to TL 662,500,000 within TL 1,500,000,000 registered capital ceiling, by initial public offering of the increase of TL 185,500,000 B group bearer shares. The application was approved in accordance with the CMB’s decision numbered 4/97 on 8 February 2013. During 13-15 February 2013, TL 185,500,000 B group shares offered to public by restricting the preemptive rights of the existing shareholders. After the collection of the investors demand, the Company’s shares started to be traded on İstanbul Stock Exchange with HLGYO title as of 22 February 2013.

As at 11 June 2015, the Company increased its share capital to TL 743,000,000 by transferring TL 45,100,000 from retained earnings to the share capital.

As at 4 September 2014, the Company has signed a Joint Operation Agreement with Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. for developing a real estate project.

As at 14 April 2016, the Company has signed Joint Operation Agreement with Er Konut İnş. Taah. İnş. Malz. Nak. ve Mad. Tic. ve San. A.Ş. for developing a real estate project.

As at 25 May 2016, the Company increased its share capital to TL 790,000,000 by transferring TL 47,000,000 from retained earnings to the share capital.

As at 15 August 2017, the Company increased its share capital to TL 820,000,000 by transferring TL 30,000,000 from retained earnings to the share capital.

As at 24 August 2017, the Company has signed a Joint Operation Agreement with Teknik Yapı Teknik Yapılar San.ve Tic.A.Ş. for developing a real estate project

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 1. ORGANIZATION AND OPERATIONS OF THE COMPANY (cont'd)

As at 6 October 2017, the Company sold bonds with nominal value of TL 100,000,000 with a maturity date of 30 March 2018 within the TL 500,000,000 issue ceiling.

As at 19 December 2017, the Company has processed the transaction of the lease certificates amounting to TL 100,000,000 within the TL 1,000,000,000 issue ceiling under the scope of management agreement stipulated by the Notification of Lease Certificates (III.61.1), by means of sales to qualified investors method, with varying maturities and in compositions and without offering to public domestically, by selling the aforementioned certificates to qualified investors and/or by private placement.

The details of the Company's joint operations are below:

<u>Joint operations</u>	<u>Type of Activity</u>	<u>Main Activity Fields</u>
Halk GYO-Vakıf GYO Adi Ortaklığı	Construction	Real Estate Construction
Halk GYO-Erkonut Adi Ortaklığı	Construction	Real Estate Construction
Halk GYO-Teknik Yapı Adi Ortaklığı	Construction	Real Estate Construction

#### Dividends paid:

The Company distributed dividend of TL 2,915,412 on 21 June 2017, in consideration of the decision taken at the 2016 Ordinary General Assembly held on 15 June 2017 (2016: TL 5,270,987).

#### Approval of financial statements:

Board of Directors has approved the financial statements and delegated authority for publishing it on 14 February 2018. General Assembly has the authority to modify the financial statements.

### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

#### 2.1 Basis of Presentation

##### Statement of Compliance in TAS

The accompanying financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which was published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards ("TAS") and interpretations that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

The financial statements and disclosures have been prepared in accordance with the resolution of CMB dated 7 June 2013 about the "illustrations of financial statements and application guidance".

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

#### 2.1 Basis of Presentation (cont'd)

The financial statements have been prepared on the historical cost basis except for investment properties that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

##### Currency Used

The individual financial statements of each entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the financial statements.

##### Preparation of Financial Statements in Hyperinflationary Economies

In accordance with the communique issued by CMB, for companies that operate in Turkey and prepare their financial statements applying Turkish Accounting Standards, it is decided not to apply inflation accounting from 1 January 2005 which is published on 17 March 2005 numbered 11/367. Accordingly, as of 1 January 2005 No:29 “ Financial reporting in Hyperinflationary Economies” (“TAS 29”) was not applied.

##### Comparative Information and Reclassification of Prior Period Financial Statements

Financial statements of the Company have been prepared comparatively with the prior period in order to give information about financial position and performance. In order to maintain consistency with current year financial statements, comparative information is reclassified and significant changes are disclosed if necessary. The nature, reason and the amounts of reclassification are described below:

- As of 31 December 2016, the Company has netted off the notes receivable recorded under “Receivables from non-related parties” amounting to TL 15,252,689, which were related to the Land Sale of Revenue Sharing Agreements, with the “Deffered income from non-related parties” in the same amount.
- The lawsuit provision amounting to TL 67,760, which was previously disclosed in “Other short term liabilities” in 2016, was reclassified to “Other short term provisions” in the current period.
- The advance payments on residential sales amounting to TL 183,793,138, which was previously disclosed in “Long term deffered revenue” in 2016, were reclassified to “Short term deferred revenue” in the current period.
- Donation and aid expenses in profit or loss and other comprehensive income statement amounting to TL 3,550,000, which were disclosed in “General administrative expenses” in 2016, were reclassified to “Other expenses from operating activities” in the current period.

The aforementioned reclassifications do not affect the statement of profit and loss.

##### Appendix I: Control of Compliance With Restrictions on The Investment Portfolio

Information given in Appendix 1 are summarized and derived from the financial statements prepared in accordance with Article 16 of Communiqué No: II – 14.1 and also within the framework of compliance control of the portfolio restrictions clause of Communiqué No: III - 48.1, “Communiqué on Principles Regarding Real Estate Investment Companies”.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

#### 2.1 Basis of Presentation (cont'd)

##### Interests in joint operations:

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the group as a joint operator recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

The Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the TAS applicable to the particular assets, liabilities, revenues and expenses.

#### 2.2 Changes in Accounting Policies

Significant changes in accounting policies have been applied retrospectively and prior period financial statements are restated. In the current period, the Company has not made any change in its accounting policies.

#### 2.3 Changes in Accounting Estimates and Errors

If changes in accounting estimates and errors are for only one period, changes are applied in the current period but if the estimated changes affect the following periods, changes are applied both on the current and following years prospectively. In the current period, there are not any material errors and changes in accounting estimates.

#### 2.4 New and Revised Turkish Accounting Standards

##### a) Amendments and comments in effect as of 2017

Amendments to TAS 12	<i>Recognition of Deferred Tax Assets for Unrealized Losses</i> <sup>1</sup>
Amendments to TAS 7	<i>Disclosure Initiative</i> <sup>1</sup>
Annual Improvements to TFRS Standards 2014–2016 Cycle	<i>TFRS 12</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

#### 2.4 New and Revised Turkish Accounting Standards (cont'd)

##### a) Amendments and comments in effect as of 2017 (cont'd)

##### **Amendments to TAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses***

This amendment clarifies the recognition of deferred tax related to debt instruments measured at fair value.

The amendments to TAS 12 does not have any effect on the Company's financial statements.

##### **Amendments to TAS 7 *Disclosure Initiative***

This amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

##### **Annual Improvements to TFRS Standards 2014–2016 Cycle**

**TFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, apply to an entity's in associates, subsidiaries and joint operations that are classified as held for sale, as held for distribution or as discontinued operations in accordance with TFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

As the Company does not have interests in associates, subsidiaries and joint operations which are classified as held for sale in accordance with TFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the application of the aforementioned improvements does not have any effect on the Company's financial statements.

##### b) New and revised TFRSs in issue but not yet effective

The Company has not applied the following new and revised TFRSs that have been issued but are not yet effective:

TFRS 9	<i>Financial Instruments</i> <sup>1</sup>
TFRS 15	<i>Revenue from Contracts with Customers</i> <sup>1</sup>
Amendments to TFRS 10 and TAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to TFRS 2	<i>Classification and Measurement of Share-Based Payment Transactions</i> <sup>1</sup>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> <sup>1</sup>
Amendments to TAS 40	<i>Transfers of Investment Property</i> <sup>1</sup>
Annual Improvements to TFRS Standards 2014–2016 Cycle	<i>TFRS 1</i> <sup>1</sup> , <i>TAS 28</i> <sup>1</sup>
Amendments to TAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

#### 2.4 New and Revised Turkish Accounting Standards (cont'd)

##### b) New and revised IFRSs in issue but not yet effective (cont'd)

##### **IFRS 9 *Financial Instruments***

IFRS 9 introduced new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting.

Key requirements of IFRS 9:

- all recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

#### 2.4 New and Revised Turkish Accounting Standards (cont'd)

##### b) New and revised IFRSs in issue but not yet effective (cont'd)

##### **IFRS 9 *Financial Instruments* (cont'd)**

Based on an analysis of the Company's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of IFRS 9 to the Company's financial statements as follows:

##### Classification and measurement

Bills of exchange and debentures classified as held-to-maturity investments and loans carried at amortized cost as disclosed in Note 5: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortized cost upon the application of IFRS 9.

All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

##### **IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

## **HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017**

(Amounts expressed in Turkish Lira (TL))

#### **2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)**

##### **2.4 New and Revised Turkish Accounting Standards (cont'd)**

###### **b) New and revised IFRSs in issue but not yet effective (cont'd)**

###### ***IFRS 15 Revenue from Contracts with Customers (cont'd)***

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Company recognizes revenue from the following major sources:

- Property sales income,
- Rent income related to properties.

Apart from providing more extensive disclosures on the Company's revenue transactions, the directors do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Company.

###### ***Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

This amendment clarifies that gains or losses resulting from the sale or contribution of assets from an investor to its associate or joint venture shall be accounted by the investor.

###### ***Amendments to TFRS 2 Classification and Measurement of Share-Based Payment Transactions***

This amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity settled.

###### ***IFRIC 22 Foreign Currency Transactions and Advance Consideration***

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

##### 2.4 New and Revised Turkish Accounting Standards (cont'd)

###### b) New and revised IFRSs in issue but not yet effective (cont'd)

###### ***IFRIC 22 Foreign Currency Transactions and Advance Consideration (cont'd)***

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

###### ***Amendments to IAS 40 Transfers of Investment Property***

The amendments to IAS 40 Investment Property:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

###### ***Annual Improvements to IFRS Standards 2014–2016 Cycle***

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- **IAS 28:** Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

###### ***Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures***

This amendment clarifies that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The Company evaluates the effects of these standards, amendments and improvements on the financial statements, apart from the effects of TFRS 15 and TFRS 9 as explained above.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

### 2.5 Summary of Significant Accounting Policies

#### Related Parties

A related party is a person or entity that is related to the entity that is preparing its financial statements.

a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (ii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

#### Revenue

Revenue is recognized when it is probable that an economic gain will be realized to the Company as a result of its operations and it is probable that the income will be measured reliably. Net sales is reduced for estimated and realized customer returns, rebates, commissions and taxes related with sales. Revenue is recognized when all the following conditions are satisfied:

##### *Sale of real estate*

Where the real estate is sold, the risk and benefits are transferred to the buyer, the amount of the revenue can be calculated reliably, and the title deeds take place then, the revenue is considered to be occurred. Revenue is realized if it is possible to enter into the Company with the economic benefits generated by this transaction and the amount of this revenue can be reliably measured.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

### 2.5 Summary of Significant Accounting Policies (cont'd)

#### Revenue (cont'd)

##### *Rental income from real estate leases:*

Rental income from real estates is recognized on an accrual and a straight line basis through the related lease contract. If there are other benefits to the tenants of the Company, they are recorded so as to reduce rental income during the lease term.

##### *Dividend and interest income:*

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

##### *Sale of lands*

Revenue is recognised when all significant risks and rewards regarding the lands are transferred to the buyer and the amount of revenue can be measured reliably.

##### *Sales of land by way of "Land Sale of Revenue Sharing Agreement" ("LSRSA")*

The Company recognizes revenue from the sale of land by "Land Sale of Revenue Sharing Agreement" (LSRSA) when transfer of legal ownership of land is transferred to the buyer. When the legal ownership is not transferred, the Company books its share of revenue as deferred income. The Company's share in Total Sales Revenue ("TSR") is recorded as revenue from sale of land and related cost is recognised as cost of land sold in the statement of profit or loss.

#### Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. When the net realizable value of inventory is less than cost, the inventory is written down to the net realizable value and the expense is included in statement of profit or loss in the period the write-down or loss occurred. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal amount is limited to the amount of the original write-down.

## **HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017**

(Amounts expressed in Turkish Lira (TL))

## **2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)**

### **2.5 Summary of Significant Accounting Policies (cont'd)**

#### **Property, Plant and Equipment**

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost or valuation of assets, other than freehold land and properties under construction, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

#### **Leases**

##### Leases - the Company as lessor

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

### 2.5 Summary of Significant Accounting Policies (cont'd)

#### **Intangible Assets**

##### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

##### Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (5-10 years). Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred.

##### Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

#### **Impairment of Tangible and Intangible Assets Other Than Goodwill**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

## **HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017**

(Amounts expressed in Turkish Lira (TL))

## **2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)**

### **2.5 Summary of Significant Accounting Policies (cont'd)**

#### **Impairment of Tangible and Intangible Assets Other Than Goodwill (cont'd)**

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

When the Company borrows funds specifically for the purpose of the qualifying assets, the amount of borrowing costs eligible for capitalization is the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

#### 2.5 Summary of Significant Accounting Policies (cont'd)

##### **Borrowing Costs (cont'd)**

General borrowings of the Company are capitalized to the applicable qualifying assets based on a capitalization rate. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

##### **Financial Instruments**

###### Financial assets

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. A regular way purchase or sale of financial assets shall be recognised using trade date accounting or settlement date accounting. When a financial asset is recognised initially, the Company measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

###### Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. These financial assets are stated at fair value and any gain or losses are recognised in profit or loss.

###### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

### 2.5 Summary of Significant Accounting Policies (cont'd)

#### Finansal Araçlar (cont'd)

##### Financial assets (cont'd)

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, and others) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The Company's cash and cash equivalents are classified under the category of 'Loans and Receivables'.

##### Recognition and derecognition of financial assets

The Company recognises a financial asset or a financial liability in its statement of financial position when, and only, the entity becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. An entity shall remove a financial liability from its statement of financial position when, and only, the obligation specified in the contract is discharged or cancelled or expires.

##### Financial liabilities

When a financial liability is recognised initially, the Company measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. After initial recognition, the Company measures all financial liabilities at amortised cost using the effective interest method,

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

#### 2.5 Summary of Significant Accounting Policies (cont'd)

##### Effect of Exchange Differences

##### Foreign Currency Balances and Transactions:

The individual financial statements of each entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the financial statements. In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks and

##### Earnings Per Share

Earnings per share disclosed in the statement of profit or loss and other comprehensive income are determined by dividing net earnings by the weighted average number of shares that have been outstanding during the related period.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“bonus shares”) to existing shareholders from retained earnings on equity items. Such kind of bonus shares are taken into consideration in the computation of earnings per share as issued share certificates. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period has been adjusted in respect of bonus shares issues without a corresponding change in resources, by giving them retroactive effect for the year in which they were issued and each earlier year.

##### Events After the Reporting Period

Events after the reporting period are those events that occur between the balance sheet date and the date when the financial statements are authorized for issue, even if they occur after an announcement related with the profit for the year or public disclosure of other selected financial information. The Company adjusts the amounts recognized in its financial statements if adjusting events occur after the balance sheet date.

## **HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017**

(Amounts expressed in Turkish Lira (TL))

#### **2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)**

##### **2.5 Summary of Significant Accounting Policies (cont'd)**

###### **Provisions, Contingent Assets and Liabilities**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

###### **Investment Properties**

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognized.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property that is measured at fair value to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property that is measured at fair value, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment properties.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)

### 2.5 Summary of Significant Accounting Policies (cont'd)

#### Income Taxes

According to Article 5/1(d) (4) of the New Corporate Tax Law No: 5220, the income of Real Estate Investment Trusts ("REIT") is exempt from Corporate Income Tax in Turkey. This exemption is also applicable to Quarterly Advance Corporate Tax.

According to the Corporate Tax Law Article 15/(3), the income of REITs is subject to 15% withholding tax irrespective of its distribution. The Council of Ministers has the authority to increase the withholding tax rate on REIT income to corporate income tax rate or reduce it to 0% or change it within the limits defined through publication of a Decree based on the Corporate Tax Law Article 15/(4). In accordance with New Corporate Tax Law Article 15/(2), income subject to corporate tax is also exempt from withholding tax.

According to the temporary Article (1) of the Corporate Tax Law, resolutions of the Council of Ministers related with Income Tax Law numbered 193 and Tax Law No: 5422 are valid up to new Decrees published by the Council of Ministers. Determined rates cannot exceed statutory limits defined at New Corporate Tax Law.

Based on the resolution of the Council of Ministers related to the withholding tax rates which were determined as 15% according to the Corporate Tax Law Article 15/(3) published in the Official Gazette dated 3 February 2009 numbered 27130, the withholding tax rate is determined as 0% and this resolution is effective on the same date. Thereof, in accordance with the Article 5/1(d) (4) of the Corporate Tax Law, real estate investment trusts earnings, regardless of the fact they are distributed or not, will be subject to 0% withholding.

#### Deferred tax

Since the Company is exempt from Corporate Income Tax in Turkey in accordance with the Article 5 of the Corporate Tax Law, deferred tax is not recognised.

#### Employee Benefits

##### *Termination and retirement benefits:*

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Company. Such payments are considered as being part of defined retirement benefit plan as per TAS 19 (Revised) *Employee Benefits* ("TAS 19").

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized in other comprehensive income.

## **HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017**

(Amounts expressed in Turkish Lira (TL))

## **2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (cont'd)**

### **2.5 Summary of Significant Accounting Policies (cont'd)**

#### **Employee Benefits (cont'd)**

##### *Profit-sharing and bonus plans*

The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### **Statement of Cash Flows**

In the statement of cash flows, cash flows are classified according to operating, investing and financing activities.

#### **Share Capital and Dividends**

Common shares are classified as equity. Dividends on common shares are recognized in equity in the period in which they are approved and declared.

### **2.6 Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

#### Critical judgments in applying the entity's accounting policies

In the process of applying the entity's accounting policies, which are described in Note 2.5, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements (apart from those involving estimations, which are dealt with below):

##### *Useful lives of property, plant and equipment*

The Company reviews the estimated useful lives of its property, plant and equipment at the end of each reporting period. The Company takes into consideration the intended use of the property, plant and equipment, the advancement in technology related to the particular type of property, plant and equipment as well as other factors that may require management to extend or shorten the useful lives and the assets' related depreciation.

##### *Determination of fair values of investment properties and investment properties under development*

The fair values of investment properties are based on valuations, performed by independent valuers using certain estimates and assumptions, who hold recognized and relevant professional qualifications licensed by the CMB and who have recent experience in the location and category of the investment properties being valued. In these estimates and assumptions, any future changes may cause significant impact on the Company's financial statements.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 3. INTERESTS IN OTHER ENTITIES

##### Joint Operations

Shareholding of the Company in the joint operation is as follows:

	31 December 2017	31 December 2016
Halk GYO-Vakıf GYO Adi Ortaklığı	50%	50%
Halk GYO-Erkonut Adi Ortaklığı	50%	50%
Halk GYO-Teknik Yapı Adi Ortaklığı	50%	-

##### Halk GYO-Vakıf GYO Adi Ortaklığı

Halk GYO-Vakıf GYO Adi Ortaklığı has founded in Turkey for operating as a joint operation with 50% shares and 50% voting rights. The Company owns 50% of the Bizimtepe Aydos Project in İstanbul. The residences in the project will be offered for sale. The financial information of Halk GYO-Vakıf GYO is summarized in the following tables. The financial information of Halk GYO-Vakıf GYO as per the shareholding and voting rights is as follows:

	31 December 2017	31 December 2016
Halk GYO-Vakıf GYO Adi Ortaklığı		
Current assets	206,892,687	56,212,076
Non-current assets	34,709,604	113,175,403
Current liabilities	(182,421,467)	(162,444,825)
	1 January- 31 December 2017	1 January- 31 December 2016
Expenses	(2,901,639)	(4,651,090)

##### Halk GYO-Erkonut Adi Ortaklığı

Halk GYO-Erkonut Adi Ortaklığı has founded in Turkey for operating as a joint operation with 50% shares and 50% voting rights. The Company owns 50% of the Şehristan Project in Erzurum. The residences in the project will be offered for sale. The financial information of Halk GYO-Erkonut is summarized in the following tables. The financial information of Halk GYO-Erkonut as per the shareholding and voting rights is as follows:

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 3. INTERESTS IN OTHER ENTITIES (cont'd)

##### Joint Operations (cont'd)

##### Halk GYO-Erkonut Adi Ortaklığı (cont'd)

	31 December 2017	31 December 2016
Halk GYO-Erkonut Adi Ortaklığı		
Current assets	70,350,910	13,626,495
Non-current assets	12,703,177	46,046,528
Current liabilities	(49,486,778)	(27,478,872)
	1 January- 31 December 2017	1 January- 31 December 2016
Expenses	(56,683)	(150,905)

##### Halk GYO-Teknik Yapı Adi Ortaklığı

Halk GYO-Teknik Yapı Adi Ortaklığı has founded on 24 August 2017 in Turkey for operating as a joint operation with 50% shares and 50% voting rights. The Company owns 50% of the İzmir Project in İzmir. The residences in the project will be offered for sale. The financial information of Halk GYO-Teknik Yapı is summarized in the following tables. The financial information of Halk GYO-Teknik Yapı as per the shareholding and voting rights is as follows:

Hata! Bağlantı geçersiz.

	1 January- 31 December 2017	1 January- 31 December 2016
Expenses	(1,252,021)	-

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 4. RELATED PARTY DISCLOSURES (cont'd)

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Details of transactions between the Company and other related parties are disclosed below:

	31 December 2017	31 December 2016
<u>Deposits at Halk Bank</u>		
Demand deposits	607,886	812,955
Time deposits	30,720,512	49,757,297
	<u>31,328,398</u>	<u>50,570,252</u>
Halk Varlık Yönetimi A.Ş. lease certificate issuance (Note 22)	100,435,616	-
Loans received from Halk Bank (Note 22)	<u>10,117,501</u>	<u>12,549,963</u>

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 4. RELATED PARTY DISCLOSURES (cont'd)

	31 December 2017							
	Receivables		Payables		Prepaid Expenses		Investment Properties	
	Short Term		Short Term		Short Term		Short Term	
Balances with related parties	Trade	Non-Trade	Trade	Non-Trade	Trade	Non-Trade	Trade	Non-Trade
<u>Shareholders</u>								
Halkbank A.Ş.	147,177	-	6,984	-	-	-	422,155	-
<u>Related parties controlled by main shareholder</u>								
Halk Yatırım Menkul Değ.A.Ş.	-	-	-	-	-	-	200,000	-
Halk Hayat ve Emeklilik A.Ş.	538	-	-	-	2,407	-	-	-
Halk Varlık Kiralama A.Ş.	-	-	373,930	-	-	-	358,855	-
Halk Sigorta A.Ş.	474	-	35,809	-	101,083	-	-	-
	<u>148,189</u>	<u>-</u>	<u>416,723</u>	<u>-</u>	<u>103,490</u>	<u>-</u>	<u>981,010</u>	<u>-</u>
31 December 2016								
	Receivables		Payables		Prepaid Expenses		Investment Properties	
	Short Term		Short Term		Short Term		Short Term	
	Trade	Non-Trade	Trade	Non-Trade	Trade	Non-Trade	Trade	Non-Trade
<u>Shareholders</u>								
Halkbank A.Ş.	-	-	16,491	-	-	-	-	-
<u>Related parties controlled by main shareholder</u>								
Halk Sigorta A.Ş.	-	-	46,773	-	216,938	-	-	-
Halk Hayat ve Emeklilik A.Ş.	-	-	-	-	3,289	-	-	-
	<u>-</u>	<u>-</u>	<u>63,264</u>	<u>-</u>	<u>220,227</u>	<u>-</u>	<u>-</u>	<u>-</u>

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 4. RELATED PARTY DISCLOSURES (cont'd)

Transactions with related parties	1 January - 31 December 2017			
	Interest income	Interest expenses	Rent income	Other expenses
<u>Shareholders</u>				
Halkbank A.Ş.	6,145,478	1,874,823	37,756,362	158,734
<u>Related parties controlled by main shareholder</u>				
Halk Hayat ve Emeklilik A.Ş.	-	-	89,394	20,560
Halk Sigorta A.Ş. (*)	-	-	-	886,773
	<u>6,145,478</u>	<u>1,874,823</u>	<u>37,845,756</u>	<u>1,066,067</u>

(\*) The amount consists of building and health insurance services from Halk Sigorta A.Ş

Transactions with related parties	1 January - 31 December 2016			
	Interest income	Interest expense	Rent income	Other expense
<u>Shareholders</u>				
Halkbank A.Ş.	6,109,911	1,383,050	36,664,702	6,923
Halk Yatırım Menkul Değerler A.Ş.	90,800	-	-	2,500
<u>Related parties controlled by shareholders</u>				
Halk Hayat ve Emeklilik A.Ş.	-	-	92,184	24,508
Halk Sigorta A.Ş.	-	-	76,185	621,580
	<u>6,200,711</u>	<u>1,383,050</u>	<u>36,833,071</u>	<u>655,511</u>

### Compensation of key management personnel:

Key management personnel comprises, members of board of directors and members of execution committee, general manager and deputy general manager. Compensation of key management personnel comprises professional fees and other benefits such as; salaries, premium, healthcare insurance and transportation. The remuneration of directors and other members of key management during the period is as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Salaries and other short term benefits	<u>1,246,448</u>	<u>936,620</u>
	<u>1,246,448</u>	<u>936,620</u>

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 5. TRADE RECEIVABLES AND PAYABLES

##### a) Trade Receivables:

The details of the Company's trade receivables as of balance sheet date are as follows:

	31 December 2017	31 December 2016
<u>Current trade receivables</u>		
Trade receivables	36,555,385	13,921,728
Receivables from related parties (Note 4)	148,189	-
Other trade receivables	-	2,946,082
	<u>36,703,574</u>	<u>16,867,810</u>

The Company's short term trade receivables comprise sale of residences and rental income from Bizimtepe Aydos Project, Eskişehir Panorama Plus Project and Erzurum Şehristan Project respectively amounting to TL 29,550,211, TL 1,389,173, TL 5,151,009, TL 613,181 (31 December 2016: Referans Bakırköy Project TL 2,022,256, Eskişehir Panorama Plus Project TL 10,902,192, Bizimtepe Aydos Project TL 996,980, and other receivables TL 2,946,082).

As at 31 December 2017, the Company does not have trade receivables past due (31 December 2016: TL 2,929,855).

##### **Hata! Bağlantı geçersiz.**

The Company's long-term trade receivables comprise sale of residences at Eskişehir Panorama Plus Project and Bizimtepe Aydos Project amounting to TL 4,166,782 and TL 1,632,325 respectively (31 December 2016: Referans Bakırköy Project TL 6,060,202 and Bizimtepe Aydos Project TL 13,809,471 and TL 152,097).

Explanations about the nature and level of risks related to trade receivables are provided in Note 23.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 5. TRADE RECEIVABLES AND PAYABLES

##### b) Trade Payables:

The details of the Company's trade payables as of balance sheet date are as follows:

	31 December 2017	31 December 2016
Short term trade payables		
Trade payables	17,609,234	470,938
Trade payables to related parties (Note 4)	416,723	63,264
	<u>18,025,957</u>	<u>534,202</u>

Explanations about the nature and level of risks related to trade payables are provided in Note 23.

#### 6. INVENTORIES

Land stocks	31 December 2016			31 December 2017
	Cost Value	Addition	Disposal	Cost Value
Referans Bakırköy Konut Project <sup>(1)</sup>	6,146,720	2,721,356	(6,128,628)	2,739,448
Panaroma Plus Konut Project <sup>(2)</sup>	14,106,470	-	(6,907,391)	7,199,079
Sancaktepe - Konut Project <sup>(3)</sup>	101,399,353	75,944,136	-	177,343,489
Erzurum - Şehristan Project <sup>(4)</sup>	31,168,359	30,501,626	-	61,669,985
İzmir Project <sup>(5)</sup>	-	3,052,403	-	3,052,403
Total	<u>152,820,902</u>	<u>109,167,118</u>	<u>(13,036,019)</u>	<u>252,004,404</u>

Land stocks	31 December 2015			31 December 2016
	Cost Value	Addition	Disposal	Cost Value
Referans Bakırköy Konut Project <sup>(1)</sup>	10,061,154	-	(3,914,434)	6,146,720
Panaroma Plus Konut Project <sup>(2)</sup>	22,591,755	-	(8,485,285)	14,106,470
Sancaktepe - Konut Project <sup>(3)</sup>	65,311,991	36,087,362	-	101,399,353
Erzurum - Şehristan Project <sup>(4)</sup>	-	31,168,359	-	31,168,359
Total	<u>97,964,900</u>	<u>67,255,721</u>	<u>(12,399,719)</u>	<u>152,820,902</u>

<sup>(1)</sup> The Company has arranged a bid to develop a project on Bakırköy Land as Land Sale of Revenue Sharing Agreement (LSRSA) and as a consequence signed a contract with a firm on 17 February 2012. The Company registered for each plot that the project takes place for construction servitude on 24 February 2014. In 2017, in-kind sharing was realized with the contractor, leaving 27 independent units to the contractor and retaining 9 for the Company. In year 2017 transfer of 45 independent units was realized and taxes, duties and charges were included in cost of sales. Total sales was recorded as revenue in the amount of TL 14.185.847 and cost of sales in the amount of TL 6.199.915 (31 December 2016: transfer of 52 independent units, revenue in the amount of TL 14,015,299 and cost of sales relating to these sales amounting to TL 3,914,355. Cost of sales includes taxes, duties and charges.).

The Company has received an advance payment from subcontractor as per an agreement for an ongoing project related with LSRSA amounting to TL 18,100,000 and TL 100,000 respectively on 17 February 2012 and 1 March 2013. The Company's projected land cost is TL 31,765,625.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 6. INVENTORIES (cont'd)

<sup>(1)</sup> The plans of Referans Bakırköy Project, for which first construction permission was obtained as at 31 May 2012 and which is currently under construction, have been modified to provide 254 residential and 73 commercial units, as opposed to prior 256 residential and 70 commercial units and the modification permission of the revised project was approved by relevant authorities as at 19 September 2013. As at 31 December 2017, the deed transfer process of 285 independent units has been completed.

<sup>(2)</sup> Eskişehir Odunpazarı Land which was registered with Odunpazarı/Eskişehir registry with 1452 block 89 plot and 90 plot is currently registered to 110 plot, with change at the partition plan at 22 March 2013. The Company has acquired the plot belonging to Eskişehir Municipality within new 110 plot with a cost value of TL 668,000 at 22 March 2013 and registered previously named 89 plot and 90 plot covering an area of 13,570 m2 as 110 plot. Due to new partition plan investment property is entrusted from 13,073 m2 registered as 9,811 m2. After entrusting, description of the plot has changed to land from factory building. The deeds of floor easement of 97 residential and 5 commercial units were taken as of 30 December 2014. During 2017, 17 independent units were sold amounting to TL 9,748,860 and cost of sales relating to these sales is amounting to TL 7,950,325 (As at 31 December 2016, 23 independent units were sold amounting to TL 10,572,462 and cost of sales relating to these sales amounting to TL 9,028,862). Cost of sales includes taxes, duties and charges.

<sup>(3)</sup> As at 16 October 2014, a land in Sancaktepe/Istanbul was purchased for TL 110,000,000 by Halk GYO-Vakıf GYO Adi Ortaklığı for real estate development project. The main contractor services agreement was signed at 22 October 2015 and the construction permit was granted on 6 November 2015. There is no restriction on the land.

<sup>(4)</sup> As at 1 April 2016, a land in Yakutiye /Erzurum was purchased for TL 17,500,000 by Halk GYO-Erkonut Adi Ortaklığı for real estate development project. The main contractor services agreement was signed at 31 May 2016 and the construction permit was granted on 10 May 2016. There is no restriction on the land.

<sup>(5)</sup> As at 24 August 2017, Halk GYO and Teknik Yapı Adi Ortaklığı signed a LSRSA contract for a mixed project on the parcels located in İzmir, Konak Province, Umurbey and Kuruçay districts and this amount comprise of the official expenses made for the project. There is no restriction on the land.

### 7. PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2017	31 December 2016
<u>Short Term Prepaid Expenses</u>		
Prepaid insurance expenses (Note 4)	103,490	220,227
Other	214,822	166,656
	<u>318,312</u>	<u>386,883</u>
	31 December 2017	31 December 2016
<u>Long term prepaid expenses</u>		
Investment advances (*)	67,861,990	56,125,984
Other	-	2,004
	<u>67,861,990</u>	<u>56,127,988</u>

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 7. PREPAID EXPENSES AND DEFERRED INCOME (cont'd)

##### Long Term Prepaid Expenses (cont'd)

(\*) As at 31 December 2017, the advances given comprise those given to the main contractor and the project management contractors of the IFC Project amounting to TL 48,322,828 (31 December 2016: TL 37,879,038), İzmir Project amounting to 15,240,000 (31 December 2016: None), Sancaktepe Project amounting to TL 1,633,304 (31 December 2016: TL 9,529,353), Erzurum Şehristan Project amounting to TL 1.821.587 (31 December 2016: TL 7,873,322), Caddebostan Project amounting to TL 844,271 (31 December 2016: TL 844,271) and other amounting to TL 255,451 (31 December 2016: TL None).

	31 December 2017	31 December 2016
Short Term Deferred Income		
Deferred residential sale income <sup>(1)</sup>	242,418,401	190,060,630
	<u>242,418,401</u>	<u>190,060,630</u>

<sup>(1)</sup> Deferred residential sale income consist of TL 8,090,455 (31 December 2016: TL 4,416,335) generated from the sales of residences from LSRSA project realized on the estate located in Bakırköy and TL 6,129,127 (31 December 2016: TL 1,851,157) generated from the sales of residence project realized from Eskisehir-Odunpazarı Project. As per the Company's LSRSA agreement, 50.5% share of the revenue from sales is collected by the Company. As of 31 December 2017, of the total 327 units of the project which consists of 254 residential and 73 commercial units 322 units have been sold for TL 213.8 Million (excluding advances from contractor) and transfer of title deeds has been completed for 285 residential units with the sales value of TL 195.5 Million. (31 December 2016: 291 units have been sold for TL 200.6 Million, excluding advances from contractor, and transfer of title deeds has been completed for 262 residential units with the sales value of TL 178.6 Million).

Deferred income consist of TL 181,370,957 and TL 47,107,334 (31 December 2016: TL 157,172,304, TL 26,620,834) generated from the sales of residences from Bizimtepe Aydos Project and Erzurum Şehristan Project, respectively. The Company has signed preliminary sales contracts for 741 units from total units of 1,037 for Bizimtepe Aydos Project and 316 units for Erzurum Şehristan Project.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 8. INVESTMENT PROPERTIES

##### Fair value measurement of the Company's investment properties

The fair value of the Company's investment properties as at 31 December 2017 have been arrived at on the basis of a valuation carried out on the respective dates by A Artıbir Gayrimenkul Değerleme A.Ş., independent valuers not related to the Company. A Artıbir Gayrimenkul Değerleme A.Ş., which is authorized by the CMB with appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair values of the lands were determined based on the market comparable approach.

There has been no change to the valuation technique during the period.

In estimating the fair value of the properties, the highest and best value in use of the properties is considered.

Details of the Company's investment properties and information about the fair value hierarchy as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	Fair value as at 31 December 2017		
		Level 1	Level 2	Level 3
		TL	TL	TL
Buildings	927,752,212	-	927,752,212	-
Investment properties under development	900,632,591	-	900,632,591	-
	<u>1,828,384,803</u>	<u>-</u>	<u>1,828,384,803</u>	<u>-</u>

  

	31 December 2016	Fair value as at 31 December 2016		
		Level 1	Level 2	Level 3
		TL	TL	TL
Buildings	859,345,116	-	859,345,116	-
Investment properties under development	646,462,575	-	646,462,575	-
	<u>1,505,807,691</u>	<u>-</u>	<u>1,505,807,691</u>	<u>-</u>

There were no transfers between Level 1 and Level 2 during the year.

As of 31 December 2017, the total amount of insurance on investment properties is TL 258,524,795 (31 December 2016: TL 245,334,793). As of 31 December 2017, the total amount of capitalized interest expenses on investment properties is TL 394,879 (31 December 2016: None).

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 8. INVESTMENT PROPERTIES (cont'd)

<u>Investment properties</u>	31 December 2016	Addition	Disposal	Fair value difference	31 December 2017
	Fair value				Fair value
İstanbul Karaköy Building	32,600,000	-	-	3,400,000	36,000,000
İstanbul Salıpazarı Building	49,362,000	10,169,935	-	196,361	59,728,296
İzmir Konak Building-1	25,130,000	-	-	2,026,000	27,156,000
Ankara Kızılay Building	17,013,475	-	-	-	17,013,475
İstanbul Beyoğlu Building	24,555,000	-	-	1,918,003	26,473,003
İstanbul Beşiktaş Building	18,320,000	-	-	1,145,000	19,465,000
İstanbul Etiler Building	16,766,000	-	-	1,674,000	18,440,000
İstanbul Şişli Building	15,135,034	-	-	1,127,495	16,262,529
İzmir Konak Building-2	14,842,000	-	-	1,248,500	16,090,500
Ankara Başkent Building	11,854,750	-	-	-	11,854,750
İstanbul Bakırköy Building	21,500,350	-	-	2,047,650	23,548,000
Bursa Building	13,200,000	-	-	1,200,400	14,400,400
Ankara Bahçelievler Building 1	9,860,000	-	-	3,250	9,863,250
Kocaeli Building	11,862,000	-	-	659,000	12,521,000
İstanbul Fatih Building	11,253,750	-	-	1,223,333	12,477,083
Sakarya Adapazarı Building	10,875,000	-	-	1,650,000	12,525,000
Ankara Bahçelievler Building 2	8,100,000	-	-	-	8,100,000
İstanbul Ataköy Building	11,260,000	-	-	1,203,200	12,463,200
İstanbul Nişantaşı Building	8,549,250	-	-	964,750	9,514,000
Halkbank Finance Tower	186,636,280	-	-	22,814,360	209,450,640
Park Dedeman Levent Hotel	165,378,233	-	-	10,941,570	176,319,803
Kocaeli Şekerpınar Block A	88,704,000	-	-	9,312,800	98,016,800
Eskişehir Panorama Plus Project - Block D	4,199,760	-	-	36,840	4,236,600
Eskişehir Panorama Plus Project - Block B17	862,650	-	(862,650)	-	-
Kocaeli Şekerpınar Office Project	70,300,584	241,889	-	5,290,410	75,832,883
<b>Total Buildings</b>	<b>848,120,116</b>	<b>10,411,824</b>	<b>(862,650)</b>	<b>70,082,922</b>	<b>927,752,212</b>
İstanbul Finance Center Project	646,462,575	105,717,012	-	135,940,413	888,120,000
İstanbul Caddebostan Building Project	11,225,000	10,826	-	1,276,765	12,512,591
<b>Total investment properties under development</b>	<b>657,687,575</b>	<b>105,727,838</b>	<b>-</b>	<b>137,217,178</b>	<b>900,632,591</b>
<b>Total</b>	<b>1,505,807,691</b>	<b>116,139,662</b>	<b>(862,650)</b>	<b>207,300,100</b>	<b>1,828,384,803</b>

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 8. INVESTMENT PROPERTIES (cont'd)

<b>Investment properties</b>	31 December 2015	Addition	Transfer	Fair value difference	31 December 2016
	Fair value				Fair value
İstanbul Karaköy Building	30,000,000	-	-	2,600,000	32,600,000
İstanbul Salıpazarı Building	46,680,000	330,483	-	2,351,517	49,362,000
İzmir Konak Building-1	21,382,200	-	-	3,747,800	25,130,000
Ankara Kızılay Building	16,200,000	-	-	813,475	17,013,475
İstanbul Beyoğlu Building	22,000,000	-	-	2,555,000	24,555,000
İstanbul Beşiktaş Building	16,030,000	-	-	2,290,000	18,320,000
İstanbul Etiler Building	16,200,000	-	-	566,000	16,766,000
İstanbul Şişli Building	14,325,000	-	-	810,034	15,135,034
İzmir Konak Building-2	13,470,000	-	-	1,372,000	14,842,000
Ankara Başkent Building	11,000,000	-	-	854,750	11,854,750
İstanbul Bakırköy Building	20,865,000	-	-	635,350	21,500,350
Bursa Building	11,860,000	-	-	1,340,000	13,200,000
Ankara Bahçelievler Building 1	9,000,000	-	-	860,000	9,860,000
Kocaeli Building	10,544,000	-	-	1,318,000	11,862,000
İstanbul Fatih Building	10,000,000	-	-	1,253,750	11,253,750
İstanbul Caddebostan Building	18,690,000	-	-	(7,465,000)	11,225,000
Sakarya Adapazarı Building	9,032,500	-	-	1,842,500	10,875,000
Ankara Bahçelievler Building 2	7,650,000	-	-	450,000	8,100,000
İstanbul Ataköy Building	10,975,000	-	-	285,000	11,260,000
İstanbul Nişantaşı Building	8,200,000	-	-	349,250	8,549,250
Ataşehir Finance Tower	181,205,360	-	-	5,430,920	186,636,280
Park Dedeman Levent Hotel	145,107,568	-	-	20,270,665	165,378,233
Kocaeli Şekerpinar Banking Center	82,521,600	-	-	6,182,400	88,704,000
Eskişehir Panaroma Plus Project - Block D	4,177,025	-	-	22,735	4,199,760
Eskişehir Panaroma Plus Project - Block B17	649,863	-	-	212,787	862,650
Kocaeli Şekerpinar Office Project	-	-	70,649,391	(348,807)	70,300,584
<b>Total Buildings</b>	<b>737,765,116</b>	<b>330,483</b>	<b>70,649,391</b>	<b>50,600,126</b>	<b>859,345,116</b>
İstanbul Finance Center Project	632,096,740	3,266,683	-	11,099,152	646,462,575
Kocaeli Şekerpinar Office Project	67,592,931	3,056,460	(70,649,391)	-	-
<b>Total investment properties under development</b>	<b>699,689,671</b>	<b>6,323,143</b>	<b>(70,649,391)</b>	<b>11,099,152</b>	<b>646,462,575</b>
<b>Total</b>	<b>1,437,454,787</b>	<b>6,653,626</b>	<b>-</b>	<b>61,699,278</b>	<b>1,505,807,691</b>

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 8. INVESTMENT PROPERTIES (cont'd)

##### *Buildings*

##### *İstanbul Karaköy Building*

İstanbul Karaköy Building is registered to Beyoğlu/İstanbul Müeyyetzade neighbourhood with 102 city block and 3 plot. It is a massive block office building with a place of 583 m2 at land register.

The value of the investment property has been determined as TL 23,500,000 according to the report dated 13 November 2009 prepared by real estate appraisal company licensed by the CMB and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Karaköy Building was determined as TL 36,000,000 according to market comparable approach based on the report dated 8 December 2017 prepared by real estate appraisal company licensed by the CMB. There is no restriction on the investment property. The Company rented this property to Halkbank. The Company earned TL 1,184,453 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 1,397,550). As of 23 October 2017, the rental agreement was terminated and there were not any lease transaction after that date.

##### *İstanbul Salıpaazarı Building*

İstanbul Salıpaazarı Building is registered with Beyoğlu/İstanbul Kılıçali neighbourhood with 57 city block and 14th plot with 1,196 m2 at the deed register.

The value of the investment property was determined as TL 22,000,000 according to the report dated 13 November 2009 prepared by a real estate appraisal firm licensed by the CMB and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Salıpaazarı Building was determined as TL 59,728,296 according to the market comparable approach based on the report dated 28 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company earned TL 1,506,411 of rental income for the period 1 January 2017 - 31 December 2017 (1 January – 31 December 2016: TL 395,653). The Company signed an agreement with Beril Otelcilik Turizm ve Tic. Ltd. Şti. to rent Salıpaazarı Building as a hotel. The alterations permit was granted on 6 January 2017 and the transformation process to renovate it as a hotel is ongoing.

##### *İzmir Konak Building -1*

İzmir Konak Corporate Building is registered with Konak/İzmir Akdeniz neighbourhood with 971 city block and 17rd plot with 739 m2 at the deed register. Construction servitude has not been established with the deed registrar for the independent sections of the property.

The value of the investment property has been determined as TL 13,400,000 according to the report dated 9 December 2009 prepared by real estate appraisal firm licensed by the CMB and it was devolved as capital in kind on 2 November 2010 by Halkbank. The fair value of Konak Corporate Building was determined as TL 27,156,000 according to the market comparable approach based on the report dated 22 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 1,355,171 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 1,270,500).

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 8. INVESTMENT PROPERTIES (cont'd)

##### *Buildings (cont'd)*

##### *Ankara Kızılay Building*

Ankara Kızılay Building is registered with Çankaya/Ankara Cumhuriyet neighbourhood with 1064 city block and 14th plot with 272 m<sup>2</sup> at the deed register as apartment block.

The value of the investment property was determined as TL 12,475,237 according to the report dated 11 February 2010 prepared by the experts assigned by the Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Kızılay Building and Service Building was determined as TL 17,013,475 according to the market comparable approach based on the report dated 21 December 2017 prepared by real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company has rented this property to HalkBank. The Company earned TL 1,368,077 of rental income for the period of 1 January – 31 December 2017 (1 January – 31 December 2016: TL 1,282,000).

##### *İstanbul Beyoğlu Building*

İstanbul Beyoğlu Building is registered with Beyoğlu/İstanbul Hüseyinağa neighbourhood with 338 city block and 8th plot with 195 m<sup>2</sup> office building with certain depth, and altitude height of 5.5 meter at the deed register, also with a public passage right under the name of Istanbul Municipality.

The value of the investment property was determined as TL 12,000,000 according to the report dated 9 December 2009 prepared by a real estate appraisal firm licensed by the CMB and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Beyoğlu Building was determined as TL 26,473,003 according to the market comparable approach based on the report dated 21 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented 2nd, 3rd, 4th, 5th and 6th floors of this property to Turkish Treasury and other divisions to Halkbank. The Company earned TL 1,510,810 of rental income for the period 1 January – 31 December 2017 (1 January – 31 December 2016: TL 1,394,884).

##### *İstanbul Beşiktaş Building*

İstanbul Beşiktaş Building is registered to Beşiktaş/İstanbul Sinanpaşa neighbourhood with 291 city block and 93rd plot with 267 m<sup>2</sup> building at the deed register.

The value of the investment property was determined as TL 11,893,840 according to the report dated 12 January 2010 prepared by a real estate appraisal firm licensed by the CMB and it was devolved as capital in kind on 27 October 2010 by Halkbank. The fair value of Beşiktaş Building was determined as TL 19,465,000 according to the market comparable approach based on the report dated 15 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 1,290,639 of rental income for the period 1 January – 31 December 2017 (1 January – 31 December 2016: TL 1,210,000).

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 8. INVESTMENT PROPERTIES (cont'd)

##### *Buildings (cont'd)*

##### *İstanbul Etiler Building*

İstanbul Etiler Building is registered to Beşiktaş/İstanbul 1st Region with 578 city block and 3rd plot with 617 m<sup>2</sup> residential house at the deed register.

The value of the investment property was determined as TL 11,000,000 according to the report dated 13 November 2009 prepared by a real estate appraisal firm licensed by the CMB and it was devolved as capital in kind on 27 October 2010 by Halkbank. The fair value of Etiler Building was determined as TL 18,440,000 according to the market comparable approach based on the report dated 15 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 1,006,698 of rental income for the period 1 January – 31 December 2017 (1 January – 31 December 2016: TL 943,800).

##### *İstanbul Şişli Building*

İstanbul Şişli Building is registered with Şişli/İstanbul Meşrutiyet neighbourhood with, 129 plate, 954 city block and 62nd plot with 200 m<sup>2</sup> block apartment at the deed register.

The value of the investment property was determined as TL 11,000,000 according to the report dated 9 December 2009 prepared by a real estate appraisal firm licensed by the CMB and it was devolved as capital in kind on 2 November 2010 by Halkbank. The fair value of Şişli Building was determined as TL 16,262,529 according to the market comparable approach based on the report dated 11 December 2017 prepared by real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 993,792 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 931,700).

##### *İzmir Konak Building-2*

İzmir Konak Building is registered with Konak/İzmir Akdeniz neighbourhood with 2802 city block and 15rd plot with 616 m<sup>2</sup> building at the deed register.

The value of the investment property was determined as TL 10,290,000 according to the report dated 9 December 2009 prepared by a real estate appraisal firm licensed by the CMB and it was devolved as capital in kind on 2 November 2010 by Halkbank. The fair value of Konak Building was determined as TL 16,090,500 according to the market comparable approach based on the report dated 25 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented a part of the investment property to Halkbank and other part to Halk Hayat ve Emeklilik A.Ş. The Company earned TL 841,191 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 873,194).

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 8. INVESTMENT PROPERTIES (cont'd)

##### *Buildings (cont'd)*

##### *Ankara Başkent Building*

Ankara Başkent Building is registered with Çankaya/Ankara Cumhuriyet neighbourhood with 1046 city block and 27th plot with 205 m2 block apartment at the deed register.

The value of the investment property was determined as TL 9,541,729 according to the report dated 11 February 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Başkent Building was determined as TL 11,854,750 according to the market comparable approach based on the report dated 13 December 2017 prepared by a real estate appraisal company licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank and Ceda Akaryakit. The Company earned TL 1,103,388 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 1,021,218).

##### *İstanbul Bakırköy Building*

İstanbul Bakırköy Building is registered with Bakırköy/İstanbul Zeytinlik neighbourhood with 101 city block and 29th plot with 213 m2 eight-storey apartment at the deed register.

The value of the investment property was determined as TL 9,023,500 according to the report that was prepared at 5 February 2010 by the experts assigned by Commercial Court and it was devolved as capital in kind at 28 October 2010 by Halkbank. According to 8 December 2017 dated report of a real estate valuation firm licensed by the CMB, the fair value of Bakırköy Building was determined as TL 23,548,000 according to the market comparable approach. There is no restriction on this investment property. The Company has rented this property to Halkbank. The Company earned TL 1,419,703 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 1,331,000).

##### *Bursa Building*

Bursa Building is registered to Osmangazi/Bursa Kayıhan neighbourhood with 4306 city block and 1st plot. It is a seven-storey massive block apartment with a place of 306 m2 at land register.

The value of the investment property has been determined as TL 8,500,000 according to the report dated 11 January 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Bursa Building was determined as TL 14,400,400 according to market comparable approach based on the report dated 13 December 2017 prepared by real estate appraisal company licensed by CMB. There is no restriction on the investment property. The Company rented this property to Halkbank. The Company earned TL 952,492 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 892,980).

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 8. INVESTMENT PROPERTIES (cont'd)

##### *Buildings (cont'd)*

##### *Ankara Bahçelievler Building-1*

Ankara Bahçelievler Building-1 is registered with Çankaya/Ankara Yukarı Bahçelievler neighbourhood with 2758 city block and 29th plot with 612 m2 five-storey apartment at the deed register.

The value of the investment property was determined as TL 6,681,356 according to the report dated 11 February 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Ankara Bahçelievler Building was determined as TL 9,863,250 according to the market comparable approach based on the report dated 22 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 718,886 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 673,970).

##### *Kocaeli Building*

Kocaeli Building is registered with İzmit/Kocaeli Ömerağa neighbourhood with 870 city block and 48th plot with 284 m2 building at the deed register.

The value of the investment property was determined as TL 6,519,193 according to the report dated 12 January 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Kocaeli Building was determined as TL 12,521,000 according to the market comparable approach based on the report dated 11 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 903,447 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 847,000).

##### *İstanbul Fatih Building*

İstanbul Commercial Building is registered with Fatih/İstanbul Hobyar neighbourhood with 418 city block and 2nd plot with 208 m2 bank building at the deed register.

The value of the investment property was determined as TL 6,380,000 according to the report dated 9 December 2009 prepared by real estate appraisal firm licensed by the CMB and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Fatih Building was determined as TL 12,477,083 according to the market comparable approach based on the report dated 11 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 645,320 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 605,000).

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 8. INVESTMENT PROPERTIES (cont'd)

##### *Buildings (cont'd)*

##### *İstanbul Caddebostan Building*

İstanbul Caddebostan Building is registered with Kadıköy/İstanbul Erenköy neighbourhood with 368 city block and 25th plot with 902 m<sup>2</sup> apartment with a garden at the deed register.

The value of the investment property was determined as TL 6,300,000 according to the report dated 11 January 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 3 November 2010 by Halkbank. The fair value of Caddebostan Building was determined as TL 12,512,591 according to market comparable approach based on the report dated 18 December 2017 prepared by a real estate appraisal company licensed by the CMB. There is no restriction on this investment property. The Company has rented this property to HalkBank. The agreement between the Company and Halkbank expired on 25 January 2016. The main contractor services agreement was signed on 3 November 2016 for “Caddebostan Building” which is in the urban transformation process. Land value has been taken into account in calculating its value because of urban transformation process. On 13 October 2017, construction licence was obtained and construction activities are in progress.

##### *Sakarya Adapazarı Building*

Sakarya Adapazarı Building is registered with Adapazarı/Sakarya Cumhuriyet neighbourhood with 130 city block and 167th plot with 3,000 m<sup>2</sup> building at the deed register.

The value of the investment property was determined as TL 5,960,000 according to the report dated 11 January 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Adapazarı Building was determined as TL 12,525,000 according to the market comparable approach based on the report dated 26 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 825,106 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 773,553).

##### *Ankara Bahçelievler Building-2*

Ankara Bahçelievler Building-2 is registered with Çankaya/Ankara Yukarı Bahçelievler neighbourhood with 2763 city block and 10th plot with 610 m<sup>2</sup> apartment at the deed register.

The value of the investment property was determined as TL 5,684,746 according to the report dated 11 February 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Bahçelievler Building was determined as TL 8,100,000 according to the market comparable approach based on the report dated 22 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Koton Mağazacılık Tekstil Sanayi ve Ticaret A.Ş. (“Koton”). The Company earned TL 281,751 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 663,778). As at 24 May 2017, the rent agreement with Koton was terminated and there were not any lease contracts signed related to this investment property after that date.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 8. INVESTMENT PROPERTIES (cont'd)

##### *Buildings (cont'd)*

##### *İstanbul Ataköy Building*

İstanbul Ataköy Building is registered with Bakırköy/İstanbul Kartaltepe neighbourhood with 115 city block and 174th plot with 515 m2 bank building at the deed register.

The value of the investment property was determined as TL 5,061,500 according to the report dated 5 February 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Ataköy Building was determined as TL 12,463,000 according to the market comparable approach based on the report dated 8 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 796,970 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 747,175).

##### *İstanbul Nişantaşı Building*

İstanbul Nişantaşı Building is registered with Şişli/İstanbul Halaskargazi neighbourhood with 680 city block and 14th plot 221.50 m2 eight-storey restaurant building at the deed register. Related property is classified as a cultural asset that is needed to be protected.

The value of the investment property was determined as TL 5,000,000 according to the report dated 12 January 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 2 November 2010 by Halkbank. The fair value of Nişantaşı Building was determined as TL 9,514,000 according to the market comparable approach based on the report dated 6 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 542,068 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 508,200).

##### *Halkbank Finans Kule*

Halkbank Finance Tower is registered with Ataşehir/Küçükbakkalköy neighbourhood with 3332 city block and 24th plot with 7,995 m2 land at the deed register. The investment property has been purchased from the K Yapı Gayrimenkul Geliştirme İnş. San. ve Dış Tic. A.Ş. Due to the related agreement, the payment of half of the cost value of TL 72,275,000, including VAT, has been made concurrent to the transfer of 103 deeds with servitude rights. 25% of the sale price amounting to TL 36,137,500 was paid on 13 June 2012 and the last 25% of sale price amounting to TL 33,237,500 was paid on 30 July 2012. The the remaining payment of TL 2,900,000 on the purchase is offset against the other transactions with the K Yapı Gayrimenkul Geliştirme İnş. San. ve Dış Tic. A.Ş. With the payment of first part, the deed registration fee of TL 2,070,600, settling registration expenses of TL 509,253 and finance cost of TL 1,466,224 for the loan related with this acquisition are added to the land and building costs. TL 150,000,000 of mortgage has been given as collateral for the loan which was obtained for financing Halkbank Finance Tower construction from Halkbank. The fair value of Halkbank Finance Tower was determined as TL 209,450,640 according to the market comparable approach based on the report dated 18 December 2017 prepared by a real estate appraisal firm licensed by the CMB. The Company rented this property to T. Halk Bankası A.Ş. The Company has recognized TL 15,165,760 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 15,199,980).

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 8. INVESTMENT PROPERTIES (cont'd)

##### *Buildings (cont'd)*

##### *Park Dedeman Levent Otel*

Levent Land is registered with Mecidiyeköy/Şişli neighbourhood with 1957 city block and 6th plot with 2,791 m2 at the deed register. The value of the investment property was determined as TL 25,799,000 according to the report dated 22 February 2010 by the experts assigned by Commercial Court and transferred to the Company as capital in kind on 3 November 2010 by Halkbank. The Hotel Project on the land has been started with the agreement between Dedeman Turizm Yönetimi AŞ. The fair value of Park Dedeman Levent Hotel was determined as TL 176,319,803 according to the cost approach based on the report dated 18 December 2017 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property.

The Company rented this property to Dedeman Turizm Yönetimi A.Ş. The Company has recognized TL 10,500,000 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 9,137,850).

##### *Kocaeli Şekerpınar Block A*

Şekerpınar Block A is registered with Şekerpınar/Kocaeli neighbourhood with 420 block and 26 plot. There is no restriction on this investment property. Occupancy permit for Şekerpınar Block A was received as of 14 October 2015. Within the frame of the memorandum of understanding signed with Halkbank on 21 May 2015, a 10-year lease agreement has been signed to be valid commencing on 15 April 2015 with an amount of TL 442,625+VAT. The fair value of the investment property, Şekerpınar Banking Center, was determined as TL 98,016,800 according to the cost approach based on the report dated 25 December 2017 prepared by a real estate appraisal firm licensed by the CMB.

The Company has recognized TL 5,980,045 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 5,547,331).

##### *Eskişehir–Panaroma Plus Konut Projesi - D Blok*

Eskişehir Block D is registered with Odunpazarı/Eskişehir neighbourhood with 13,124 block and 1 plot. There is no restriction on this investment property. Occupancy permit for Eskişehir Block D was received as of 28 August 2015. The Company signed 10-year lease agreement with Migros Ticaret A.Ş. on 20 August 2015. Within the frame of related lease agreement, starting date of lease is determined as the same date of the store opening. The fair value of this investment property was determined as TL 4,236,000 according to the market value approach based on the report dated 28 December 2017 prepared by a real estate appraisal firm licensed by the CMB. The Company earned TL 65,266 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 151,861). The Company has signed a sale commitment agreement for the related property on 26 April 2017 and the land register has not yet been transferred. The revenue are classified under deferred income.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 8. INVESTMENT PROPERTIES (cont'd)

##### *Buildings (cont'd)*

##### *Eskişehir–Panaroma Plus Konut Project –Block B17*

Eskişehir Block B is registered with Odunpazarı/Eskişehir neighbourhood with 13,124 block and 1 plot. There is no restriction on this investment property. Occupancy permit for Eskişehir Block B was received as of 2 November 2015. The Company signed a lease agreement amounted to TL 6,000+VAT with a real person on 1 November 2015. The fair value of the investment property was determined as TL 862,650 according to the market value approach based on the report dated 19 December 2017 prepared by a real estate appraisal firm licensed by the CMB. The Company earned TL 71,616 of rental income for the period 1 January - 31 December 2017 (1 January – 31 December 2016: TL 72,600). The relevant property was sold on 7 December 2017.

##### *Kocaeli Şekerpinar Block B*

Şekerpinar land is registered with Şekerpinar/Kocaeli neighbourhood with 420 block and 26 plot with 15,562 m2 land at the deed register. There is no restriction on this investment property. The Company has signed an agreement for the architectural design of office buildings on the land due to construction a building for banking operational centre, and licence is received for the first and second zone as at 28 August 2013 and 28 March 2014, respectively. First zone of the Project, Block A, has been completed and classified as a building. There were not any rent agreements made after completion of the project. The fair value of second zone of the Project, Block B, was determined as TL 75,832,883, according to the current completion level based on the report dated 25 December 2017 prepared by a real estate appraisal firm licensed by the CMB.

##### *Investment properties under construction*

##### *İstanbul Finance Center Project*

Ataşehir Land is registered with Ümraniye/İstanbul Küçükbakkalköy neighbourhood with 3328 city block and 3rd plot with 28,732 m2 at the deed register. The value of the investment property was determined as TL 229,846,920 according to the report dated 18 January 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Ataşehir Land has been determined as TL 888,120,000 according to the cost value method based on the report dated 18 December 2017 prepared by a real estate appraisal firm licensed by the CMB. The Company applied for construction licence on 31 December 2014. Finance Center (IFC) project is developed under the coordination of the Ministry of Environment and Urbanisation of Turkish Republic. A protocol and initial memorandum is signed between the Company and the Ministry regarding the administration process of the IFC project. At 25 December 2012, previous 3323 city block and 3rd plot of the Company has been revised at the new partition plan of the Project and new land is registered as 3328 block 4th plot and 3328 block 11th plot. Plots have surface area of 16,337 m2 and 12,395 m2, 135,835 m2 and 102,953 m2 above podium constructions areas respectively as 3328 block 4th plot and 11th plot are parcelled from previous 3323 block 3rd plot and total construction area of the Company on the Land is protected during the partition. At 10 June 2015, the construction permits for the IFC was granted for the combined use (office&commercial) project. The main contractor agreement was signed for the IFM project on 8 December 2016, and the construction is ongoing as of the date of this report.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 8. INVESTMENT PROPERTIES (cont'd)

#### Operating leases

##### The Company as lessor

The Company has signed operating lease agreements with Halkbank, Koton, Halk Hayat ve Emeklilik, Turkish Treasury, Migros, Ceda Akaryakıt Turizm and Sapaz Otelcilik Turizm as lessor. The future minimum lease payments as at 31 December 2017 and 31 December 2016 under non-cancellable leases are as follows:

<u>Operational lease</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
Less than one year	45,634,731	47,668,231
Between one and five years	149,138,974	151,368,362
More than five years	197,213,195	50,827,720
	<u>391,986,900</u>	<u>249,864,313</u>

### 9. PROPERTY, PLANT AND EQUIPMENT

<u>Cost Value</u>	<u>Furniture and fixture</u>	<u>Leashold improvements</u>	<u>Total</u>
Opening balance as at 1 January 2017	1,168,158	661,327	1,829,485
Additions	47,535	2,100	49,635
Closing balance as at 31 December 2017	1,215,693	663,427	1,879,120

#### Accumulated Depreciation

Opening balance as at 1 January 2017	(746,715)	(661,327)	(1,408,042)
Period charge	(200,337)	(89)	(200,426)
Closing balance as at 31 December 2017	(947,052)	(661,416)	(1,608,468)
Carrying value as at 31 December 2017	<u>268,641</u>	<u>2,011</u>	<u>270,652</u>

<u>Cost Value</u>	<u>Furniture and fixture</u>	<u>Leashold improvements</u>	<u>Total</u>
Opening balance as at 1 January 2016	1,133,691	661,327	1,795,018
Additions	41,697	-	41,697
Disposals	(7,230)	-	(7,230)
Closing balance as at 31 December 2016	1,168,158	661,327	1,829,485

#### Accumulated Depreciation

Opening balance as at 1 January 2016	(545,968)	(661,327)	(1,207,295)
Period charge	(203,837)	-	(203,837)
Disposals	3,090	-	3,090
Closing balance as at 31 December 2016	(746,715)	(661,327)	(1,408,042)
Carrying value as at 31 December 2016	<u>421,443</u>	<u>-</u>	<u>421,443</u>

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The following useful lives are used in the calculation of depreciation:

	<u>Useful life</u>
Furniture and fixture	5 years
Leashold improvements	5 years

Depreciation expenses of TL 200,337 (2016: TL 203,837) have been charged in 'general administrative expenses'.

#### 10. INTANGIBLE ASSETS

<u>Cost Value</u>	<u>Other intangible assets</u>	<u>Total</u>
Opening balance as at 1 January 2017	755,396	755,396
Additions	1,311	1,311
Closing balance as at 31 December 2017	756,707	756,707

<u>Accumulated Amortization</u>		
Opening balance as at 1 January 2017	(439,122)	(439,122)
Period charge	(211,867)	(211,867)
Closing balance as at 31 December 2017	(650,989)	(650,989)
Carrying value as at 31 December 2017	<u>105,718</u>	<u>105,718</u>

<u>Cost Value</u>	<u>Other intangible assets</u>	<u>Total</u>
Opening balance as at 1 January 2016	755,396	755,396
Closing balance as at 31 December 2016	755,396	755,396

<u>Accumulated Amortization</u>		
Opening balance as at 1 January 2016	(225,154)	(225,154)
Period charge	(213,968)	(213,968)
Closing balance as at 31 December 2016	(439,122)	(439,122)
Carrying value as at 31 December 2016	<u>316,274</u>	<u>316,274</u>

Amortization expenses of TL 211,867 (2016: TL 213,968) have been charged in 'general administrative expenses'. The following useful lives are used in the calculation of amortization:

	<u>Useful life</u>
Other intangible assets	3 years

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 11. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

##### a) Provisions

As at 31 December 2017 and 31 December 2016 lawsuit details is as follows:

	31 December 2017	31 December 2016
<u>Other short term provisions</u>		
Lawsuit provision	108,968	67,760
	<u>108,968</u>	<u>67,760</u>
	Legal claims	Total
Balance at 1 January 2017	67,760	67,760
Additional provisions recognized	41,208	41,208
Balance at 31 December 2017	<u>108,968</u>	<u>108,968</u>
	Legal claims	Total
Balance at 1 January 2016	67,760	67,760
Additional provisions recognized	-	-
Balance at 31 December 2016	<u>67,760</u>	<u>67,760</u>

The provision related to the ongoing value determination case in Eskişehir Consumer Court, was increased to TL 108,968, as the value of the claim and the likelihood of the case to be settled against the Company have increased. The litigation process is ongoing.

##### b) Collateral-Pledge-Mortgage (“CPM”)

As per the decision of the CBM, made in the meeting no. 28/780, dated 9 September 2009, in which the collateral-pledge-mortgages (CPMs) given by publicly owned companies to the guarantee a third party's debts;

For companies other than publicly owned investment trusts and financial institutions, no limitation is imposed;

- i) For their own corporate identities
- ii) In favour of fully consolidated subsidiaries
- iii) In favour of 3rd parties in the normal course of their operations.

After the decision is published at the Public Disclosure Platform, publicly owned companies would not give commitments, except for those given under normal course of their operations, to real people or corporations other than mentioned at the bullets (i) and (ii) above or to third parties other than mentioned at the bullet (iii). If any commitment has already been given it would be reduced to nil until 31 December 2014.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 11. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

#### b) Collateral-Pledge-Mortgage ("CPM") (cont'd)

31 December 2017		TL equivalent
A. CPMs given for Company's own legal personality(*)		283,183,074
	-Collateral	133,183,074
	-Pledge	-
	-Mortgage	150,000,000
B. CPMs given on behalf of fully consolidated companies		-
	-Collateral	-
	-Pledge	-
	-Mortgage	-
C. CPMs given in the normal course of business activities on behalf of third parties(**)		150,213,882
	-Collateral	150,213,882
	-Pledge	-
	-Mortgage	-
D. Total amount of other CPMs		-
i. Total amount of CPMs given on behalf of the parent		-
	-Collateral	-
	-Pledge	-
	-Mortgage	-
ii. Total amount of CPMs given to on behalf of other Group companies which are not in scope of B and C		-
	-Collateral	-
	-Pledge	-
	-Mortgage	-
iii. Total amount of CPMs given on behalf of third parties which are not in scope of C		-
	-Collateral	-
	-Pledge	-
	-Mortgage	-
<b>Total</b>		<b>433,396,956</b>

(\*) The item consists of: A mortgage given to HalkBank Finance Tower amounting to TL 150,000,000 (31 December 2016: TL 150,000,000) (although loan agreement has been closed, mortgage has not been cancelled under general loan agreement between Halkbank and the Company). A guarantee letter given for common infrastructure construction of Halkbank Finance Tower amounting to TL 92,825,625 (31 December 2016: TL 97,504,542). Guarantee related to the loans used by the customers in the scope of Referans Bakırköy project amounting to TL 2,991,000 (31 December 2016: TL 4,780,000). VAT return and lawsuit for Eskişehir project respectively amounting to TL 2,251,227 (31 December 2016: TL 2,154,084). and TL 0 (31 December 2016: 36,763). Collateral given to main contractor of Caddebostan Building amounting to TL 1,226,407 (31 December 2016: TL 1,266,405). Dedeman Hotel Project road construction participation amounting to TL 395,375 (31 December 2016: 368,882 TL). Guarantee letter given for Kocaeli project amounting to TL 13,440 (31 December 2016: 48,938 TL). Guarantee letter given for İzmir project amounting to TL 33,440,000 (31 December 2016: None)

(\*\*) The balance consist of Company being a guarantor for the customers of the Company's joint operation Halk GYO&Vakıf GYO Adi Ortaklığı's pre-sales of residences at Bizimtepe Aydos Project. If customers use loans from banks that the Company agreed, Company becomes guarantor to the customers. Halk GYO&Vakıf GYO Adi Ortaklığı signed a general guarantee agreement with the agreed banks amounting to TL 797,435,000. The Company's responsibility in this guarantee is TL 398,717,500. As of 31 December 2017, pre-sales of Halk GYO&Vakıf GYO Adi Ortaklığı performed through this guarantee agreement amounted to TL 263,587,978. As of 31 December 2017, the risk of the Company is TL 81,073,851 from the pre-sales through this guarantee agreement. The proportion of other CPM to the Company's equity is 4.30% as at 31 December 2017.

The balance also includes the Company being a guarantor for the customers of the Company's joint operation Halk GYO&Erkonut Adi Ortaklığı's pre-sales of residences at Erzurum Şehristan Project. If customers use loans from banks that the Company agreed, Company will be guarantor to the customers. Halk GYO&Erkonut Adi Ortaklığı signed a general guarantee agreement with the agreed banks amounting to TL 255,000,000. The Company's responsibility in this gurantee is TL 127,500,000. As of 31 December 2017, pre-sales of Halk GYO&Erkonut Adi Ortaklığı performed through the guarantee agreement amounted to TL 51,096,048. The risk of the Company is TL 16,390,031 from the pre-sales through this guarantee agreement as of 31 December 2017. The proportion of other relevant CPM to the Company's equity is 0.87% as at 31 December 2017.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 11. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

#### b) Collateral-Pledge-Mortgage (“CPM”) (cont'd)

As of 31 December 2017, per the transaction made under the scope of guarantorship related to Halk GYO-Teknik Yapı Adi Ortaklığı İzmir project, the risk of the Company is TL 52,750,000. As of 31 December 2017, the proportion of other relevant CPM to the Company’s equity is 2.79%.

31 December 2016		TL equivalent
A. CPMs given for Company’s own legal personality		256,159,616
	-Collateral	106,159,616
	-Pledge	-
	-Mortgage	150,000,000
B. CPMs given on behalf of fully consolidated companies		-
	-Collateral	-
	-Pledge	-
	-Mortgage	-
C. CPMs given in the normal course of business activities on behalf of third parties		73,948,731
	-Collateral	73,948,731
	-Pledge	-
	-Mortgage	-
D. Total amount of other CPMs		-
i. Total amount of CPMs given on behalf of the parent		-
	-Collateral	-
	-Pledge	-
	-Mortgage	-
ii. Total amount of CPMs given to on behalf of other Group companies which are not in scope of B and C		-
	-Collateral	-
	-Pledge	-
	-Mortgage	-
iii. Total amount of CPMs given on behalf of third parties which are not in scope of C		-
	-Collateral	-
	-Pledge	-
	-Mortgage	-
<b>Total</b>		<b>330,108,347</b>

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 11. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (cont'd)

#### b) Collateral-Pledge-Mortgage (“CPM”) (cont'd)

As of 31 December 2017 and 31 December 2016, the letters of guarantee received by the Company are as follows:

	31 Aralık 2017	31 December 2016
YDA İnşaat San. Ve Tic. A.Ş. <sup>(11)</sup>	120,240,000	82,665,000
Haldız İnşaat Otomotiv ve Tic. Ltd. Şti. <sup>(7)</sup>	24,023,490	26,950,000
Dedeman Turizm Yönetimi A.Ş. <sup>(2)</sup>	18,062,000	14,839,600
Er Konut İnş. Taah. İnşaat Malz. Nak. ve Mad. Tic. A.Ş. <sup>(9)</sup>	13,650,000	13,650,000
Sapaz Otelcilik Turizm İnşaat Sanayi Ve Ticaret A.Ş. <sup>(8)</sup>	6,773,250	5,564,850
CNV Yapı Mimarlık San. Tic. Ltd. Şti. <sup>(10)</sup>	1,610,000	1,610,000
Entegre Proje Yönetim Dan.Müh.Tic. A.Ş. <sup>(4)</sup>	870,509	693,158
Biskon Yapı A.Ş. <sup>(3)</sup>	300,000	300,000
Direk Reklam İnş. San. Tic. A.Ş. <sup>(12)</sup>	211,542	-
Ceda Akaryakıt İnşaat Emlak Tur. Tic. Ltd. Şti. <sup>(13)</sup>	200,000	200,000
YPU Yapı Proje Uygulama Ltd. Şti. <sup>(7)</sup>	196,050	337,170
Mutlu Çilingiroğlu Miar Mimarlık İnş. San. Ve Tic. Ltd. Şti. <sup>(7)</sup>	160,500	160,500
Ilgazlar İnşaat Tic. Ve San. A.Ş. <sup>(6)</sup>	-	2,400,000
K Yapı Gayrimenkul Geliştirme İnş. San. Ve Dış Tic. A.Ş. <sup>(1)</sup>	-	2,000,000
Koton Mağazacılık Tekstil San ve Tic AŞ <sup>(5)</sup>	-	440,060
Borusan Makine ve Güç Sistemleri San.ve Tic. A.Ş. <sup>(1)</sup>	-	353,924
Megapol Mühendislik Tic. A.Ş. <sup>(1)</sup>	-	225,000
Other	213,860	143,555
	<u>186,511,200</u>	<u>152,532,817</u>

<sup>(1)</sup> The Company has received letter of guarantee from the suppliers for architectural and construction activities for the banking operations center project under construction in Kocaeli Şekerpınar Land.

<sup>(2)</sup> The Company has received letter of guarantee from the lessee companies for Dedeman Otel Project.

<sup>(3)</sup> The Company has received letter of guarantee from the contractor Biskon Yapı AŞ for the “Land Sale of Revenue Sharing” project.

<sup>(4)</sup> The Company has received letter of guarantee from the suppliers for architectural and construction activities for İstanbul Financial Center (IFC) Project.

<sup>(5)</sup> Koton Mağazacılık Tekstil San. ve Tic. AŞ is the lessee of the Company. Rent agreement is terminated on 24 May 2017.

<sup>(6)</sup> This company is the contractor of Eskişehir Panorama Project. In 2017 the guarantee letter was liquidated.

<sup>(7)</sup> Letters of guarantee have been received from suppliers relating to architectural and construction operations of Bizimtepe Aydos project.

<sup>(8)</sup> Sapaz Otelcilik Turizm İnşaat Sanayi ve Ticaret AŞ is a lessee of the Company.

<sup>(9)</sup> The Company has received a letter of guarantee for the Erzurum Şehristan Project.

<sup>(10)</sup> This letter of guarantee has been received for urban transformation process of Caddebostan Building.

<sup>(11)</sup> The Company has received a letter of guarantee from the primary contractor for architectural and construction activities for İstanbul Financial Center (IFC) Project.

<sup>(12)</sup> This letter of guarantee has been received for advertising contract from Direk Reklam İnş.San.Tic.A.Ş.

<sup>(13)</sup> Ceda Akaryakıt İnşaat Emlak Tur.Tic.Ltd.Şti. is a lessee of the Company.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 12. EMPLOYEE BENEFITS

#### Short-term provisions for employee benefits

	31 December 2017	31 December 2016
Employee bonus accruals	632,336	543,573
Unused vacation accruals	338,467	257,582
	<u>970,803</u>	<u>801,155</u>

#### Long-term provisions for employee benefits

	31 December 2017	31 December 2016
Retirement pay provision	318,371	202,050
	<u>318,371</u>	<u>202,050</u>

#### Provision for retirement pay liability:

The movements of provision for retirement pay liability in the accounting periods for the years ended with 31 December 2017 and 31 December 2016, is as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Provision at 1 January	202,050	151,665
Service cost	98,054	82,363
Interest cost	5,718	15,131
Retirement pay paid	-	(49,906)
Actuarial (gain) / loss	12,549	2,797
Provision at 31 December	<u>318,371</u>	<u>202,050</u>

Under Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, who is called up for military service, dies or retires after completing 25 years of service and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL 5,001.76 for each period of service at 31 December 2017 (31 December 2016: TL 4,426.16).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. TAS 19 Employee Benefits stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. Accordingly, actuarial assumptions used in calculation of total liabilities are described as follows:

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 12. EMPLOYEE BENEFITS (cont'd)

##### Provision for retirement pay liability (cont'd):

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2017, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated with the assumption of 3.74% real discount rate (31 December 2016: 4.72%) calculated by using 7% annual inflation rate and 11% interest rate. Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 2.94% for employees with 0-15 years of service, and 0% for those with 16 or more years of service. Ceiling amount of TL 5,001.76 which is in effect since 1 January 2018 is used in the calculation of Company 's provision for retirement pay liability (1 January 2017: TL 4,426.16).

The principal assumptions used in the calculation of retirement pay liability are discount rate and anticipated turnover rate. If the discount rate would have been 1% lower/higher, provision for employee termination benefits would increase/(decrease) by TL 35,725 / TL (43,114). If the anticipated turnover rate would have been 1% higher/(lower) while all other variables were held constant, provision for employee termination benefits would decrease/(increase) by TL 11,363 / TL (13,034).

#### 13. OTHER ASSETS AND LIABILITIES

	31 December 2017	31 December 2016
<u>Other current assets</u>		
Deferred value added tax ("VAT")	17,515,717	9,400,241
Deposits and guarantees given	180,736	56,925
Business advances given	1,878	1,351
Other	1,164,647	1,915,412
	<u>18,862,978</u>	<u>11,373,929</u>

##### **Hata! Bağlantı geçersiz.**

(\*) As at 31 December 2017, VAT receivable amounting to TL 42,430,565 (31 December 2016: TL 23,221,557), resulting from land purchase in Sancaktepe, project costs of Halk GYO-Erkonut Adi Ortaklığı in Erzurum, land purchase of Halk GYO-Erkonut Adi Ortaklığı in İzmir, is classified to "other non-current assets" since the projects to be constructed on the land are long term projects.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 13. OTHER ASSETS AND LIABILITIES (cont'd)

<u>Other Current Liabilities</u>	31 December 2017	31 December 2016
Deposits and guarantees received	5,474,132	3,682,351
Taxes and funds payable	3,277,518	1,476,280
Other current liabilities	23,518	17,151
	<u>8,775,168</u>	<u>5,175,782</u>

(\*) Deposits and guarantees received consist of cash guarantees received from contractors for projects under construction.

#### 14. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

##### a) Share Capital

As of 31 December 2017 and 31 December 2016 the share capital held is as follows:

<u>Shareholders</u>	<u>Group</u>	<u>%</u>	31 December 2017	<u>%</u>	31 December 2016
Halkbank	A	1.58	12,956,592	1.58	12,482,570
Halkbank(*)	B	70.4	577,134,085	70.38	556,019,397
Halk Yatırım Menkul Değerler A.Ş.	A	0.04	309,434	0.04	298,113
Halk Finansal Kiralama AŞ	A	<0,01	1	<0,01	1
Publicly traded	B	28.00	229,599,888	28.00	221,199,919
Nominal capital		100	820,000,000	100	790,000,000
Total capital			<u>820,000,000</u>		<u>790,000,000</u>

(\*) Halkbank also has 60,387,845 B group shares with 7.36% in the publicly traded held group (31 December 2016: 58,178,538 shares).

The Company shares are issued to the names into two groups; Group A and Group B. The Group A shares have the right to nominate the members of the Board of Directors (“BOD”). More than half of the BOD members are elected from the nominees of A Group shares and remaining members are elected from mutual nominees of A Group and B Group shares by the General Assembly. In capital increases new Group A shares are issued for Group A shares and new Group B shares are issued for Group B shares.

However, if the BOD restricts preemptive rights of shareholders, new shares are issued as Group B shares.

The Company has been established with registered capital ceiling of TL 1,500,000,000 each with par value of TL 1. The Company’s issued capital is 820,000,000 shares amounting to TL 820,000,000. All capital has been committed by the founders; TL 196,217,979 paid in cash, TL 127,500,000 incorporated into capital from reserves and TL 466,282,021 paid in kind (real estates) by main shareholder Halkbank.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 14. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (cont'd)

##### a) Share Capital (cont'd)

As per the Board of Directors decision numbered 49/110 on 15 August 2012, the Company's capital was increased to TL 662,500,000. The increase of TL 185,500,000 corresponding to 185,500,000 shares were publicly offered during 13-15 February 2013. As at 20 June 2013, the Company increased its share capital by TL 11,138,704 from retained earnings.

As at 5 June 2014, the Company increased its share capital by TL 24,261,296 from retained earnings.

As at 11 June 2015, the Company increased its share capital to TL 743,000,000 by transferring TL 45,100,000 from retained earnings to share capital.

As at 25 May 2016, the Company increased its share capital to TL 790,000,000 by transferring TL 47,000,000 from retained earnings to share capital.

As at 15 August 2017, the Company increased its share capital to TL 820,000,000 by transferring TL 30,000,000 from retained earnings to share capital.

##### b) Treasury shares acquired

The Company's treasury shares acquired are accounted for at cost. The Company holds 23,117,578 treasury shares as of 31 December 2017 (31 December 2016: 22,271,814 shares). The details of the treasury shares acquired for the year ended 31 December 2017 are as follows:

Transaction	Transaction date	Nominal value	Weighted average share price	Transaction amount
Repurchased shares	26 February 2013	933,649	1.34	1,251,090
Repurchased shares	27 February 2013	736,571	1.34	987,004
Repurchased shares	28 February 2013	1,000,000	1.34	1,340,000
Repurchased shares	1 March 2013	2,297,269	1.32	3,021,922
Repurchased shares	5 March 2013	3,455,130	1.33	4,608,678
Repurchased shares	11 March 2013	457,867	1.32	604,384
Repurchased shares	12 March 2013	586,245	1.32	773,843
Repurchased shares	15 March 2013	2,000,000	1.32	2,640,000
Repurchased shares	21 March 2013	7,210,586	1.33	9,582,612
Bonus shares from incorporating reserves	20 June 2013	314,024	-	-
Bonus shares from incorporating reserves	5 June 2014	683,977	-	-
Bonus shares from incorporating reserves	11 June 2015	1,271,466	-	-
Bonus shares from incorporating reserves	25 May 2016	1,325,030	-	-
Bonus shares from incorporating reserves	17 August 2017	845,764	-	-
Total repurchased shares		23,117,578	1.07	24,809,533

## **HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017**

(Amounts expressed in Turkish Lira (TL))

#### **14. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (cont'd)**

##### **c) Share premiums/discounts**

The surplus of sales price over nominal value of shares amounted to TL 64,925,000 during the initial public offering on 13-15 February 2013 were accounted for as share premium. Commission expenses and legal expenses which are related with the initial public offering amounting to TL 8,847,688 are netted off with share premium. Additionally, the differences of sales price over nominal value of treasury shares acquired amounted to TL 6,132,216 are netted off with share premium.

##### **d) Restricted reserves appropriated from profit**

The legal reserves consist of first and second reserves, in accordance with the Turkish Commercial Code. The first legal reserve appropriated out of the statutory profit at the rate of 5% until the total reserve reaches a maximum of 20% of the Company's paid-in capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company's paid-in capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital but may be used to absorb losses in the event that the general reserve is exhausted. In accordance with the Turkish Commercial Code, the Company has to appropriate restricted reserve equivalent to the Company's treasury shares acquired. Such reserve can only be released in the amount of any sold or destroyed shares valued at acquisition cost. As at 31 December 2017, the Company's restricted reserves are legal reserves amounting to TL 39,266,359 (31 December 2016: TL 37,486,655).

##### **e) Dividends**

As at 21 June 2017, dividends distributed from attributable profit for the year 2016 to the shareholders amounting to TL 2,915,412 (2016: TL 5,270,987).

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 15. REVENUE AND COST OF SALES

<u>Sales</u>	1 January- 31 December 2017	1 January- 31 December 2016
<b>Income on properties</b>	<b>74,963,767</b>	<b>72,518,696</b>
Income from sale of residence	23,934,707	24,587,761
Rental income	51,029,060	47,930,935
<b>Income on debt instruments</b>	<b>7,276,915</b>	<b>7,049,266</b>
Interest income on deposits	7,276,915	7,000,695
Other	-	48,571
	<u>82,240,682</u>	<u>79,567,962</u>
<u>Cost of Sales</u>	1 January- 31 December 2017	1 January- 31 December 2016
Cost of residence sales	13,036,019	12,399,719
Taxes and other levies	1,867,756	1,218,751
Other	908,791	604,143
	<u>15,812,566</u>	<u>14,222,613</u>

### 16. EXPENSES BY NATURE

	1 January- 31 December 2017	1 January- 31 December 2016
Cost of residence sales	13,036,019	12,399,719
Personnel expenses	7,195,755	6,215,323
Advertisement expenses	2,426,451	2,019,464
Outsource servise expenses	1,000,529	728,546
Commission expenses	937,492	2,722,845
Travel and car expenses	789,573	335,450
Property tax expenses	1,867,756	1,218,751
Taxes and duties	629,399	427,864
Rent expenses	670,745	631,006
Depreciation and amortization charges	412,293	417,805
Consulting expenses	411,427	524,102
Stationery and IT related expenses	154,945	145,199
Maintanance expenses	41,726	19,343
Other	1,244,626	995,246
	<u>30,818,736</u>	<u>28,800,663</u>

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 17. GENERAL ADMINISTRATIVE EXPENSES, MARKETING AND SALES EXPENSES

	1 January- 31 December 2017	1 January- 31 December 2016
General administrative expenses (-)	11,584,483	9,479,882
Marketing expenses (-)	3,421,687	5,098,168
	<u>15,006,170</u>	<u>14,578,050</u>
<b>a) Detail of general administrative expenses</b>		
	1 January- 31 December 2017	1 January- 31 December 2016
Personnel expenses	7,195,755	6,172,141
Advertisement expenses	835,344	526,267
Travel and car expenses	789,573	335,450
Taxes and duties	610,562	358,123
Outsource servise expenses	557,273	450,874
Rent expenses	523,544	479,541
Depreciation and amortization charges	412,293	417,805
Consulting expenses	411,427	524,102
Stationery and IT related expenses	154,945	145,199
Maintanance expenses	41,726	19,343
Other	52,041	51,037
	<u>11,584,483</u>	<u>9,479,882</u>
<b>Detail of personnel expenses</b>		
	1 January- 31 December 2017	1 January- 31 December 2016
Wages and salaries	4,824,149	4,055,655
Social Security Instituion employer's shares	689,494	659,638
Board of directors' remunerations	591,032	414,582
Insurance expenses	340,929	240,443
Employee benefits provision	217,830	211,314
Other	532,321	590,509
	<u>7,195,755</u>	<u>6,172,141</u>
<b>b) Detail of marketing expenses</b>		
	1 January- 31 December 2017	1 January- 31 December 2016
Advertisement expenses	1,591,107	1,493,197
Commission expenses (*)	937,492	2,722,845
Common building expenses	252,420	254,373
Sample flat furnishing expenses	190,836	23,299
Sales office rent expenses	147,201	151,465
Taxes and duties	18,837	69,741
Personnel expenses	-	43,182
Other	283,794	340,066
	<u>3,421,687</u>	<u>5,098,168</u>

(\*) Commission expenses comprise of sales commissions related to Bizimtepe Aydos Project.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 18. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

The details of other income from operating activities for the periods ended 31 December 2017 and 31 December 2016 are as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Foreign exchange gains	1,386,836	353,342
Incentives and discounts from public institutions	516,963	-
Proceeds from liquidation of guarantee letters	437,646	-
Forfeits from cancellation of preliminary sales contracts	462,663	-
Proceeds from recharges of title deed expenses	112,221	-
Other income	16,359	-
	<u>2,932,688</u>	<u>353,342</u>

The details of other expenses from operating activities for the periods ended 31 December 2017 and 31 December 2016 are as follows:

**Hata! Bağlantı geçersiz.**

#### 19. FINANCE COSTS

	1 January- 31 December 2017	1 January- 31 December 2016
Interest expenses on bank loans	2,212,374	1,383,050
Interest expenses on short term bonds	2,294,796	-
Interest expenses on short term lease certificates	398,127	-
Commission expenses	214,152	57,447
	<u>5,119,449</u>	<u>1,440,497</u>

#### 20. INCOME TAXES

According to the Article 5/1(d) (4) of the Corporate Tax Law numbered 5520, earnings of real estate investment trusts are exempt from Corporate Income Tax in Turkey.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 21. EARNINGS PER SHARE

Earning per share	1 January-	1 January-
	31 December	31 December
	2017	2016
Weighted average number of shares	820,000,000	820,000,000
Net profit for the period	252,108,771	107,667,056
Earnings per share	0.3074	0.1313

### 22. FINANCIAL INSTRUMENTS

#### Financial Liabilities

Bank Loans	31 December	31 December
	2017	2016
<i>Short term bank loans</i>	19,581,472	-
<i>Short term portion of long term bank loans</i>	3,397,671	3,397,355
<i>Long term bank loans</i>	6,719,830	9,152,608
	<u>29,698,973</u>	<u>12,549,963</u>

  

Borrowing Instruments	31 December	31 December
	2017	2016
<i>Short term bonds(*)</i>	96,779,831	-
<i>Short term lease certificates(**)</i>	100,435,616	-
	<u>197,215,447</u>	<u>-</u>

(\*)On 5 October 2017, the Company sold bonds amounting to TL 100,000,00 at par with interest rate of 14.10% and maturity date of 30 March 2018.

(\*\*)On 18 December 2017, the Company sold lease certificates amounting to TL 100,000,000 at par with interest rate of 13.25% and maturity date of 16 March 2018.

Financial Instrument	Currency	Nominal interest rate	31 December 2017	
			Short term	Long term
Lease certificates	TL	13.25%	100,435,616	-
Bonds	TL	14.10%	96,779,831	-
Floating rate loans	TL	15.86%	19,581,472	-
Fixed rate loans	TL	8.00%	3,397,671	6,719,830
			<u>220,194,590</u>	<u>6,719,830</u>

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 22. FINANCIAL INSTRUMENTS (cont'd)

##### Financial Liabilities (cont'd)

Financial Instrument	Currency	Nominal interest rate	31 December 2016	
			Short term	Long term
Fixed rate loans	TL	8.00%	3,397,355	9,152,608
			<u>3,397,355</u>	<u>9,152,608</u>

Maturities of bank borrowings are as follows:

	31 December 2017	31 December 2016
Less than 1 year	220,194,590	3,397,355
Between 1-2 years	3,073,780	3,073,640
Between 2-3 years	2,779,682	2,780,637
Between 3-4 years	866,368	2,514,587
Between 4-5 years	-	783,744
	<u>226,914,420</u>	<u>12,549,963</u>

#### 23. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS ÜZEYİ

##### a) Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of debts, which includes the borrowings disclosed in Note 22, comprising cash and cash equivalents, issued capital, reserves and retained earnings.

The Company's risk management committee reviews the capital structure of the Company collectively on a quarterly basis. As a part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee, the Company balances its overall capital structure through the payment of dividends, new share issues and acquiring own shares, as well as the issue of new debt or the redemption of existing debt.

In addition and consistent with other entities in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

During 2017, the Company's strategy has not been changed from 2016. The gearing ratios at 31 December 2017 and 31 December 2016 were as follows:

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 23. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

##### a) Capital risk management (cont'd)

	31 December 2017	31 December 2016
Financial liabilities	226,914,420	12,549,963
Less: Cash and cash equivalents	(123,145,273)	(51,301,426)
Net debt	103,769,147	(38,751,463)
Total shareholders equity	1,879,401,652	1,630,195,744
Total share capital	820,000,000	790,000,000
Gearing ratio	13%	(5%)

##### b) Financial Risk Factors

The Company's activities expose it to a variety of financial risks including interest rate risk, liquidity risk, currency risk and credit risk. Company's risk management programme generally focuses on uncertainty in financial markets and minimizing potential negative effects on Company's financial performance.

Risk management, is conducted by a treasury department with policies approved by the Board of Directors. Treasury department of the Company defines and evaluates the financial risk, and by working with the operation units by using tools to decrease the risk. Board of Directors maintains generates a written procedure about foreign exchange risk, interest rate risk, credit risk, usage of non-derivative financial instruments, and evaluating excess liquidity or other various risks.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 23. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

##### b.1) Credit risk management

###### Details of credit risk by class of financial instruments

<u>31 December 2017</u>	<u>Receivables</u>				<u>Deposits at Banks</u>
	<u>Trade Receivables</u>		<u>Other Receivables</u>		
	<u>Related Parties</u>	<u>Other</u>	<u>Related Parties</u>	<u>Other</u>	
Maximum credit risk exposed as of balance sheet date (A+B+C+D) (*)	148,189	42,354,492	-	-	123,145,273
- Secured portion of the maximum credit risk by guarantees (**)	-	-	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	148,189	42,354,492	-	-	123,145,273
B. Net book value of financial assets that are past due but not impaired	-	-	-	-	-
C. Net book value of the impaired assets	-	-	-	-	-
- Past due (gross amount)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Secured portion of the net book value by guarantees, etc.	-	-	-	-	-
- Not past due (gross amount)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Secured portion of the net book value by guarantees, etc.	-	-	-	-	-
D. Off-balance sheet items include credit risk	-	-	-	-	-

(\*) The factors that increase the credit reliability, such as guarantees received are not considered in the determination of the balance.

(\*\*) Guarantees consist of *guarantee letters*, *guarantee notes* and *mortgages* obtained from the customers.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 23. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

##### *b.1) Credit risk management (cont'd)*

###### Details of credit risk by class of financial instruments

	Receivables				<u>Deposits at Banks</u>
	<u>Trade Receivables</u>		<u>Other Receivables</u>		
	<u>Related Parties</u>	<u>Other</u>	<u>Related Parties</u>	<u>Other</u>	
<b>31 December 2016</b>					
Maximum credit risk exposed as of balance sheet date (A+B+C+D) (*)	-	36,889,580	-	-	51,301,426
- Secured portion of the maximum credit risk by guarantees (**)	-	3,234,336	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	-	33,959,725	-	-	51,301,426
B. Net book value of financial assets that are past due but not impaired	-	2,929,855	-	-	-
C. Net book value of the impaired assets	-	-	-	-	-
- Past due (gross amount)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Secured portion of the net book value by guarantees, etc.	-	-	-	-	-
- Not past due (gross amount)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Secured portion of the net book value by guarantees, etc.	-	-	-	-	-
D. Off-balance sheet items include credit risk	-	-	-	-	-

(\*) The factors that increase the credit reliability, such as guarantees received are not considered in the determination of the balance.

(\*\*) Guarantees consist of *guarantee letters*, *guarantee notes* and *mortgages* obtained from the customers.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 23. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

#### *b.1) Credit risk management (cont'd)*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. Company, aiming to decrease credit risk by transacting only with parties who has credit assurance and where possible, obtaining sufficient guarantee. Credit risks which the Company is exposed and credibility of customers are being monitored regularly. Credit risk is being controlled by the risk management committee through limits which are determined and annually controlled by the Board of Directors.

#### *b.2) Liquidity risk management*

The ultimate responsibility for liquidity risk management belongs to the Board of Directors. The Board of Directors has established a liquidity risk management in order to meet short, mid and long term financing, and liquidity requirements. The Company manages liquidity risk by monitoring expected and actual cash flows closely, and by maintaining sustainability of sufficient borrowing funds through matching maturities of financial assets and liabilities.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows

#### **Liquidity risk table:**

31 December 2017

<b><u>Contractual Terms</u></b>	<b><u>Carrying value</u></b>	<b><u>Total Contractual</u></b>	<b><u>Less than 3</u></b>	<b><u>3 to 12 months</u></b>	<b><u>1 to 5 years</u></b>
		<b><u>Cash Outflows</u></b>			
		<b><u>(I+II+III+IV)</u></b>			
<b>Non-derivative financial liabilities</b>					
Bank loans	29,698,973	31,514,942	20,476,482	2,685,031	8,353,429
Debt securities issued	197,215,447	203,158,433	203,158,433	-	-
Trade payables	18,025,957	18,025,957	18,025,957	-	-
Other liabilities	8,775,168	8,775,164	8,775,164	-	-
Total liabilities	56,500,098	58,316,063	47,277,603	2,685,031	8,353,429

31 December 2016

<b><u>Contractual Terms</u></b>	<b><u>Carrying value</u></b>	<b><u>Total Contractual</u></b>	<b><u>Less than 3</u></b>	<b><u>3 to 12 months</u></b>	<b><u>1 to 5 years</u></b>
		<b><u>Cash Outflows</u></b>			
		<b><u>(I+II+III+IV)</u></b>			
<b>Non-derivative financial liabilities</b>					
Bank loans	12,549,963	15,513,512	895,010	2,685,031	11,933,471
Trade payables	534,202	534,202	534,202	-	-
Other liabilities	5,175,782	534,202	534,202	-	-
Total liabilities	18,259,947	16,581,916	1,963,414	2,685,031	11,933,471

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 23. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

#### b.3) Market risk management

During the current period, there has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

#### b.3.1) Foreign currency risk management

The carrying amounts of the Company's foreign currency denominated monetary and non-monetary assets and monetary and non-monetary liabilities at the reporting period are as follows:

	31 December 2017			
	TL Amount	US Dollar	Euro	GBP
1. Trade Receivables	-	-	-	-
2a. Monetary Financial Assets	9,078,240	-	2,009,438	910
2b. Non-monetary Financial Assets	-	-	-	-
3. Other	-	-	-	-
4. CURRENT ASSETS	9,078,240	-	2,009,438	910
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-
7. Other	-	-	-	-
8. NON-CURRENT ASSETS	-	-	-	-
9. TOTAL ASSETS	9,078,240	-	2,009,438	910
10. Trade Payables	-	-	-	-
11. Financial Liabilities	-	-	-	-
12a. Monetary Other Liabilities	-	-	-	-
12b. Non-Monetary Other Liabilities	-	-	-	-
13. CURRENT LIABILITIES	-	-	-	-
14. Trade Payables	-	-	-	-
15. Financial Liabilities	-	-	-	-
16a. Monetary Other Liabilities	1,188	315	-	-
16b. Non-Monetary Other Liabilities	-	-	-	-
17. NON-CURRENT LIABILITIES	1,188	315	-	-
18. TOTAL LIABILITIES	1,188	315	-	-
19. Off-balance Sheet Derivative Instruments Net Asset/Liability Position (19a-19b)	-	-	-	-
19.a. Assets on foreign currency derivative instruments	-	-	-	-
19.b. Liabilities on foreign currency derivative instruments	-	-	-	-
20. Net Foreign Currency Assets/Liabilities Position	9,077,052	(315)	2,009,438	910
21. Monetary Items Net Foreign Currency Assets / Liabilities (1+2a+5+6a-10-12a-14-16a)	9,077,052	(315)	2,009,438	910

**HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.****AUDITED NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2017**

(Amounts expressed in Turkish Lira (TL))

**23. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)*****b.3.1) Foreign currency risk management (cont'd)***

	TL Amount	31 December 2016		
		US Dollar	Euro	GBP
1. Trade Receivables	742,674	211,035	-	-
2a. Monetary Financial Assets	340,483	96,750	-	-
2b. Non-monetary Financial Assets	-	-	-	-
3. Other	-	-	-	-
4. CURRENT ASSETS	1,083,157	307,785	-	-
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-
7. Other	-	-	-	-
8. NON-CURRENT ASSETS	-	-	-	-
9. TOTAL ASSETS	1,083,157	307,785	-	-
10. Trade Payables	-	-	-	-
11. Financial Liabilities	-	-	-	-
12a. Monetary Other Liabilities	1,109	315	-	-
12b. Non-Monetary Other Liabilities	-	-	-	-
13. CURRENT LIABILITIES	1,109	315	-	-
14. Trade Payables	-	-	-	-
15. Financial Liabilities	-	-	-	-
16a. Monetary Other Liabilities	-	-	-	-
16b. Non-Monetary Other Liabilities	-	-	-	-
17. NON-CURRENT LIABILITIES	-	-	-	-
18. TOTAL LIABILITIES	1,109	315	-	-
19. Off-balance Sheet Derivative Instruments Net Asset/Liability Position (19a-19b)	-	-	-	-
19.a. Assets on foreign currency derivative instruments	-	-	-	-
19.b. Liabilities on foreign currency derivative instruments	-	-	-	-
20. Net Foreign Currency Assets/Liabilities Position	1,082,048	307,470	-	-
21. Monetary Items Net Foreign Currency Assets / Liabilities (1+2a+5+6a-10-12a-14-16a)	1,082,048	307,470	-	-

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### 23. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

#### b.3.1) Foreign currency risk management (cont'd)

##### Foreign currency sensitivity analysis

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US Dollar, EURO and GBP.

The following table details the Company's sensitivity to a 10% increase and decrease in foreign currency against TL. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit/loss or equity.

	<b>31 December 2017</b>			
	Profit / Loss		Equity	
	Appreciation of Foreign Currency	Depreciation of Foreign Currency	Appreciation of Foreign Currency	Depreciation of Foreign Currency
In case of US Dolar increases in 10% against TL				
1 - US Dolar net asset/liability	(119)	119	(119)	119
2- US Dolar hedges (-)	-	-	-	-
<b>3- Net effect of US Dollar (1 +2)</b>	<b>(119)</b>	<b>119</b>	<b>(119)</b>	<b>119</b>
In case of Euro increases in 10% against TL				
4 - Euro net asset/liability	907,362	(907,362)	907,362	(907,362)
5 - Euro hedges (-)	-	-	-	-
<b>6- Net effect of Euro (4+5)</b>	<b>907,362</b>	<b>(907,362)</b>	<b>907,362</b>	<b>(907,362)</b>
In case of GBP increases in 10% against TL				
7 - GBP net asset/liability	462	(462)	462	(462)
8 - GBO hedges (-)	-	-	-	-
<b>9- Net effect of GBP (7+8)</b>	<b>462</b>	<b>(462)</b>	<b>462</b>	<b>(462)</b>
	<b>907,705</b>	<b>(907,705)</b>	<b>907,705</b>	<b>(907,705)</b>

	<b>31 December 2016</b>			
	Profit / Loss		Equity	
	Appreciation of Foreign Currency	Depreciation of Foreign Currency	Appreciation of Foreign Currency	Depreciation of Foreign Currency
In case of US Dolar increases in 10% against TL				
1 - US Dolar net asset/liability	108,205	(108,205)	108,205	(108,205)
2- US Dolar hedges (-)	-	-	-	-
<b>3- Net effect of US Dollar (1 +2)</b>	<b>108,205</b>	<b>(108,205)</b>	<b>108,205</b>	<b>(108,205)</b>
	<b>108,205</b>	<b>(108,205)</b>	<b>108,205</b>	<b>(108,205)</b>

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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#### 23. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

##### b.3.2) Interest rate risk management

The Company borrows funds at fixed interest rate. Risk hedging strategies are evaluated regularly in order to comply with interest rate anticipations and defined risks.

##### Interest rate sensitivity analysis

The details of the interest-bearing financial assets of the Company are as follows:

**Hata! Bağlantı geçersiz.**

#### 24. FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES)

**Hata! Bağlantı geçersiz.**

(\*) The Company management considers the carrying amounts of financial instruments approximate their fair values.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

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#### 24. FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES) (cont'd)

##### Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined and grouped as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flows analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities are determined where there is no observable market data.

#### 25. EVENTS AFTER THE REPORTING PERIOD

The parcel in Beyoğlu/İstanbul Kılıçlı Paşa neighborhood with 138 sheet and plot no.15 with 235,50 m2 was purchased amounting to TL 4,885,000 after e-tender phase. This parcel was owned by T.Halk Bankası A.Ş., the shareholder of the company, and located next to Salıpazarı Hotel Project of the Company.

#### 26. NOTES ON STATEMENT OF CASH FLOWS

	31 December 2017	31 December 2016
Cash at banks	123,138,273	51,134,642
<i>Demand deposits (*)</i>	623,757	844,566
<i>Time deposits with maturities less than three months</i>	122,514,516	50,290,076
Other liquid assets (**)	7,000	166,784
Cash and cash equivalents in the statement of financial position	123,145,273	51,301,426
<i>Less: Interest income accruals on cash equivalents</i>	(524,510)	(513,740)
Cash and cash equivalents in the statement of cash flows	122,620,763	50,787,686

(\*) As at 31 December 2017 and 31 December 2016 there is a blocked amount for salary payments to personnel from demand deposits.

(\*\*)As at 31 December 2017 and 31 December 2016, other liquid assets consist of credit card receivables from sales of residential units of Bizimtepe Aydos and Erzurum Şehristan projects.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

#### 26. NOTES ON STATEMENT OF CASH FLOWS (cont'd)

As at 31 December 2017 and 31 December 2016, the details of time deposits at banks are as follows:

31 December 2017	Amount	Interest rate	Maturity
<b>Time deposits</b>			
TL	639	3.22%	2 January 2018
TL	1,364	2.00%	2 January 2018
TL	3,529,916	14.25%	5 January 2018
TL	10,044,384	13.50%	22 January 2018
TL	18,131,359	14.30%	5 February 2018
TL	10,044,384	13.50%	20 February 2018
EUR	9,051,598	2.25%	23 February 2018
TL	71,710,872	13.50%	16 March 2018
	122,514,516		

31 December 2016	Amount	Interest rate	Maturity
<b>Time deposits</b>			
TL	6,669,261	8,00%	2 January 2017
TL	19,033	8,25%	2 January 2017
TL	21,306,617	10,8%	5-19 January 2017
TL	10,191,577	11,0%	5-19 January 2017
TL	8,010,520	8,75%	12-19 January 2017
TL	4,093,068	10,7%	19 January 2017
	50,290,076		

Explanations about the nature and level of risks related to cash and cash equivalents are provided in Note 23.

#### 27. OTHER MATTERS THAT MAY HAVE A MATERIAL EFFECT ON, OR BE EXPLAINED FOR THE CLEAR UNDERSTANDING OF THE FINANCIAL STATEMENTS

One of the former directors of the Company's main shareholder, Türkiye Halk Bankası A.Ş.'nin (main shareholder Bank), has been convicted for some of the charges in the first phase of the trial by the jury in the United States of America ("USA"). of the violation of the USA sanctions involving Iran. The subsequent legal process is not yet completed but ongoing for the defendant director of the main shareholder Bank such as appeal and other legal rights following the first phase of the trial.

Main shareholder Bank is not a trialist or defendant in this case. The respective court in this trial has not issued any administrative or monetary decision against the main shareholder Bank.

Main shareholder Bank is always sensitive in complying with national and international regulations and puts considerable efforts in improving such compliance policies in line with international standards.

In providing the banking transactions, the main shareholder Bank is not following the foreign trade applications, mechanisms, methods and systems, other than prevailing banking practices and those adopted by other banks. The foreign trade transactions and Money transfers are open and transparent, and easily be monitored by authorities. The main shareholder Bank will continue to adopt the same policies of transparency and compliance with international regulations.

## **HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017**

(Amounts expressed in Turkish Lira (TL))

#### **27 OTHER ISSUES (cont'd)**

Main shareholder Bank placed a high importance on this matter and established a separate “Compliance Department”. The Bank is receiving advisory services from an international expert firm in forming effectiveness of this department’s policies and control procedures and processes.

#### **APPENDIX 1 - CONTROL OF COMPLIANCE WITH RESTRICTIONS ON THE INVESTMENT PORTFOLIO**

The information contained in the table of control of compliance with restrictions on the investment portfolio is a summarized information derived from the financial statements according to Article 16 of the “Communiqué on Financial Reporting in Capital Markets Serial: II, No: 14.1”. This information has been prepared in accordance with the statements of the CMB’s “Communiqué on Principles Regarding Real Estate Investment Trusts Serial: III, No: 48.1” published in the Official Gazette numbered 28660, regulating the compliance with portfolio limitations.

As at 31 December 2017, the Company complied with the restrictions that stated in the paragraph “a, b, c, ç and d” of 24th, 22nd and 38th articles of the CMB’s communiqué no III-48.1, “Communiqué on Principles Regarding Real Estate Investment Trusts”, published in the Official Gazette numbered 28660. The ratios related with these restrictions are shown below (31 December 2016: There is no non-compliance).

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2017

(Amounts expressed in Turkish Lira (TL))

### APPENDIX 1 - CONTROL OF COMPLIANCE WITH RESTRICTIONS ON THE INVESTMENT PORTFOLIO (cont'd)

	Financial statement primary account items	Regulation	31 December 2017 (TL)	31 December 2016 (TL)
<b>A</b>	Money and capital market instruments	Serial: III-48.1, Article 24/(b)	123,145,273	51,301,426
<b>B</b>	Real estates, based on real estates, rights based on real estates	Serial: III-48.1, Article 24/(a)	2,080,389,207	1,658,628,593
<b>C</b>	Subsidiaries	Serial: III-48.1, Article 24/(b)	--	--
	Due from related parties (non-trade)	Serial: III-48.1, Article 23/(f)	--	--
	Other assets		173,399,260	129,657,267
<b>D</b>	<b>Total Assets</b>	Serial: III-48.1, Article 3/(k)	<b>2,376,933,740</b>	<b>1,839,587,286</b>
<b>E</b>	Loans and borrowings	Serial: III-48.1, Article 31	226,914,420	12,549,963
<b>F</b>	Other financial liabilities	Serial: III-48.1, Article 31	--	--
<b>G</b>	Financial leasing obligations	Serial: III-48.1, Article 31	--	--
<b>H</b>	Due to related parties (non-trade)	Serial: III-48.1, Article 23/(f)	--	--
<b>İ</b>	Equity	Serial: III-48.1, Article 31	1,879,401,652	1,630,195,744
	Other liabilities		270,617,668	196,841,579
<b>D</b>	<b>Total liabilities and equity</b>	Serial: III-48.1, Article 3/(k)	<b>2,376,933,740</b>	<b>1,839,587,286</b>
	<b>Other financial information</b>		<b>31 December 2017 (TL)</b>	<b>31 December 2016 (TL)</b>
<b>A1</b>	Portion of money and capital markets instruments for real estate payments of 3 years	Serial: III-48.1, Article 24/(b)	--	--
<b>A2</b>	Time deposit/ demand deposit/ TL / foreign currency	Serial: III-48.1, Article 24/(b)	123,138,273	51,134,642
<b>A3</b>	Foreign capital market instruments	Serial: III-48.1, Article 24/(d)	--	--
<b>B1</b>	Foreign real estates, based on real estates projects, rights for real estates	Serial: III-48.1, Article 24/(d)	--	--
<b>B2</b>	Idle land	Serial: III-48.1, Article 24/(c)	--	--
<b>C1</b>	Foreign Subsidiaries	Serial: III-48.1, Article 24/(d)	--	--
<b>C2</b>	Investment in the operating company	Serial: III-48.1, Article 28	--	--
<b>J</b>	Non-cash loans	Serial: III-48.1, Article 31	283,396,956	180,108,347
<b>K</b>	Mortgage amounts on land that project to be developed but the ownership does not belong the entity	Serial: III-48.1, Article 22/(e)	--	--
<b>L</b>	Total investments of money and capital market instruments at one company	Serial: III-48.1, Article 22/(l)	--	--

**HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.****AUDITED NOTES TO THE FINANCIAL STATEMENTS  
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**APPENDIX 1 - CONTROL OF COMPLIANCE WITH RESTRICTIONS ON THE INVESTMENT PORTFOLIO (cont'd)**

	<b>Portfolio Restrictions</b>	<b>Regulations</b>	<b>Calculation</b>	<b>Min/Max Rate</b>	<b>31 December 2017 (TL)</b>	<b>31 December 2016 (TL)</b>
1	Mortgage amounts on land that project to be developed but the ownership does not belong the entity	Serial: III-48.1, Article22/(e)	K/D	Maximum %10	--	--
2	Real estates, based on real estates projects, rights for real estates	Serial: III-48.1, Article24/(a),(b)	(B+A1)/D	Minimum %51	87.52%	90.16%
3	Money and capital market instruments and associates	Serial: III-48.1, Article24/(b)	(A+C-A1)/D	Maximum %49	5.18%	2.79%
4	Foreign real estates, based on real estates projects, rights for real estate,associates, capital market instruments	Serial: III-48.1, Article24/(d)	(A3+B1+C1)/D	Maximum %49	--	--
5	Idle Land	Serial: III-48.1, Article24/(c)	B2/D	Maximum %20	--	--
6	Investment in operating company	Serial: III-48.1, Article28	C2/D	Maximum %10	--	--
7	Borrowing Limit	Serial: III-48.1, Article31	(E+F+G+H+J)/I	Maximum %500	27.15%	11.82%
8	Time Deposit/ Demand Deposit/ TL / Foreign Currency	Serial: III-48.1, Article24/(b)	(A2-A1)/D	Maximum %10	5.18%	2.78%
9	Total investments of money and capital market instruments at one company	Serial: III-48.1, Article22/(l)	L/D	Maximum %10	--	--