

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

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

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S
LIMITED REVIEW REPORT FOR
THE PERIOD ENDED 31 MARCH
2018

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

**INDEPENDENT AUDITOR’S REPORT ON THE REVIEW OF INTERIM FINANCIAL
INFORMATION**

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

Introduction

We have reviewed the accompanying statement of financial position of Halk Gayrimenkul Yatırım Ortaklığı A.Ş. (“the Company”) as of 31 March 2018 and the related statements of profit and loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the three-months period then ended and a summary of significant accounting policies and other explanatory notes. The Company’s Management is responsible for the preparation and fair presentation of this interim financial information in accordance with the Turkish Accounting Standards 34 “Interim Financial Reporting” (TAS 34). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the Independent Auditing Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Independent Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information, in all material respects, is not prepared in compliance with the TAS 34 “Interim Financial Reporting”.

Other Matters

As detailed in Note 27, one of the 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 Bank at this stage. Our conclusion is not modified in respect of this matter.

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

Hasan Kılıç, SMMM
Partner

İstanbul, 10 May 2018

INDEX	PAGE
STATEMENT OF FINANCIAL POSITION	1-2
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME.....	3
STATEMENT OF CHANGES IN EQUITY	4
STATEMENT OF CASH FLOWS.....	5
NOTES TO THE FINANCIAL STATEMENTS	6-79
NOTE 1 ORGANIZATION AND OPERATIONS OF THE COMPANY	6-7
NOTE 2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS	7-28
NOTE 3 INTERESTS IN OTHER ENTITIES	29-30
NOTE 4 RELATED PARTY DISCLOSURES	31-33
NOTE 5 TRADE RECEIVABLES AND PAYABLES.....	34-35
NOTE 6 INVENTORIES.....	35-36
NOTE 7 PREPAID EXPENSES AND DEFERRED INCOME	36-37
NOTE 8 INVESTMENT PROPERTIES	38-50
NOTE 9 PROPERTY, PLANT AND EQUIPMENT	50-51
NOTE 10 INTANGIBLE ASSETS.....	51
NOTE 11 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES	52-55
NOTE 12 EMPLOYEE BENEFITS	56-57
NOTE 13 OTHER ASSETS AND LIABILITIES	57-58
NOTE 14 SHARE CAPITAL, RESERVES VE OTHER EQUITY ITEMS	58-60
NOTE 15 REVENUE AND COST OF SALES	60
NOTE 16 EXPENSES BY NATURE.....	61
NOTE 17 GENERAL ADMINISTRATIVE EXPENSES, MARKETING AND SALES EXPENSES	61-62
NOTE 18 OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES	62
NOTE 19 FINANCE EXPENSES	63
NOTE 20 INCOME TAXES	63
NOTE 21 EARNINGS PER SHARE.....	63
NOTE 22 FINANCIAL INSTRUMENTS	63-65
NOTE 23 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS	65-74
NOTE 24 FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES).....	75
NOTE 25 EVENTS AFTER THE REPORTING PERIOD.....	75
NOTE 26 NOTES ON STATEMENT OF CASH FLOWS.....	76
NOTE 27 OTHER MATTERS THAT MAY HAVE A MATERIAL EFFECT ON, OR BE EXPLAINED FOR THE CLEAR UNDERSTANDING OF THE FINANCIAL STATEMENTS	77
APPENDIX I-CONTROL OF COMPLIANCE WITH RESTRICTIONS ON THE INVESTMENT PORTFOLIO	77-79

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

REVIEWED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

		Reviewed	Audited
		31 March	31 December
	Notes	2018	2017
ASSETS			
Current Assets		379,215,072	432,080,905
Cash and Cash Equivalents	26	53,788,636	123,145,273
Trade Receivables	5	25,650,313	36,703,574
<i>Trade Receivables From Related Parties</i>	4	1,196	148,189
<i>Trade Receivables From Third Parties</i>		25,649,117	36,555,385
Inventory	6	276,186,539	252,004,404
Prepaid Expenses	7	534,181	318,312
<i>Prepaid Expenses To Related Parties</i>		455,046	103,490
<i>Other prepaid expenses</i>		79,135	214,822
Current Tax Assets		1,555,289	1,046,404
Other Current Assets	13	21,500,114	18,862,938
<i>Other Current Assets</i>		21,500,114	18,862,938
Non-Current Assets		2,045,827,732	1,944,852,835
Trade Receivables	5	5,881,440	5,799,107
<i>Trade Receivables From Third Parties</i>		5,881,440	5,799,107
Investment Properties	8	1,896,887,638	1,828,384,803
Property, Plant and Equipment	9	253,231	270,652
Intangible Assets	10	128,086	105,718
<i>Other Intangible Assets</i>		128,086	105,718
Prepaid Expenses	7	95,915,915	67,861,990
<i>Other Prepaid Expenses</i>		95,915,915	67,861,990
Other Non-Current Assets	13	46,761,422	42,430,565
<i>Other Non-Current Assets From Related Parties</i>		46,761,422	42,430,565
TOTAL ASSETS		2,425,042,804	2,376,933,740

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

REVIEWED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

		Reviewed	Audited
		31 March	31 December
	Notes	2018	2017
LIABILITIES			
Current Liabilities		513,761,392	490,493,887
Financial Borrowings		231,304,677	216,796,919
Current Portion of Long Term Borrowings	22	3,177,712	3,397,671
<i>Short Term Financial Borrowings From Related Parties</i>		3,177,712	3,397,671
Trade Payables	5	21,042,429	18,025,957
<i>Trade Payables To Related Parties</i>	4	837,801	416,723
<i>Trade Payables To Third Parties</i>		20,204,628	17,609,234
Deferred Income	7	246,626,186	242,418,401
<i>Deferred Income From Third Parties</i>		246,626,186	242,418,401
Provisions		1,311,257	1,079,771
<i>Short Term Provisions Relating to Employee Benefits</i>	12	1,202,289	970,803
<i>Other Current Provisions</i>	11	108,968	108,968
Other Current Liabilities	13	10,299,131	8,775,168
<i>Other Current Liabilities</i>		10,299,131	8,775,168
Non-Current Liabilities		22,815,913	7,038,201
Financial Borrowings	22	22,463,333	6,719,830
<i>Long Term Financial Borrowings From Related Parties</i>		22,463,333	6,719,830
Long Term Provisions	12	352,580	318,371
<i>Long Term Provisions Relating to Employee Benefits</i>		352,580	318,371
EQUITY		1,888,465,499	1,879,401,652
Share Capital	14	820,000,000	820,000,000
Treasury Shares	14	(23,117,578)	(23,117,578)
Share premium		49,945,096	49,945,096
Other comprehensive income that will not be reclassified to profit or loss		13,198	13,198
- <i>Gains on Remeasurement of Defined Benefit Plans</i>		13,198	13,198
Restricted Reserves	14	39,266,359	39,266,359
Retained Earnings		992,610,945	741,185,806
Net Profit For The Period		9,747,479	252,108,771
TOTAL LIABILITIES AND EQUITY		2,425,042,804	2,376,933,740

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

REVIEWED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY – 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

		Reviewed	Reviewed
		1 January- 31 March 2018	1 January- 31 March 2017
	Notes		
Revenue	15	18,280,039	21,682,198
Cost of Sales (-)	15	(1,035,256)	(3,931,004)
GROSS PROFIT		17,244,783	17,751,194
General administrative expenses (-)	17	(3,554,081)	(3,151,601)
Marketing and selling expenses (-)	17	(399,309)	(1,178,793)
Other operating income from main activities	18	1,101,360	696,713
Other operating expenses from main activities (-)	18	(104,687)	(2,791,403)
OPERATING PROFIT		14,288,066	11,326,110
OPERATING PROFIT/LOSS BEFORE FINANCE EXPENSES		14,288,066	11,326,110
Finance costs (-)	19	(4,540,587)	(315,353)
PROFIT BEFORE TAX		9,747,479	11,010,757
NET PROFIT FOR THE PERIOD		9,747,479	11,010,757
Earnings per share		0.0119	0.0139
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will not be reclassified to profit or loss		-	-
Gains on Remeasurement of Defined Benefit Plans		-	-
OTHER COMPREHNSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		9,747,479	11,010,757

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

REVIEWED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD 1 JANUARY - 31 MARCH 2018

(Amounts expressed in Turkish Lira ("TL"))

	Share Capital	Treasury Shares	Share Premium	Other Comprehensive Income That Will Not Be Reclassified to Profit or Loss	Accumulated Profits			Equity
				Accumulated Gains on Remeasurement of Defined Benefit Plans	Restricted Reserves	Retained Earnings	Net Profit For The Period	
Balance at 1 January 2017	790,000,000	(22,271,814)	49,945,096	649	37,486,655	667,368,102	107,667,056	1,630,195,744
Transfers	-	-	-	-	-	107,667,056	(107,667,056)	-
Total Comprehensive Income	-	-	-	-	-	-	11,010,757	11,010,757
Balance at 31 March 2017	790,000,000	(22,271,814)	49,945,096	649	37,486,655	775,035,158	11,010,757	1,641,206,501
Balance at 1 January 2018	820,000,000	(23,117,578)	49,945,096	13,198	39,266,359	741,185,806	252,108,771	1,879,401,652
Changes in accounting policies (Note 2)	-	-	-	-	-	(683,632)	-	(683,632)
Restated balance at 1 January 2018	820,000,000	(23,117,578)	49,945,096	13,198	39,266,359	740,502,174	252,108,771	1,878,718,020
Transfers	-	-	-	-	-	252,108,771	(252,108,771)	-
Total Comprehensive Income	-	-	-	-	-	-	9,747,479	9,747,479
Balance at 31 March 2018	820,000,000	(23,117,578)	49,945,096	13,198	39,266,359	992,610,945	9,747,479	1,888,465,499

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

REVIEWED STATEMENT OF CASH FLOWS FOR THE PERIOD 1 JANUARY - 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

		Reviewed	Reviewed
		1 January-	1 January-
		31 March	31 March
	Notes	2018	2017
A. Cash flows from operating activities			
Profit/loss for the year		9,747,479	11,010,757
Adjustments to reconcile profit/loss for the year			
- Adjustments related to depreciation and amortization expenses	9-10	31,871	108,031
- Adjustments related to provisions	11-12	13,696	258,887
- Adjustments related to interest income and expenses	15-19	1,840,234	(1,018,711)
Changes in working capital			
- Adjustments related to increase/decrease in inventories		(24,182,135)	(18,710,234)
- Adjustments related to increase/decrease in trade receivables		10,652,425	(6,211,241)
- Adjustments related to increase/decrease in prepaid expenses		(28,269,794)	3,802,225
- Adjustments related to increase/decrease in other assets		(7,476,918)	(2,504,955)
- Adjustments related to increase/decrease in trade payables		3,016,472	(45,709)
- Adjustments related to increase/decrease in deferred income		4,207,785	24,629,342
- Adjustments related to increase/decrease in other liabilities		1,523,963	(191,203)
Cash generated from operations		(28,894,922)	11,127,189
Interest received		2,602,927	1,480,184
Other		35,483	-
		(26,256,512)	12,607,373
B. Cash flows from investing activities			
Cash outflows for purchase of property, plant and equipment and intangible assets	9-10	(36,818)	(6,044)
Cash outflows for investment properties	8	(68,502,835)	(1,851,963)
		(68,539,653)	(1,858,007)
C. Cash flows from financing activities			
Proceeds from borrowings		30,031,302	-
Cash used for repayment of borrowings		(219,959)	(581,048)
Interest paid		(4,443,161)	(315,353)
		25,368,182	(896,401)
Net increase/(decrease) in cash and cash equivalents (A+B+C)		(69,427,983)	9,852,965
D. Cash and cash equivalents at the beginning of the period		122,879,368	50,787,686
Cash and cash equivalents at the end of the period (A+B+C+D)	26	53,451,385	60,640,651

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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”). The Company and its joint ventures are referred to as the “Company” in the hereby report (see also Note 2.1 ve Note 3). 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 has been paid in cash whereas TL 513,282,021 has been paid in kind and TL 110,500,000 has been 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 March 2018, the number of personnel employed in the Company is 41 (31 December 2017: 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 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 as per the CMB’s decision numbered 4/97 on 8 February 2013. During 13-15 February 2013, TL 185,500,000 B group shares were 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 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 signed a 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 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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

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

As at 16 March 2018 and 23 March 2018, the Company sold lease certificates with a nominal value of TL 125,000,000 with a maturity date of 20 June 2018 and an interest rate of 13.40%.

As at 30 March 2018, the Company sold lease certificates with nominal value of TL 75,000,000 with a maturity date of 19 September 2018 and an interest rate of 14.85%.

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

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

Dividends paid:

As of 31 March 2018, the Company has not yet distributed cash dividends from the profit for the year of 2017 (2017: TL 2,915,412).

Approval of financial statements:

Board of Directors has approved the financial statements and delegated authority for publishing it on 10 May 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”.

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.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

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

2.1 Basis of Presentation (cont’d)

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.

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.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

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

2.2 Changes in Accounting Policies

This note explains the impact of the adoption of TFRS 9 Financial Instruments and TFRS 15 Revenue from Contracts with Customers on the Company’s financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

a) Impact of Changes in Accounting Policies on the Financial Statements

As of 1 January 2018, the Company has recognized the cumulative effect due to the first application of the changes in the accounting policies as difference adjustments within the retained earnings. The comparative information regarding the previous periods were not readjusted.

The following table shows the adjustments/reclassifications recognized in each individual line item due to application of new policies:

	Previously Reported 31 December 2017	Impact of TFRS 9	Impact of TFRS 15	Restated 1 January 2018
ASSETS				
Cash and Cash Equivalents	123.145.273	(258.605)	-	122.886.668
Trade Receivables	42.502.681	(425.027)	-	42.077.654
Other Assets	2.211.285.786	-	-	2.211.285.786
TOTAL ASSETS	2.376.933.740	(683.632)	-	2.376.250.108
LIABILITIES				
Other Liabilities	1.635.747.934	-	-	1.635.747.934
Retained Earnings/Losses	741.185.806	(683.632)	-	740.502.174
TOTAL LIABILITIES	741.185.806	(683.632)	-	2.376.250.108

b) TFRS 9 Financial Instruments

Impact of adoption

TFRS 9 replaces the provisions of TAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of TFRS 9 *Financial Instruments* from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.5 below. In accordance with the transitional provisions in TFRS 9, comparative figures have not been restated.

The total impact on the Company’s retained earnings as at 1 January 2018 is as follows:

Retained earnings - 31 December 2017	741.185.806
Expected credit loss on cash and cash equivalents	(258.605)
Increase in allowance for doubtful receivables	(425.027)
Adjustments to retained earnings from adoption of TFRS 9	(683.632)
Retained earnings 1 January 2018 – (with TFRS 9 before TFRS 15)	740.502.174

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

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

2.2 Changes in Accounting Policies (cont’d)

Classification and Measurement

On 1 January 2018 (the date of initial application of TFRS 9), the Company’s management has assessed which business models apply to the financial assets held by the Company.

Trade and other receivables measured 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 measured at amortized cost upon the application of TFRS 9.

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

Impairment

Financial assets measured at amortized cost will be subject to the impairment provisions of TFRS 9.

The Company applies the simplified approach to recognize lifetime expected credit losses for its trade receivables, finance lease receivables and amounts due from customer under construction contracts as required or permitted by TFRS 9.

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 to TFRSs that are mandatorily effective for the current year

TFRS 9	<i>Financial Instruments</i>
TFRS 15	<i>Revenue from Contracts with Customers</i>
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>
TFRS Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to TAS 40	<i>Transfers of Investment Property</i>
Annual Improvements to TFRS Standards 2014–2016 Cycle	<i>TFRS 1 , TAS 28</i>

TFRS 9 *Financial Instruments*

TFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 to TFRSs that are mandatorily effective for the current year

TFRS 9 *Financial Instruments (cont’d)*

Key requirements of TFRS 9:

- All recognized financial assets that are within the scope of TFRS 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 TFRS 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, TFRS 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 TAS 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, TFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under TAS 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 TAS 39. Under TFRS 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.

The impact of TFRS 9 on the Company’s financial statements are explained in Note 2.2 in detail.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 to TFRSs that are mandatorily effective for the current year

TFRS 15 Revenue from Contracts with Customers

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

The core principle of TFRS 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 TFRS 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.

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

Later on *Clarifications to TFRS 15* in relation to the identification of performance obligations, principal versus agent considerations were issued, as well as licensing application guidance.

The impact of TFRS 15 on the Company’s financial statements are explained in Note 2.2 in detail.

Amendments to TFRS 10 and TAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Amendments to TFRS 10 and TAS 28 have no impact on Company’s financial statements.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 to TFRSs that are mandatorily effective for the current year

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

The amendments clarify the standard in respect of the share-based payment arrangement has a ‘net settlement feature’, such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

Amendments to TFRS 2 have no impact on the Company’s financial statements.

TFRS Interpretation 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.

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.

TFRS Interpretation 22 has no impact on the Company’s financial statements.

Amendments to TAS 40 Transfers of Investment Property

The amendments to TAS 40:

- 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.
- Amendments to TAS 40 have no impact on the Company’s financial statements.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 to TFRSs that are mandatorily effective for the current year

Annual Improvements to TFRS Standards 2014–2016 Cycle

- **TFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of TFRS 1, because they have now served their intended purpose.
- **TAS 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.

Annual improvements to TFRS Standards 2014-2016 cycle have no impact 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 16	<i>Leases</i> ¹
Amendments to TAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

TFRS 16 *Leases*

TFRS 16 specifies how a TAS reporter will recognise, measure, present and disclose leases and supersedes TAS 17 “Leases”. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with TFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, TAS 17.

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

This amendment clarifies that an entity applies TFRS 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 Company’s financial position and performance.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Leases - the Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company’s net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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)

Leases (cont’d)

Leases - the Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company’s general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

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.

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.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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

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.

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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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

At initial recognition, the Company measures a financial asset at its fair value, except for trade receivables that do not contain significant financing component. The Company measures trade receivables at their transaction price if the trade receivables do not contain a significant financing component in accordance with TFRS 15 (or when the entity applies the practical expedient) at initial recognition.

At initial recognition, the Company measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. A regular way purchase or sale of financial assets shall be recognized using trade date accounting or settlement date accounting.

The Company reclassifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both (a) the Company’s business model for managing the financial assets and (b) the contractual cash flow characteristics of the financial asset. When, and only when, the Company changes its business model for managing financial assets, it reclassifies all affected financial assets. The Company applies the reclassification prospectively from the reclassification date. The Company does not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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)

Financial Instruments (cont’d)

Financial assets (cont’d)

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:

- (a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and,
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest revenue of financial assets measured at amortised cost is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- (a) Purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
- (b) Financial assets that are not purchased or originated credit-impaired financial assets but have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss.

The Company directly reduces the gross carrying amount of a financial asset when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Financial assets measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- (a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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)

Financial Instruments (cont’d)

Financial assets (cont’d)

Financial assets measured at fair value through other comprehensive income (cont’d)

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, the Company accounts for the cumulative gain or loss that was previously recognised in other comprehensive income in financial statements. Interest calculated using the effective interest method is recognised in profit or loss.

At initial recognition, the Company may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

Financial assets measured at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

Derivatives are also categorized as FVTPL 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.

Impairment

The Company recognises a loss allowance for expected credit losses on financial assets that are measured at amortized cost or fair value through other comprehensive income.

The Company applies the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income. However, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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)

Financial Instruments (cont’d)

Financial assets (cont’d)

Impairment (cont’d)

At each reporting date, the Company measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses except for purchased or originated credit impaired financial assets. For purchased or originated credit-impaired financial assets, the Company only recognises the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance at the reporting date.

The Company measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables that do not contain a significant financing component, which is referred as simplified approach.

Financial liabilities

At initial recognition, the Company measures a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

The Company classifies all financial liabilities as subsequently measured at amortised cost, except for:

- (a) Financial liabilities at fair value through profit or loss: Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value.
- (b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Company recognises any income on the transferred asset and any expense incurred on the financial liability.
- (c) Contingent consideration recognised by an acquirer in a business combination to which TFRS 3 applies. Such contingent consideration is subsequently be measured at fair value with changes recognised in profit or loss.

The Company does not reclassify any financial liability.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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)

Financial Instruments (cont’d)

Recognition and derecognition of financial assets and liabilities

The Company recognises a financial asset or a financial liability in the statement of financial position when, and only when, the Company becomes party to the contractual provisions of the instrument. The Company derecognises a financial asset when, and only when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset and the transfer qualifies for derecognition. If a transfer of financial asset does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company will continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the Company recognises any income on the transferred asset and any expense incurred on the financial liability. The Company derecognizes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Derivative financial instruments and hedge accounting

The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

If the cash flow hedge of a firm commitment or an expected forward transaction result in the recognition of an asset or liability, at the initial recognition of this asset or liability the gain or loss previously recognized under equity related to derivatives are included in the measurement of the initial amount of the asset or liability. In a hedge accounting that does not result in the recognition of an asset or liability, the amounts previously recognized under equity are transferred to statement of profit or loss in the period in which the hedged item has an effect on profit or loss. The changes in the fair value of derivatives that do not meet the criteria for hedge accounting are recognized in the statement of profit or loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 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 (see below for hedging accounting policies); and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

Earnings Per Share

Earnings per share disclosed in the statement of 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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 March 2018	31 December 2017
Halk GYO-Vakıf GYO Joint Venture	50%	50%
Halk GYO-Erkonut Joint Venture	50%	50%
Halk GYO-Teknik Yapı Joint Venture	50%	50%

Halk GYO-Vakıf GYO Joint Venture

Halk GYO-Vakıf GYO Joint Venture 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 March 2018	31 December 2017
Halk GYO-Vakıf GYO Joint Venture		
Current assets	217,046,808	206,892,687
Non-current assets	37,086,782	34,709,604
Current liabilities	(184,855,405)	(182,421,467)
	1 January- 31 March 2018	1 January- 31 March 2017
Expenses	(303,859)	(1,082,378)

Halk GYO-Erkonut Joint Venture

Halk GYO-Erkonut Joint Venture 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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

3. INTERESTS IN OTHER ENTITIES (cont'd)

Joint Operations (cont'd)

Halk GYO-Erkonut Joint Venture (cont'd)

Halk GYO-Erkonut Joint Venture	31 March 2018	31 December 2017
Current assets	73,840,971	70,350,910
Non-current assets	12,647,683	12,703,177
Current liabilities	(52,811,260)	(49,486,778)
	1 January- 31 March 2018	1 January- 31 March 2017
Expenses	(13,020)	(5,450)

Halk GYO-Teknik Yapı Joint Venture

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:

Halk GYO-Teknik Yapı Joint Venture	31 March 2018	31 December 2017
Current assets	3,539,873	3,108,217
Non-current assets	16,038,049	15,350,087
Current liabilities	(21,734,165)	(1,963,853)
	1 January- 31 March 2018	1 January- 31 March 2017
Expenses	(988,258)	-

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

4. RELATED PARTY DISCLOSURES

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

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

	31 March 2018	31 December 2017
<u>Deposits at Halk Bank</u>		
Demand deposits	1,278,023	607,886
Time deposits	52,449,912	30,720,512
	<u>53,727,935</u>	<u>31,328,398</u>
Halk Varlık Yönetimi A.Ş. lease certificate issuance	125,624,110	100,435,616
Loans received from Halk Bank	27,163,622	10,117,501
Halk Leasing Finansal Lease agreement	25,600,883	-

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

4. RELATED PARTY DISCLOSURES (cont’d)

	31 March 2018						
	Receivables		Payables			Prepaid Expenses	
	Short Term		Short Term		Long Term	Short Term	
	Trade	Non-Trade	Trade	Non-Trade	Non-Trade	Trade	Non-Trade
Balances with related parties							
<u>Shareholders</u>							
Halkbank A.Ş.	1,196	-	19,693	-	-	-	-
<u>Related parties controlled by main shareholder</u>							
Halk Yatırım Menkul Değ. A.Ş.	-	-	168,000	-	-	-	-
Halk Hayat ve Emeklilik A.Ş.	-	-	-	-	-	29	-
Halk Leasing Finansal Kiralama A.Ş. (*)	-	-	-	9,208,030	16,392,853	-	-
Halk Varlık Kiralama A.Ş.	-	-	454,563	-	-	-	-
Halk Sigorta A.Ş.	-	-	195,545	-	-	455,017	-
	<u>1,196</u>	<u>-</u>	<u>837,801</u>	<u>9,208,030</u>	<u>16,392,853</u>	<u>455,046</u>	<u>-</u>

(*) The Company signed an agreement with Buga Otis Asansör Sanayi ve Ticaret A.Ş. within the scope of service procurement for vertical transports (elevator and escalator) in Halk Office Towers to be built related to the project of Istanbul International Finance Center and signed financial lease agreement with Halk Finansal Kiralama A.Ş. for relevant service procurement. Assets acquired under financial leasing are recognized in investment properties with capitalized borrowing cost amounted to TL 1,436,725.

	31 December 2017						
	Receivables		Payables			Prepaid Expenses	
	Short Term		Short Term		Long Term	Short Term	
	Trade	Non-Trade	Trade	Non-Trade	Non-Trade	Trade	Non-Trade
Balances with related parties							
<u>Shareholders</u>							
Halkbank A.Ş.	147,177	-	6,984	-	-	-	-
<u>Related parties controlled by main shareholder</u>							
Halk Sigorta A.Ş.	474	-	35,809	-	-	101,083	-
Halk Yatırım Menkul Değ. A.Ş.	-	-	-	-	-	-	-
Halk Varlık Kiralama A.Ş.	-	-	373,930	-	-	-	-
Halk Hayat ve Emeklilik A.Ş.	538	-	-	-	-	2,407	-
	<u>148,189</u>	<u>-</u>	<u>416,723</u>	<u>-</u>	<u>-</u>	<u>103,490</u>	<u>-</u>

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

4. RELATED PARTY DISCLOSURES (cont'd)

Transactions with related parties	1 January - 31 March 2018			
	Interest income	Interest expenses	Rent income	Other expenses
<u>Shareholders</u>				
Halkbank A.Ş.	825,638	951,489	9,478,633	64,804
<u>Related parties controlled by main shareholder</u>				
Halk Hayat ve Emeklilik A.Ş.	-	-	14,100	2,533
Halk Sigorta A.Ş. (*)	-	-	-	269,099
Halk Varlık Kiralama A.Ş. (**)	-	2,543,323	-	-
Halk Yatırım Menkul Değerler A.Ş.	-	-	-	70,000
	<u>825,638</u>	<u>3,494,812</u>	<u>9,492,733</u>	<u>406,436</u>

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

(**) The amount consists of lease certificate interest expense paid to Halk Varlık Kiralama A.Ş.

Transactions with related parties	1 January - 31 March 2017			
	Interest income	Interest expenses	Rent income	Other expenses
<u>Shareholders</u>				
Halkbank A.Ş.	1,472,549	315,353	9,910,871	2,527
<u>Related parties controlled by shareholders</u>				
Halk Hayat ve Emeklilik A.Ş.	-	-	23,998	3,666
Halk Sigorta A.Ş.	-	-	-	208,533
	<u>1,472,549</u>	<u>315,353</u>	<u>9,934,869</u>	<u>214,726</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 March 2018	1 January- 31 March 2017
Salaries and other short term benefits	<u>253,537</u>	<u>308,219</u>
	<u>253,537</u>	<u>308,219</u>

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 March 2018	31 December 2017
<u>Current trade receivables</u>		
Trade receivables	25,967,620	36,555,385
Trade receivables from related parties (Note 4)	1,196	148,189
Allowance for doubtful receivables (-) (*)	<u>(318,503)</u>	<u>-</u>
	<u>25,650,313</u>	<u>36,703,574</u>

(*) The amount consists of allowance provided for expected credit losses under TFRS 9.

	1 January- 31 March 2018	1 January- 31 March 2017
<u>Movement of Allowance for Doubtful Receivables</u>		
Balance at beginning of the year	(425,027)	-
Amounts written off during the period	106,524	-
Closing balance	<u>(318,503)</u>	<u>-</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 18,006,027, TL 1,388,927, TL 4,709,617 and TL 1,545,742 (31 December 2017: Referans Bakırköy Project TL 29,550,211, Eskişehir Panorama Plus Project TL 1,389,173, Bizimtepe Aydos Project TL 5,152,009 and other receivables TL 613,181).

As at 31 March 2018, the Company does not have trade receivables past due (31 December 2017: None).

	31 March 2018	31 December 2017
<u>Non-current trade receivables</u>		
Trade receivables	5,881,440	5,799,107
	<u>5,881,440</u>	<u>5,799,107</u>

The Company’s long-term trade receivables comprise sale of residences at Eskişehir Panorama Plus Project and Bizimtepe Aydos Project amounting to TL 3,955,492 and TL 1,925,948 respectively (31 December 2017: Referans Bakırköy Project TL 4,166,782 and Bizimtepe Aydos Project TL 1,632,325).

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 March 2018	31 December 2017
Short term trade payables		
Trade payables	20,204,628	17,609,234
Trade payables to related parties (Note 4)	837,801	416,723
	<u>21,042,429</u>	<u>18,025,957</u>

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

6. INVENTORIES

	31 December 2017 Cost Value	Addition	Disposal	31 March 2018 Cost Value
Land stocks				
Istanbul Bakırköy Land - Referans Bakırköy Residence Project ⁽¹⁾	2,739,448	-	(267,194)	2,472,254
Eskişehir- Odunpazarı Land - Panorama Plus Residence Project ⁽²⁾	7,199,079	-	(379,762)	6,819,317
Sancaktepe - Residence Project ⁽³⁾	177,343,489	21,380,063	-	198,723,552
Erzurum - Şehristan Project ⁽⁴⁾	61,669,985	2,977,088	-	64,647,073
İzmir Project ⁽⁵⁾	3,052,403	471,940	-	3,524,343
Total	<u>252,004,404</u>	<u>24,829,091</u>	<u>(646,956)</u>	<u>276,186,539</u>

⁽¹⁾ 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 2018 transfer of 3 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 905,453 and cost of sales in the amount of TL 273,789 (31 December 2017: transfer of 45 independent units, revenue in the amount of TL 14,185,847 and cost of sales relating to these sales amounting to TL 6,199,915. 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.

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 March 2018, the deed transfer process of 289 independent units has been completed.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

6. INVENTORIES (cont’d)

⁽²⁾ 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 13,073 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 2018, 1 independent unit was sold amounting to TL 495,000 and cost of sales relating to these sales is amounting to TL 389,921 (As at 31 December 2017, 17 independent units were sold amounting to TL 9,748,860 and cost of sales relating to these sales amounting to TL 7,950,325). Cost of sales includes taxes, duties and charges.

⁽³⁾ As at 16 October 2014, a land in Sancaktepe/Istanbul was purchased for TL 110,000,000 by Halk GYO-Vakıf GYO Joint Venture 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.

⁽⁴⁾ As at 1 April 2016, a land in Yakutiye /Erzurum was purchased for TL 17,500,000 by Halk GYO-Erkonut Joint Venture 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.

⁽⁵⁾ As at 24 August 2017, Halk GYO and Teknik Yapı Joint Venture signed a LS RSA 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 March 2018	31 December 2017
Short Term Prepaid Expenses		
Prepaid insurance expenses (Note 4)	455,046	103,490
Other	79,135	214,822
	<u>534,181</u>	<u>318,312</u>
Long term prepaid expenses		
Investment advances given (*)	95,908,208	67,861,990
Other	7,707	-
	<u>95,915,915</u>	<u>67,861,990</u>

(*) As at 31 March 2018, the advances given comprise those given to the main contractor and the project management contractors of the IFC Project amounting to TL 78,355,930 (31 December 2017: TL 48,322,828), İzmir Project amounting to TL 15,840,000 (31 December 2017: TL 15,240,000), Sancaktepe Project amounting to TL 6,442 (31 December 2017: TL 1,633,304), Erzurum Şehristan Project amounting to TL 1,233,388 (31 December 2017: TL 1,821,587), Caddebostan Project amounting to TL 472,448 (31 December 2017: TL 844,271).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

7. PREPAID EXPENSES AND DEFERRED INCOME (cont’d)

Long term prepaid expenses (cont’d)

	31 March 2018	31 December 2017
Short Term Deferred Income		
Deferred residential sale income ⁽¹⁾	246,626,186	242,418,401
	<u>246,626,186</u>	<u>242,418,401</u>

¹⁾ Deferred residential sale income consist of TL 7,430,386 (31 December 2017: TL 8,090,455) generated from the sales of residences from LSRSA project realized on the estate located in Bakırköy and TL 5,831,915 (31 December 2017: TL 6,129,127) generated from the sales of residence project realized from Eskişehir-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 March 2017, of the total 327 units of the project which consists of 254 residential and 73 commercial units 323 units have been sold for TL 214.1 Million (excluding advances from contractor) and transfer of title deeds has been completed for 289 residential units with the sales value of TL 196 Million. (31 December 2017: 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).

Deferred income consist of TL 183,048,737 and TL 50,315,148 (31 December 2017: TL 181,370,957 and TL 47,107,334) generated from the sales of residences from Bizimtepe Aydos Project in Sancaktepe land and Şehristan Project in Erzurum, respectively. The Company has signed preliminary sales contracts for 736 units from total units of 1,037 for Bizimtepe Aydos Project and 328 units for Erzurum Şehristan Project.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 March 2018 and 31 December 2017 are as follows:

	31 March 2018	Fair value as at 31 March 2018		
		Level 1	Level 2	Level 3
		TL	TL	TL
Buildings	937,638,952	-	937,638,952	-
Investment properties in progress	959,248,686	-	959,248,686	-
	<u>1,896,887,638</u>	<u>-</u>	<u>1,896,887,638</u>	<u>-</u>

	31 December 2017	Fair value as at 31 December 2017		
		Level 1	Level 2	Level 3
		TL	TL	TL
Buildings	849,528,303	-	849,528,303	-
Investment properties in progress	658,131,351	-	658,131,351	-
	<u>1,507,659,654</u>	<u>-</u>	<u>1,507,659,654</u>	<u>-</u>

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

As of 31 March 2018, the total amount of insurance on investment properties is TL 1,279,594,356 (31 December 2017: TL 1,223,325,887). As of 31 March 2018, the total amount of capitalized interest expenses on investment properties is TL 3,522,655 (31 December 2017: TL 1,318,305).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

8. INVESTMENT PROPERTIES (cont’d)

Investment properties	31 December 2017	Addition	Disposal	Fair value difference	31 March 2018
	Fair value				Fair value
İstanbul Salıpazarı Land	-	5,178,343	-	-	5,178,343
İstanbul Karaköy Building	36,000,000	-	-	-	36,000,000
İstanbul Salıpazarı Building	59,728,296	4,552,701	-	-	64,280,997
İzmir Konak Building-1	27,156,000	-	-	-	27,156,000
Ankara Kızılay Building	17,013,475	-	-	-	17,013,475
İstanbul Beyoğlu Building	26,473,003	-	-	-	26,473,003
İstanbul Beşiktaş Building	19,465,000	-	-	-	19,465,000
İstanbul Etiler Building	18,440,000	-	-	-	18,440,000
İstanbul Şişli Building	16,262,529	-	-	-	16,262,529
İzmir Konak Building-2	16,090,500	-	-	-	16,090,500
Ankara Başkent Building	11,854,750	-	-	-	11,854,750
İstanbul Bakırköy Building	23,548,000	-	-	-	23,548,000
Bursa Building	14,400,400	-	-	-	14,400,400
Ankara Bahçelievler Building 1	9,863,250	-	-	-	9,863,250
Kocaeli Building	12,521,000	-	-	-	12,521,000
İstanbul Fatih Building	12,477,083	-	-	-	12,477,083
Sakarya Adapazarı Building	12,525,000	-	-	-	12,525,000
Ankara Bahçelievler Building 2	8,100,000	-	-	-	8,100,000
İstanbul Ataköy Building	12,463,200	-	-	-	12,463,200
İstanbul Nişantaşı Building	9,514,000	-	-	-	9,514,000
Halkbank Finance Tower	209,450,640	-	-	-	209,450,640
Park Dedeman Levent Hotel	176,319,803	-	-	-	176,319,803
Kocaeli Şekerpınar Block A	98,016,800	-	-	-	98,016,800
Eskişehir Panaroma Plus Project - Block D	4,236,600	-	-	-	4,236,600
Kocaeli Şekerpınar Office Project	75,832,883	155,696	-	-	75,988,579
Total Buildings	927,752,212	9,886,740	-	-	937,638,952
İstanbul Finance Center Project	888,120,000	58,223,009	-	-	946,343,009
İstanbul Caddebostan Building Project	12,512,591	393,086	-	-	12,905,677
Total investment properties in progress	900,632,591	58,616,095	-	-	959,248,686
Total	1,828,384,803	68,502,835	-	-	1,896,887,638

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

8. INVESTMENT PROPERTIES (cont’d)

Investment properties	31 December 2016 Fair value	Addition	Transfer	Fair value difference	31 March 2017 Fair value
İstanbul Karaköy Building	32,600,000	-	-	-	32,600,000
İstanbul Salıhpazarı Building	49,362,000	1,206,466	-	-	50,568,466
İzmir Konak Building-1	25,130,000	-	-	-	25,130,000
Ankara Kızılay Building	17,013,475	-	-	-	17,013,475
İstanbul Beyoğlu Building	24,555,000	-	-	-	24,555,000
İstanbul Beşiktaş Building	18,320,000	-	-	-	18,320,000
İstanbul Etiler Building	16,766,000	-	-	-	16,766,000
İstanbul Şişli Building	15,135,034	-	-	-	15,135,034
İzmir Konak Building-2	14,842,000	-	-	-	14,842,000
Ankara Başkent Building	11,854,750	-	-	-	11,854,750
İstanbul Bakırköy Building	21,500,350	-	-	-	21,500,350
Bursa Building	13,200,000	-	-	-	13,200,000
Ankara Bahçelievler Building 1	9,860,000	-	-	-	9,860,000
Kocaeli Building	11,862,000	-	-	-	11,862,000
İstanbul Fatih Building	11,253,750	-	-	-	11,253,750
İstanbul Caddebostan Building	11,225,000	-	(11,225,000)	-	-
Sakarya Adapazarı Building	10,875,000	-	-	-	10,875,000
Ankara Bahçelievler Building 2	8,100,000	-	-	-	8,100,000
İstanbul Ataköy Building	11,260,000	-	-	-	11,260,000
İstanbul Nişantaşı Building	8,549,250	-	-	-	8,549,250
Ataşehir Finance Tower	186,636,280	-	-	-	186,636,280
Park Dedeman Levent Hotel	165,378,233	-	-	-	165,378,233
Kocaeli Şekerpınar Banking Center	88,704,000	-	-	-	88,704,000
Eskişehir Panaroma Plus Project - Block D	4,199,760	-	-	-	4,199,760
Eskişehir Panaroma Plus Project - Block B17	862,650	-	-	-	862,650
Kocaeli Şekerpınar Office Project	70,300,584	201,721	-	-	70,502,305
Total Buildings	859,345,116	1,408,187	(11,225,000)	-	849,528,303
İstanbul Finance Center Project	646,462,575	443,526	-	-	646,906,101
Kocaeli Şekerpınar Office Project	-	250	11,225,000	-	11,225,250
Total investment properties under development	646,462,575	443,776	11,225,000	-	658,131,351
Total	1,505,807,691	1,851,963	-	-	1,507,659,654

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 0 of rental income for the period 1 January 2018- 31 March 2018 (1 January – 31 March 2017: TL 363,825). 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 1,128,875 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 115,879). 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 379,006 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 330,750).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 m² 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 382,616 of rental income for the period of 1 January 2018 – 31 March 2018 (1 January – 31 March 2017: TL 333,900).

İstanbul Beyoğlu Building

İstanbul Beyoğlu Building is registered with Beyoğlu/İstanbul Hüseyinağa neighbourhood with 338 city block and 8th plot with 195 m² 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 414,183 of rental income for the period 1 January 2018 – 31 March 2018 (1 January – 31 March 2017: TL 360,270).

İstanbul Beşiktaş Building

İstanbul Beşiktaş Building is registered to Beşiktaş/İstanbul Sinanpaşa neighbourhood with 291 city block and 93rd plot with 267 m² 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 360,959 of rental income for the period 1 January 2018 – 31 March 2018 (1 January – 31 March 2017: TL 315,000).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 m² 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 281,548 of rental income for the period 1 January 2018 – 31 March 2018 (1 January – 31 March 2017: TL 245,700).

İstanbul Şişli Building

İstanbul Şişli Building is registered with Şişli/İstanbul Meşrutiyet neighbourhood with, 129 plate, 954 city block and 62nd plot with 200 m² 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 277,938 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 242,550).

İzmir Konak Building-2

İzmir Konak Building is registered with Konak/İzmir Akdeniz neighbourhood with 2802 city block and 15rd plot with 616 m² 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 254,346 of rental income for the period 1 January 2018- 31 March 2018 (1 January – 31 March 2017: TL 207,486).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 Akaryakıt. The Company earned TL 301,876 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 263,773).

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 397,054 of rental income for the period 1 January 2018 – 31 March 2018 (1 January – 31 March 2017: TL 346,500).

Bursa Building

Bursa Building is registered to Osmangazi/Bursa Kayhan 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 266,387 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 232,470).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 201,054 of rental income for the period 1 January 2018 – 31 March 2018 (1 January – 31 March 2017: TL 175,455).

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 252,671 of rental income for the period 1 January 2018- 31 March 2018 (1 January – 31 March 2017: TL 220,500).

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 180,479 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 157,500).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 m2 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 m² 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 230,761 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 201,380).

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 m2 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 0 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 176,095). 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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 12,463,200 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 222,892 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 194,513).

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 151,603 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 132,300).

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 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 3,600,000 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 4,365,760).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 3,458,050 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 December 2017: TL 2,782,425).

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 1,534,361 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 1,416,311).

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 0 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 46,986). 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. Until the transfer of the deed, the sale proceeds are classified under deferred income, and the rental income will be transferred to the buyer.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 comparable approach based on the report dated 19 December 2017 prepared by a real estate appraisal firm licensed by the CMB. The Company earned TL 0 of rental income for the period 1 January 2018 - 31 March 2018 (1 January – 31 March 2017: TL 18,900). The relevant property was sold on 7 December 2017.

Kocaeli Şekerpınar Block B

Şekerpınar land is registered with Şekerpınar/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 2014 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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 March 2017 and 31 December 2017 under non-cancellable leases are as follows:

<u>Operational lease</u>	<u>31 March 2017</u>	<u>31 December 2017</u>
Less than one year	40,854,290	45,634,731
Between one and five years	134,793,279	149,138,974
More than five years	67,377,704	197,213,195
	<u>243,025,273</u>	<u>391,986,900</u>

9. PROPERTY, PLANT AND EQUIPMENT

<u>Cost Value</u>	<u>Furniture and fixtures</u>	<u>Leashold improvements</u>	<u>Total</u>
Opening balance as at 1 January 2018	1,215,693	663,427	1,879,120
Additions	4,270	7,099	11,369
Closing balance as at 31 March 2018	<u>1,219,963</u>	<u>670,526</u>	<u>1,890,489</u>

<u>Accumulated Depreciation</u>			
Opening balance as at 1 January 2018	(947,052)	(661,416)	(1,608,468)
Period charge	(28,500)	(290)	(28,790)
Closing balance as at 31 March 2018	<u>(975,552)</u>	<u>(661,706)</u>	<u>(1,637,258)</u>
Carrying value as at 31 March 2018	<u>244,411</u>	<u>8,820</u>	<u>253,231</u>

<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	6,044	-	6,044
Closing balance as at 31 March 2017	<u>1,174,202</u>	<u>661,327</u>	<u>1,835,529</u>

<u>Accumulated Depreciation</u>			
Opening balance as at 1 January 2017	(746,715)	(661,327)	(1,408,042)
Period charge	(60,309)	-	(60,309)
Closing balance as at 31 March 2017	<u>(807,024)</u>	<u>(661,327)</u>	<u>(1,468,351)</u>
Carrying value as at 31 March 2017	<u>367,178</u>	<u>-</u>	<u>367,178</u>

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 28,790 (2017: TL 60,309) 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 2018	756,707	756,707
Additions	25,449	25,449
Closing balance as at 31 March 2018	782,156	782,156

<u>Accumulated Amortization</u>		
Opening balance as at 1 January 2018	(650,989)	(650,989)
Period charge	(3,081)	(3,081)
Closing balance as at 31 March 2018	(654,070)	(654,070)
Carrying value as at 31 March 2018	128,086	128,086

<u>Cost Value</u>	<u>Other intangible assets</u>	<u>Total</u>
Opening balance as at 1 January 2017	755,396	755,396
Closing balance as at 31 March 2017	755,396	755,396

<u>Accumulated Amortization</u>		
Opening balance as at 1 January 2017	(439,122)	(439,122)
Period charge	(47,722)	(47,722)
Closing balance as at 31 March 2017	(486,844)	(486,844)
Carrying value as at 31 March 2017	268,552	268,552

Amortization expenses of TL 3,081 (2017: TL 47,722) 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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

11. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

a) Provisions

As at 31 March 2018 and 31 December 2017 lawsuit details is as follows:

	31 March 2018	31 December 2017
Other short term provisions		
Lawsuit provision	108,968	108,968
	<u>108,968</u>	<u>108,968</u>
	Legal claims	Total
Balance at 1 January 2018	108,968	108,968
Additional provisions recognized	-	-
Balance at 31 March 2018	<u>108,968</u>	<u>108,968</u>
	Legal claims	Total
Balance at 1 January 2017	67,760	67,760
Additional provisions recognized	-	-
Balance at 31 March 2017	<u>67,760</u>	<u>67,760</u>

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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

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

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

31 March 2018		TL equivalent
A. CPMs given for Company’s own legal personality(*)		249,761,625
	-Collateral	99,761,625
	-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(**)		147,901,058
	-Collateral	147,901,058
	-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	-
Total		397,662,683

(*) The item consists of: A mortgage given to HalkBank Finance Tower amounting to TL 150,000,000 (31 December 2017: 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 2017: TL 92,825,625). Guarantee related to the loans used by the customers in the scope of Referans Bakırköy project amounting to TL 2,991,000 (31 December 2017: TL 2,991,000). VAT return and lawsuit for Eskişehir project respectively amounting to TL 2,251,227 (31 December 2017: TL 2,251,227). Collateral given to main contractor of Caddebostan Building amounting to TL 1,226,407 (31 December 2017: TL 1,226,407). Dedeman Hotel Project road construction participation amounting to TL 413,926 (31 December 2017: 395,375 TL). Guarantee letter given for Kocaeli project amounting to TL 13,440 (31 December 2017: 13,440 TL).

(**) The balance consist of Company being a guarantor for the customers of the Company’s joint operation Halk GYO&Vakıf GYO Joint Venture’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 Joint Venture 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 March 2018, pre-sales of Halk GYO&Vakıf GYO Joint Venture performed through this guarantee agreement amounted to TL 270,286,603. As of 31 March 2018, the risk of the Company is TL 78,651,218 from the pre-sales through this guarantee agreement. The proportion of other CPM to the Company’s equity is 4.16% as at 31 March 2018.

The balance also includes the Company being a guarantor for the customers of the Company’s joint operation Halk GYO&Erkonut Joint Venture’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 Joint Venture signed a general guarantee agreement with the agreed banks amounting to TL 255,000,000. The Company’s responsibility in this guarantee is TL 127,500,000. As of 31 March 2018, pre-sales of Halk GYO&Erkonut Joint Venture performed through the guarantee agreement amounted to TL 51,096,048. The risk of the Company is TL 16,499,840 from the pre-sales through this guarantee agreement as of 31 March 2018. The proportion of other relevant CPM to the Company’s equity is 0.87% as at 31 March 2018.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

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

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

As of 31 March 2018, per the transaction made under the scope of guarantorship related to Halk GYO-Teknik Yapı Joint Venture 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 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	-
Total		433,396,956

The proportion of other relevant CPM to the Company’s equity is 0% as of 31 March 2018.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

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

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

As of 31 March 2018 and 31 December 2017, the letters of gurantee received by the Company are as follows:

	31 March 2018	31 December 2017
YDA İnşaat San. Ve Tic. A.Ş. ⁽¹¹⁾	123,325,844	120,240,000
Buga Otis Asansör San. Ve Tic. A.Ş. ⁽¹⁴⁾	34,168,446	-
Haldız İnşaat Otomotiv ve Tic. Ltd. Şti. ⁽⁷⁾	19,925,000	24,023,490
Dedeman Turizm Yönetimi A.Ş. ⁽²⁾	19,469,200	18,062,000
Er Konut İnş. Taah. İnşaat Malz. Nak. ve Mad. Tic. A.Ş. ⁽⁹⁾	13,650,000	13,650,000
Sapaz Otelcilik Turizm İnşaat Sanayi Ve Ticaret A.Ş. ⁽⁸⁾	7,300,950	6,773,250
CNV Yapı Mimarlık San. Tic. Ltd. Şti. ⁽¹⁰⁾	1,450,000	1,610,000
Entegre Proje Yönetim Dan.Müh.Tic. A.Ş. ⁽⁴⁾	870,509	870,509
Biskon Yapı A.Ş. ⁽³⁾	300,000	300,000
Direk Reklam İnş. San. Tic. A.Ş. ⁽¹²⁾	235,410	211,542
Ceda Akaryakıt İnşaat Emlak Tur. Tic. Ltd. Şti. ⁽¹³⁾	200,000	200,000
YPU Yapı Proje Uygulama Ltd. Şti. ⁽⁷⁾	196,050	196,050
Mutlu Çilingiroğlu Miar Mimarlık İnş. San. Ve Tic. Ltd. Şti. ⁽⁷⁾	50,000	160,500
Other	198,265	213,860
	<u>221,339,674</u>	<u>186,511,200</u>

The proportion of other relevant CPM to the Company’s equity is 0% as of 31 March 2018.

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

⁽²⁾ The Company has received letter of gurantee from the lessee companies for Dedeman Otel Project.

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

⁽⁴⁾ The Company has received letter of gurantee from the suppliers for architectural and construction activities for İstanbul Financial Center (IFC) Project.

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

⁽⁶⁾ This company is the contractor of Eskişehir Panorama Project. In 2017 the gurantee letter was liquidated.

⁽⁷⁾ Letters of gurantee have been received from suppliers relating to architectural and construction operations of Bizimtepe Aydos project.

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

⁽⁹⁾ The Company has received a letter of gurantee for the Erzurum Şehristan Project.

⁽¹⁰⁾ This letter of gurantee has been received for urban transformation process of Caddebostan Building.

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

⁽¹²⁾ This letter of gurantee has been received for advertising contract from Direk Reklam İnş.San.Tic.A.Ş.

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

⁽¹⁴⁾ This letter of gurantee has been received from the supplier, Buga Otis Asansör San. Ve Tic. A.Ş. under the elevator and escalator project for Istanbul Finance Center (IFC)

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

12. EMPLOYEE BENEFITS

Short-term provisions for employee benefits

	31 March 2018	31 December 2017
Employee bonus accruals	803,198	632,336
Unused vacation accruals	399,091	338,467
	<u>1,202,289</u>	<u>970,803</u>

Long-term provisions for employee benefits

	31 March 2018	31 December 2017
Retirement pay provision	352,580	318,371
	<u>352,580</u>	<u>318,371</u>

Provision for retirement pay liability:

The movements of provision for retirement pay liability in the accounting periods for the years ended with 31 March 2018 and 31 December 2017, is as follows:

	1 January- 31 March 2018	1 January- 31 March 2017
Provision at 1 January	318,371	202,050
Service cost	31,274	96,802
Interest cost	2,935	1,410
Provision at 31 December	<u>352,580</u>	<u>300,262</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 March 2018 (31 December 2017: TL 5,001.76).

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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 March 2018, 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 2017: 3.74%) 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 31 March 2018 is used in the calculation of Company’s provision for retirement pay liability (1 January 2018: TL 5,001.76).

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 39,803 / TL (48,099). 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 15,074 / TL (13,160).

13. OTHER ASSETS AND LIABILITIES

	31 March 2018	31 December 2017
<u>Other current assets</u>		
Deferred value added tax (“VAT”)	20,243,855	17,515,717
Deposits and guarantees given	33,216	180,736
Business advances given	36,116	1,878
Other	1,186,927	1,164,607
	<u>21,500,114</u>	<u>18,862,938</u>
	31 March 2018	31 December 2017
<u>Other non-current assets</u>		
Deferred value added tax (“VAT”)	46,761,422	42,430,565
	<u>46,761,422</u>	<u>42,430,565</u>

(*) As of 31 March 2018, VAT receivable amounting to TL 46,761,422 (31 December 2017: TL 42,430,565), resulting from land purchase in Sancaktepe, project costs of Halk GYO-Erkonut Joint Venture in Erzurum, land purchase of Halk GYO-Erkonut Joint Venture 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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

13. OTHER ASSETS AND LIABILITIES (cont’d)

	31 March 2018	31 December 2017
<u>Other Current Liabilities</u>		
Deposits and guarantees received (*)	7,278,625	5,474,132
Taxes and funds payable	3,003,195	3,277,518
Other current liabilities	17,311	23,518
	<u>10,299,131</u>	<u>8,775,168</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 March 2018 and 31 December 2017 the share capital held is as follows:

Shareholders	Group	%	31 March 2018	%	31 December 2017
Halkbank	A	1.58	12,956,592	1.58	12,956,592
Halkbank(*)	B	70.4	577,134,085	70.38	577,134,085
Halk Yatırım Menkul Değerler A.Ş.	A	0.04	309,434	0.04	309,434
Halk Finansal Kiralama AŞ	A	<0,01	1	<0,01	1
Publicly traded	B	<u>28.00</u>	<u>229,599,888</u>	<u>28.00</u>	<u>229,599,888</u>
Nominal capital		100	820,000,000	100	820,000,000
Total capital			<u>820,000,000</u>		<u>820,000,000</u>

(*) Halkbank also has 60,387,845 B group shares with 7.36% in the publicly traded held group (31 December 2017: 60,387,845 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 790,000,000 shares amounting to TL 790,000,000. 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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 March 2018 (31 December 2016: 23,117,578 shares). The details of the treasury shares acquired for the period ended 31 March 2018 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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 March 2018, the Company’s restricted reserves are legal reserves amounting to TL 39,266,359 (31 December 2017: TL 39,266,359).

e) Dividends

As of 31 March 2018, the Company has not yet distributed cash dividends from the profit for the year of 2017 (2017: TL 2,915,412).

15. REVENUE AND COST OF SALES

	1 January- 31 March 2018	1 January- 31 March 2017
a) Sales		
Income on properties	15,677,112	19,918,234
Income from sale of residence	1,400,453	6,672,008
Rental income	14,276,659	13,246,226
Income on debt instruments	2,602,927	1,763,964
Interest income on deposits	2,602,927	1,480,184
Other	-	283,780
	18,280,039	21,682,198
	1 January- 31 March 2018	1 January- 31 March 2017
b) Cast of sales		
Cost of residence sales	646,956	3,779,817
Property tax expenses	119,300	19,008
Other	269,000	132,179
	1,035,256	3,931,004

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

16. EXPENSES BY NATURE

	1 January- 31 March 2018	1 January- 31 March 2017
Personnel expenses	1,990,721	1,822,412
Cost of residence sales	646,956	3,779,817
Advertisement expenses	558,618	530,453
Outsource servise expenses	365,909	144,115
Travel and car expenses	342,308	474,875
Taxes and duties	179,961	148,025
Rent expenses	141,017	124,233
Property tax expenses	119,300	19,008
Consulting expenses	114,070	137,165
Depreciation and amortization expenses	31,871	108,031
Stationery and IT related expenses	36,085	19,720
Commission expenses	7,425	703,508
Maintanance and repair expenses	5,076	3,965
Other	449,329	246,071
	<u>4,988,646</u>	<u>8,261,398</u>

17. GENERAL ADMINISTRATIVE EXPENSES, MARKETING AND SALES EXPENSES

	1 January- 31 March 2018	1 January- 31 March 2017
General administrative expenses (-)	3,554,081	3,151,601
Marketing and selling expenses (-)	399,309	1,178,793
	<u>3,953,390</u>	<u>4,330,394</u>

a) Detail of general administrative expenses

	1 January- 31 March 2018	1 January- 31 March 2017
Personnel expenses	1,990,721	1,822,412
Outsource servise expenses	365,909	144,115
Travel and car expenses	342,308	474,875
Advertisement expenses	335,093	156,474
Taxes and duties	176,856	146,763
Rent expenses	141,017	124,233
Consulting expenses	114,070	137,165
Stationery and IT related expenses	36,085	19,720
Depreciation and amortization expenses	31,871	108,031
Maintanance and repair expenses	5,076	3,965
Other	15,075	13,848
	<u>3,554,081</u>	<u>3,151,601</u>

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

17. GENERAL ADMINISTRATIVE EXPENSES, MARKETING AND SALES EXPENSES (cont’d)

<u>Detail of personnel expenses</u>	<u>1 January- 31 March 2018</u>	<u>1 January- 31 March 2017</u>
Wages and salaries	1,376,763	1,218,478
Social Security Institution employer's shares	218,800	159,164
Attendance fee	103,803	132,941
Employee benefits provision	95,447	107,362
Insurance expense	84,193	67,780
Other	111,715	136,687
	<u>1,990,721</u>	<u>1,822,412</u>
<u>b) Detail of marketing expenses</u>	<u>1 January- 31 March 2018</u>	<u>1 January- 31 March 2017</u>
Advertisement expenses	223,525	373,979
Commission expenses	7,425	703,508
Taxes and duties	3,105	1,262
Other	165,254	100,044
	<u>399,309</u>	<u>1,178,793</u>

18. OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

The details of other income from operating activities for the periods ended 31 March 2018 and 31 March 2017 are as follows:

	<u>1 January- 31 March 2018</u>	<u>1 January- 31 March 2017</u>
Foreign exchange gains	799,177	696,713
Provisions reversed	251,999	-
Other income	50,184	-
	<u>1,101,360</u>	<u>696,713</u>

The details of other expenses from operating activities for the periods ended 31 March 2018 and 31 March 2017 are as follows:

	<u>1 January- 31 March 2018</u>	<u>1 January- 31 March 2017</u>
Foreign exchange losses	(104,687)	(191,403)
Donations	-	(2,600,000)
	<u>(104,687)</u>	<u>(2,791,403)</u>

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

19. FINANCE EXPENSES

	1 January- 31 March 2018	1 January- 31 March 2017
Interest expenses on bank loans	1,144,013	-
Interest expenses on short term bonds	755,825	-
Interest expenses on short term lease certificates	2,543,323	-
Commission expenses	97,426	315,353
	<u>4,540,587</u>	<u>315,353</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.

21. EARNINGS PER SHARE

	1 January- 31 March 2018	1 January- 31 March 2017
Earning per share		
Weighted average number of shares	820,000,000	790,000,000
Net profit for the period	9,747,479	11,010,757
Earnings per share	0.0119	0.0139

22. FINANCIAL INSTRUMENTS

Financial Liabilities

	31 March 2018	31 December 2017
Financial Borrowings		
a) Borrowing Instruments	200,393,718	197,215,447
b) Bank Loans	30,951,121	29,698,973
c) Borrowings from financial leases (*)	25,600,883	-
	<u>256,945,722</u>	<u>226,914,420</u>

(*) The Company signed an agreement with Buga Otis Asansör Sanayi ve Ticaret A.Ş. within the scope of service procurement for vertical transports (elevator and escalator) in Halk Office Towers to be built related to the project of Istanbul International Finance Center and signed financial lease agreement with Halk Finansal Kiralama A.Ş. for relevant service procurement.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

22. FINANCIAL INSTRUMENTS (cont’d)

Financial Liabilities (cont’d)

	31 March 2018	31 December 2017
a) Borrowing instruments		
<i>Short term lease certificates(*)</i>	125,624,110	100,435,616
<i>Short term bonds(**)</i>	74,769,608	96,779,831
	<u>200,393,718</u>	<u>197,215,447</u>

(*)On 16 March 2018 and 23 March 2018, the Company sold lease certificates amounting to TL 125,000,000 at par with interest rate of 13.40% and maturity date of 20 June 2018.

(**)On 30 March 2018, the Company issued finance bonds amounting to TL 75,000,000 at par with interest rate of 14.85% and maturity date of 19 September 2018.

	31 March 2018	31 December 2017
b) Bank Loans		
Short term bank loans	21,483,972	19,581,472
Short term portion of long term bank loans	3,396,669	3,397,671
Long term bank loans	6,070,480	6,719,830
	<u>30,951,121</u>	<u>29,698,973</u>

Details of financial liabilities interest rate are as follows:

Financial Instrument	Currency	Nominal interest rate	31 March 2018	
			Short term	Long term
Lease certificate	TL	13.40%	125,624,110	-
Bond	TL	14.85%	74,769,608	-
Floating rate loans	TL	16.97%	21,483,972	-
Financial lease agreement	EUR	5.10%	9,208,030	16,392,853
Fixed rate loan	TL	8.00%	3,396,669	6,070,480
			<u>234,482,389</u>	<u>22,463,333</u>

Financial Instrument	Currency	Nominal interest rate	31 December 2017	
			Short term	Long term
Lease certificate	TL	13.25%	100,435,616	-
Bond	TL	14.10%	96,779,831	-
Floating rate loan	TL	15.86%	19,581,472	-
Fixed rate loan	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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

22. FINANCIAL INSTRUMENTS (cont’d)

Financial Liabilities (cont’d)

Maturities of bank borrowings are as follows:

	31 March 2018	31 December 2017
Less than 1 year	234,482,389	220,194,590
Between 1-2 years	11,824,700	3,073,780
Between 2-3 years	10,419,403	2,779,682
Between 3-4 years	219,230	866,368
	<u>256,945,722</u>	<u>226,914,420</u>

23. NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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 2018, the Company’s strategy has not been changed from 2017. The gearing ratios at 31 March 2018 and 31 December 2017 were as follows:

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

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

a) Capital risk management (cont’d)

	31 March 2018	31 December 2017
Financial liabilities	256,945,722	226,914,420
Less: Cash and cash equivalents	(53,788,636)	(123,145,273)
Net debt	203,157,086	103,769,147
Total equity	1,888,465,499	1,879,401,652
Total share capital	820,000,000	820,000,000
Gearing ratio	25%	13%

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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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

	Receivables				Deposits at Banks
	Trade Receivables		Other Receivables		
31 March 2018	Related Parties	Other	Related Parties	Other	
Maximum credit risk exposed as of balance sheet date (A+B+C+D) (*)	1,196	31,530,557	-	-	53,788,636
- Secured portion of the maximum credit risk by guarantees (**)	-	1,863,999	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	1,196	31,530,557	-	-	53,788,636
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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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>	
31 December 2017					
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.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 March 2018

<u>Contractual Terms</u>	<u>Carrying value</u>	<u>Total Contractual</u>	<u>Less than 3</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>
		<u>Cash Outflows</u> <u>(I+II+III+IV)</u>	<u>months (I)</u>	<u>(II)</u>	<u>(III)</u>
Non-derivative financial liabilities					
Bank loans	30,951,121	33,417,442	22,378,982	2,685,031	8,353,429
Debt security issuance	200,393,718	203,158,433	203,158,433	-	-
Financia lease liabilities	25,600,883	27,495,378	2,356,747	7,070,240	18,068,391
Trade payables	21,042,429	21,042,429	21,042,429	-	-
Other liabilities	10,299,131	10,299,131	10,299,131	-	-
Total liabilities	288,287,282	295,412,813	259,235,722	9,755,271	26,421,820

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

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

Liquidity risk table (cont’d):

31 December 2017

<u>Contractual Terms</u>	<u>Carrying value</u>	<u>Total Contractual</u>	<u>Less than 3</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>
		<u>Cash Outflows</u>			
		<u>(I+II+III+IV)</u>			
Non-derivative financial liabilities					
Bank loans	29,698,973	31,514,942	20,476,482	2,685,031	8,353,429
Debt security issuance	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	8,775,168	8,775,168	-	-
Total liabilities	253,715,545	261,474,500	250,436,040	2,685,031	8,353,429

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:

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**NOTES TO THE REVIEWED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2018**

(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 March 2018		
		US Dollar	Euro	GBP
1. Trade Receivables	-	-	-	-
2a. Monetary Financial Assets	8,785,345	-	1,804,973	-
2b. Non-monetary Financial Assets	-	-	-	-
3. Other	-	-	-	-
4. CURRENT ASSETS	8,785,345	-	1,804,973	-
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-
7. Other	-	-	-	-
8. NON-CURRENT ASSETS	-	-	-	-
9. TOTAL ASSETS	8,785,345	-	1,804,973	-
10. Trade Payables	-	-	-	-
11. Financial Liabilities	-	-	-	-
12a. Monetary Other Liabilities	-	-	-	-
12b. Non-Monetary Other Liabilities	-	-	-	-
13. CURRENT LIABILITIES	-	-	-	-
14. Trade Payables	-	-	-	-
15. Financial Liabilities	25,600,883	-	5,259,771	-
16a. Monetary Other Liabilities	1,244	315	-	-
16b. Non-Monetary Other Liabilities	-	-	-	-
17. NON-CURRENT LIABILITIES	25,602,127	315	5,259,771	-
18. TOTAL LIABILITIES	25,602,127	315	5,259,771	-
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	(16,816,782)	(315)	(3,454,798)	-
21. Monetary Items Net Foreign Currency Assets / Liabilities (1+2a+5+6a-10-12a-14-15-16a)	(16,816,782)	(315)	(3,454,798)	-

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**NOTES TO THE REVIEWED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2018**

(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)***

	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-14-15-16a)	9,077,052	(315)	2,009,438	910

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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.

	31 March 2018			
	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	(124)	124	(124)	124
2- US Dolar hedges (-)	-	-	-	-
3- Net effect of US Dollar (1 +2)	(124)	124	(124)	124
In case of Euro increases in 10% against TL				
4 - Euro net asset/liability	(1,681,554)	1,681,554	(1,681,554)	1,681,554
5 - Euro hedges (-)	-	-	-	-
6- Net effect of Euro (4+5)	(1,681,554)	1,681,554	(1,681,554)	1,681,554
In case of GBP increases in 10% against TL				
7 - GBP net asset/liability	-	-	-	-
8 - GBP hedges (-)	-	-	-	-
9- Net effect of GBP (7+8)	-	-	-	-
	(1,681,678)	1,681,678	(1,681,678)	1,681,678

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(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 (cont’d)

	31 December 2017			
	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 (-)	-	-	-	-
3- Net effect of US Dollar (1 +2)	(119)	119	(119)	119
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 (-)	-	-	-	-
6- Net effect of Euro (4+5)	907,362	(907,362)	907,362	(907,362)
In case of GBP increases in 10% against TL				
7 - GBP net asset/liability	462	(462)	462	(462)
8 - GBP hedges (-)	-	-	-	-
9- Net effect of Euro (7+8)	462	(462)	462	(462)
	907,705	(907,705)	907,705	(907,243)

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:

	31 March 2018	31 December 2017
Fixed interest rate instruments		
Financial liabilities	235,461,750	207,332,948
Floating interest rate instruments		
Financial liabilities	21,483,972	19,581,472

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

24. FINANCIAL INSTRUMENTS (FAIR VALUE DISCLOSURES)

31 March 2018	Loans and receivables	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>				
Cash and cash equivalents	53,788,636	-	53,788,636	26
Trade receivables	31,531,753	-	31,531,753	5
<u>Financial liabilities</u>				
Borrowings	-	256,945,722	256,945,722	22
Trade payables	-	20,204,628	20,204,628	5
Due to related parties	-	837,801	837,801	4

31 December 2017	Loans and receivables	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>				
Cash and cash equivalents	123,145,273	-	123,145,273	26
Trade receivables	42,502,681	-	42,502,681	5
<u>Financial liabilities</u>				
Borrowings	-	226,914,420	226,914,420	22
Trade payables	-	17,609,234	17,609,234	5
Due to related parties	-	416,723	416,723	4

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

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

According to the decision of the Board of Directors taken after the Ordinary General Meeting of 2017 as at 26 April 2018; it is decided to TL 38,000,000 will be distributed as bonus shares from the distributable profit of the period after TL 2.258.321 is appropriated as the first legal reserve from 5% profit of 2017. As a result of this decision, the issued capital was increased by 4,63414% from TL 820,000,000 to TL 858,000,000 within the registered capital ceiling of TL 1,500,000,000.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

26. NOTES ON STATEMENT OF CASH FLOWS

	31 March 2018	31 December 2017
Banks	53,758,136	123,138,273
<i>Demand deposits (*)</i>	<i>1,263,417</i>	<i>623,757</i>
<i>Time deposits with maturity less than three months</i>	<i>52,607,849</i>	<i>122,514,516</i>
<i>Expected credit loss (-)</i>	<i>(113,130)</i>	-
Other liquid assets (**)	30,500	7,000
Cash and cash equivalents in the statement of financial position	53,788,636	123,145,273
Less: Interest income accruals on cash equivalents	<i>(337,251)</i>	<i>(524,510)</i>
<i>Cash and cash equivalents in the statement of cash flows</i>	<i>53,451,385</i>	<i>122,620,763</i>

(*)As at 31 March 2018 and 31 December 2017 there is a blocked amount for salary payments to personnel from demand deposits.

(**)As at 31 March 2018 and 31 December 2017, other liquid assets consist of credit card receivables from sales of residential units of Bizimtepe Aydos and Erzurum Şehristan projects.

As at 31 March 2018 and 31 December 2017, the details of time deposits at banks are as follows:

31 March 2018	Amount	Interest rate	Maturity
Time deposits			
TL	9,568,356	9.00%	2 April 2018
TL	7,999,765	10.00%	2 April 2018
TL	10,104,216	14.75%	13 April 2018
TL	20,208,433	14.80%	20 April 2018
TL	119,792	14.90%	25 April 2018
TL	157,929	14.00%	25 April 2018
EUR	1,184,290	2.20%	27 April 2018
TL	1,757,534	14.00%	2 May 2018
TL	1,507,534	14.85%	20 June 2018
	52,607,849		

31 December 2017	Amount	Interest rate	Maturity
Time deposits			
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	9.00%	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		

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

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

One of the 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.

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 (cont’d)

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 March 2018, 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 communique 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 2017: There is no non-compliance).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE REVIEWED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2018

(Amounts expressed in Turkish Lira (“TL”))

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

	Financial statement primary account items	Regulations	31 March 2018 (TL)	31 December 2017 (TL)
A	Money and capital market instruments	Serial: III-48.1, Article 24/(b)	53,788,636	123,145,273
B	Real estates, based on real estates, rights based on real estates	Serial: III-48.1, Article24/(a)	2,173,074,177	2,080,389,207
C	Subsidiaries	Serial: III-48.1, Article24/(b)	--	--
	Due from related parties (non-trade)	Serial: III-48.1, Article23/(f)	--	--
	Other assets		198,179,991	173,399,260
D	Total Assets	Serial: III-48.1, Article3/(k)	2,425,042,804	2,376,933,740
E	Loans and borrowings	Serial: III-48.1, Article31	231,344,840	226,914,420
F	Other financial liabilities	Serial: III-48.1, Article31	--	--
G	Financial leasing obligations	Serial: III-48.1, Article31	25,600,882	--
H	Due to related parties (non-trade)	Serial: III-48.1, Article23/(f)	--	--
İ	Equity	Serial: III-48.1, Article31	1,888,465,499	1,879,401,652
	Other liabilities		279,631,583	270,617,668
D	Total liabilities and equity	Serial: III-48.1, Article3/(k)	2,425,042,804	2,376,933,740
	Other financial information		31 March 2018 (TL)	31 December 2017 (TL)
A1	Portion of money and capital markets instruments for real estate payments of 3 years	Serial: III-48.1, Article24/(b)	--	--
A2	Time deposit/ demand deposit/ TL / foreign currency	Serial: III-48.1, Article24/(b)	53,758,136	123,138,273
A3	Foreign capital market instruments	Serial: III-48.1, Article24/(d)	--	--
B1	Foreign real estates, based on real estates projects, rights for real estates	Serial: III-48.1, Article24/(d)	--	--
B2	Idle land	Serial: III-48.1, Article24/(c)	--	--
C1	Foreign Subsidiaries	Serial: III-48.1, Article24/(d)	--	--
C2	Investment in the operating company	Serial: III-48.1, Article28	--	--
J	Non-cash loans	Serial: III-48.1, Article31	247,662,683	283,396,956
K	Mortgage amounts on land that project to be developed but the ownership does not belong the entity	Serial: III-48.1, Article22/(e)	--	--
L	Total investments of money and capital market instruments at one company	Serial: III-48.1, Article 22/(l)	--	--

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**NOTES TO THE REVIEWED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2018**

(Amounts expressed in Turkish Lira (“TL”))

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

	Portfolio Restrictions	Regulations	Calculation	Min/Max Rate	31 March 2018 (TL)	31 December 2017 (TL)
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	89.61%	87.52%
3	Money and capital market instruments and associates	Serial: III-48.1, Article24/(b)	(A+C-A1)/D	Maximum %49	2.22%	5.18%
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)/İ	Maximum %500	26.72%	27.15%
8	Time Deposit/ Demand Deposit/ TL / Foreign Currency	Serial: III-48.1, Article24/(b)	(A2-A1)/D	Maximum %10	2.22%	5.18%
9	Total investments of money and capital market instruments at one company	Serial: III-48.1, Article 22/(l)	L/D	Maximum %10	--	--