

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

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

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2018  
AND INDEPENDENT  
AUDITOR'S REPORT

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

**INDEPENDENT AUDITOR’S REPORT**

To the General Assembly of  
Halk Gayrimenkul Yatırım Ortaklığı A.Ş

**A) Independent Audit of Financial Statements**

**1) Opinion**

We have audited the accompanying financial statements of Halk Gayrimenkul Yatırım Ortaklığı A.Ş. (“the Company”), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Halk Gayrimenkul Yatırım Ortaklığı A.Ş. as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards.

**2) Basis for Opinion**

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

**3) Emphasis of Matter**

We draw attention to the following:

As detailed in Note 27, one of the former directors of the Company’s main shareholder, Türkiye Halk Bankası A.Ş. (main shareholder Bank) has been convicted and imprisoned for some of the charges by the court in the United States of America (“USA”) as of 16 May 2018. 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 opinion is not modified in respect of this matter.

#### 4) Key Audit Matters

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

Key Audit Matter	How this issue was addressed in the audit
<p><b>1) Presentation of investment properties in the financial statements and significant disclosures</b></p> <p>The Company accounts for its investment properties at fair value.</p> <p>The fair values of the investment properties presented in the financial statements amounting to TL 2,288,772,410 as of 31 December 2018 have been determined by an independent appraiser firm.</p> <p>Due to the fact that approximately 87% of the Company's total assets consist of investment properties and valuation methods applied at fair value include significant estimates and assumptions, we have determined the accuracy of work performed for determination of fair value of the investment properties and principles related to presentation of investment properties in the financial statements as a key audit matter.</p> <p>(For the respective accounting policy please refer to "Note 2 Summary of Significant Accounting Policies" and for the details of investment properties please refer to Note 8)</p>	<p>The following procedures were performed within the scope of our audit work:</p> <ul style="list-style-type: none"> <li>• As part of our Audit procedures, we evaluated the design and implementation of the key controls of the Company's management over the independent appraisal reports.</li> <li>• The qualifications, competencies and impartiality of real estate appraisers appointed by the management have been evaluated.</li> <li>• The appropriateness of methods used by the Company's appraisers in their valuation reports for investment properties.</li> <li>• The reconciliation of the amounts disclosed in note 8 for investment properties and the values determined by the appraisers in their reports.</li> <li>• The assumptions used by independent appraisers (including rate of increase, real discount rate, market rents and estimated occupancy rates) include the analysis of the market data in their determination of fair value of investment properties. We have engaged another independent external expert (real estate appraiser) on a sampling basis in our work in order to assess such analysis.</li> <li>• In line with the above procedures, we have evaluated as to whether the values appreciated by valuation specialists are within an acceptable range, considering the existence of high level judgments used in valuation reports, as well as alternative estimates and valuation techniques.</li> <li>• Additionally, the appropriateness of the information disclosed in the financial statements and in the explanatory notes was controlled taking into consideration the significance of the disclosures to draw attention of the users..</li> </ul>
<p><b>2) Inventories</b></p> <p>Inventories amounting to TL 103,021,423 which were accounted for under current assets in the financial statements of the Company consist of costs of lands on which development of various construction projects are planned in a short term and on which project development and construction activities have already begun.</p> <p>We have determined project inventories as a key audit matter evaluating that they form a significant balance in the Company's total assets and also taking the accounting principles applied for acquisition and other costs into consideration.</p> <p>(For the respective accounting policy, please refer to "Note 2 Summary of Significant Accounting Policies" and Note 6 for details of inventories.)</p>	<p>We have performed the following within the scope of our audit procedures:</p> <ul style="list-style-type: none"> <li>• Comparison of the construction and development costs incurred in the current period with underlying documentation such as invoices and interim payment certificates on a sampling basis.</li> <li>• Testing of disposal of inventories as a result of sales and recording of related costs in profit or loss using sampling method,</li> <li>• Control of the net realizable value of inventories using appraisal reports and realised sales.</li> </ul>

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

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

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

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

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

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

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

As part of an audit in accordance with Standards on Independent Auditing as published by the Capital Markets Boards and SIA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

## **6) Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)**

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

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

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

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

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

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 (“TCC”), the auditor’s report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 14 February 2019.

In accordance with paragraph four of the Article 402 of the TCC, nothing has come to our attention that may cause us to believe that the Company’s set of accounts and financial statements prepared for the period 1 January-31 December 2018 does not comply with the TCC and the provisions of the Company’s articles of association in relation to financial reporting.

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

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

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

Hasan Kılıç, SMMM  
Partner

İstanbul, 14 February 2019

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**HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.****AUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018**

(Amounts expressed in Turkish Lira (TL))

	<b>Notes</b>	<b>Audited 31 December 2018</b>	<b>Audited 31 December 2017</b>
<b>ASSETS</b>			
<b>Current Assets</b>		<b>210,964,848</b>	<b>432,080,905</b>
Cash and Cash Equivalents	26	28,825,032	123,145,273
Trade Receivables	5	9,757,225	36,703,574
<i>Trade Receivables From Related Parties</i>	4	627	148,189
<i>Trade Receivables From Third Parties</i>		9,756,598	36,555,385
Inventory	6	103,021,423	252,004,404
Prepaid Expenses	7	647,577	318,312
<i>Prepaid Expenses To Related Parties</i>		298,429	103,490
<i>Other prepaid expenses</i>		349,148	214,822
Current Tax Assets		1,021,383	1,046,404
Other Current Assets	13	67,692,208	18,862,938
<i>Other Current Assets</i>		67,692,208	18,862,938
<b>Non-Current Assets</b>		<b>2,415,914,637</b>	<b>1,944,852,835</b>
Trade Receivables	5	6,216,382	5,799,107
<i>Trade Receivables From Third Parties</i>		6,216,382	5,799,107
Investment Property	8	2,288,772,410	1,828,384,803
Property, Plant and Equipment	9	800,320	270,652
Intangible Assets	10	346,313	105,718
<i>Other Intangible Assets</i>		346,313	105,718
Prepaid Expenses	7	118,829,008	67,861,990
<i>Other Prepaid Expenses</i>		118,829,008	67,861,990
Other Non-Current Assets	13	950,204	42,430,565
<i>Other Non-Current Assets From Third Parties</i>		950,204	42,430,565
<b>TOTAL ASSETS</b>		<b>2,626,879,485</b>	<b>2,376,933,740</b>

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



**HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.****AUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018**

(Amounts expressed in Turkish Lira (TL))

<b>LIABILITIES</b>	<b>Notes</b>	<b>Audited 31 December 2018</b>	<b>Audited 31 December 2017</b>
<b>Current Liabilities</b>		<b>333,968,195</b>	<b>490,493,887</b>
Financial Borrowings		293,920,037	216,796,919
Current Portion of Long Term Borrowings	22	3,397,826	3,397,671
<i>Short Term Financial Borrowings From Related Parties</i>		3,397,826	3,397,671
Trade Payables	5	15,628,217	18,025,957
<i>Trade Payables To Related Parties</i>	4	79,078	416,723
<i>Trade Payables To Third Parties</i>		15,549,139	17,609,234
Deferred Income	7	10,116,377	242,418,401
<i>Deferred Income From Third Parties</i>		10,116,377	242,418,401
Provisions		1,549,747	1,079,771
<i>Short Term Portion of Provisions</i>			
<i>Relating to Employee Benefits</i>	12	1,262,500	970,803
<i>Other Current Provisions</i>	11	287,247	108,968
Other Current Liabilities		9,355,991	8,775,168
<i>Other Current Liabilities</i>	13	9,355,991	8,775,168
<b>Non-Current Liabilities</b>		<b>17,836,274</b>	<b>7,038,201</b>
Financial Borrowings	22	17,306,339	6,719,830
<i>Long Term Financial Borrowings From Related Parties</i>		17,306,339	6,719,830
Long Term Provisions	12	529,935	318,371
<i>Long Term Portion of Provisions</i>			
<i>Relating to Employee Benefits</i>		529,935	318,371
<b>EQUITY</b>		<b>2,275,075,016</b>	<b>1,879,401,652</b>
Share Capital	14	858,000,000	820,000,000
Treasury Shares	14	(24,188,879)	(23,117,578)
Share premium		49,945,096	49,945,096
Other comprehensive income that will not be reclassified to profit or loss		(81,503)	13,198
- <i>Gains on Remeasurement of Defined Benefit Plans</i>		(81,503)	13,198
Restricted Reserves	14	42,011,650	39,266,359
Retained Earnings		954,587,570	741,185,806
Net Profit For The Period		394,801,082	252,108,771
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,626,879,485</b>	<b>2,376,933,740</b>

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

**HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.****AUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2018**

(Amounts expressed in Turkish Lira (TL))

		<b>Audited</b>	<b>Audited</b>
		<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
	<b>Notes</b>		
Revenue	15	319,158,974	82,240,682
Cost of Sales	15	(203,170,190)	(15,812,566)
<b>GROSS PROFIT</b>		<b>115,988,784</b>	<b>66,428,116</b>
General administrative expenses (-)	17	(12,811,718)	(11,584,483)
Marketing and selling expenses (-)	17	(4,671,801)	(3,421,687)
Other operating income from operating activities	18	6,316,561	2,932,688
Other operating expenses from operating activities (-)	18	(1,861,940)	(4,426,514)
<b>OPERATING PROFIT</b>		<b>102,959,886</b>	<b>49,928,120</b>
Investment Property Revaluation Gains		<b>306,881,143</b>	<b>207,300,100</b>
<b>FİNANSMAN GİDERİ ÖNCESİ FAALİYET KARI/ZARARI</b>		<b>409,841,029</b>	<b>257,228,220</b>
Finance costs (-)	19	(15,039,947)	(5,119,449)
<b>PROFIT BEFORE TAX</b>		<b>394,801,082</b>	<b>252,108,771</b>
<b>NET PROFIT FOR THE PERIOD</b>		<b>394,801,082</b>	<b>252,108,771</b>
Earnings per share		0.4601	0.3074
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Other comprehensive income that will not be reclassified to profit or loss</b>			
Gains/(Losses) on Remeasurement of Defined Benefit Plans		(94,701)	12,549
		(94,701)	12,549
<b>OTHER COMPREHNSIVE INCOME/(LOSS)</b>		<b>(94,701)</b>	<b>12,549</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>394,706,381</b>	<b>252,121,320</b>

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

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

	Notes	Share Capital	Treasury Shares	Share Premium	Other Comprehensive Income That Will Not Be Reclassified to Profit or Loss	Accumulated Profits			Equity
					Accumulated Gains/(Losses) on Remeasurement of Defined Benefit Plans	Restricted Reserves	Retained Earnings	Net Profit For The Period	
<b>Balance at 1 January 2017</b>		<b>790,000,000</b>	<b>(22,271,814)</b>	<b>49,945,096</b>	<b>649</b>	<b>37,486,655</b>	<b>667,368,102</b>	<b>107,667,056</b>	<b>1,630,195,744</b>
Transfers		-	-	-	-	1,779,704	105,887,352	(107,667,056)	-
Total Comprehensive Income		-	-	-	12,549	-	-	252,108,771	<b>252,121,320</b>
Capital Increase		30,000,000	(845,764)	-	-	-	(29,154,236)	-	-
Dividends	1	-	-	-	-	-	(2,915,412)	-	<b>(2,915,412)</b>
<b>Balance at 31 December 2017</b>		<b>820,000,000</b>	<b>(23,117,578)</b>	<b>49,945,096</b>	<b>13,198</b>	<b>39,266,359</b>	<b>741,185,806</b>	<b>252,108,771</b>	<b>1,879,401,652</b>
<b>Balance at 1 January 2018</b>		<b>820,000,000</b>	<b>(23,117,578)</b>	<b>49,945,096</b>	<b>13,198</b>	<b>39,266,359</b>	<b>741,185,806</b>	<b>252,108,771</b>	<b>1,879,401,652</b>
Effect of policy changes in IFRS 9	2	-	-	-	-	-	(683,632)	-	<b>(683,632)</b>
Effect of policy changes in IFRS 15	2	-	-	-	-	-	5,343,485	-	<b>5,343,485</b>
<b>Restated balance at 1 January 2018</b>		<b>820,000,000</b>	<b>(23,117,578)</b>	<b>49,945,096</b>	<b>13,198</b>	<b>39,266,359</b>	<b>745,845,659</b>	<b>252,108,771</b>	<b>1,884,061,505</b>
Transfers		-	-	-	-	2,745,291	249,363,480	(252,108,771)	-
Total Comprehensive Income		-	-	-	(94,701)	-	-	394,801,082	<b>394,706,381</b>
Capital Increase		38,000,000	(1,071,301)	-	-	-	(36,928,699)	-	-
Dividends	1	-	-	-	-	-	(3,692,870)	-	<b>(3,692,870)</b>
<b>Balance at 31 December 2018</b>		<b>858,000,000</b>	<b>(24,188,879)</b>	<b>49,945,096</b>	<b>(81,503)</b>	<b>42,011,650</b>	<b>954,587,570</b>	<b>394,801,082</b>	<b>2,275,075,016</b>

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

**HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.****AUDITED STATEMENT OF CASH FLOWS  
FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2018**

(Amounts expressed in Turkish Lira (TL))

		<b>Audited 1 January- 31 December 2018</b>	<b>Audited 1 January- 31 December 2017</b>
<b>Cash flows from operating activities</b>	<b>Notes</b>		
<b>A. Cash flows from operating activities</b>			
<b>Profit/loss for the year</b>		<b>394,801,082</b>	<b>252,108,771</b>
<b>Adjustments to reconcile profit/loss for the year</b>			
- Adjustments related to depreciation and amortization expenses	9-10	176,142	412,293
- Adjustments related to provisions	11-12	280,265	327,177
- Adjustments related to interest income and expenses	15-19	8,302,226	(2,371,618)
- Adjustments related to fair value gains / losses	8	(306,881,143)	(207,300,100)
<b>Changes in working capital</b>			
- Adjustments related to increase/decrease in inventories	6	148,982,981	(99,183,502)
- Adjustments related to increase/decrease in trade receivables		26,529,074	(5,613,101)
- Adjustments related to increase/decrease in prepaid expenses		(51,296,283)	(11,665,431)
- Adjustments related to increase/decrease in other assets		(7,323,888)	(26,824,808)
- Adjustments related to increase/decrease in trade payables		(2,397,740)	17,491,755
- Adjustments related to increase/decrease in deferred revenue		(226,958,539)	52,357,771
- Adjustments related to increase/decrease in other liabilities		662,735	3,599,386
<b>Cash generated from operations</b>		<b>(15,123,088)</b>	<b>(26,661,407)</b>
Interest received		5,234,204	7,276,915
Other		(157,964)	1,779
		<b>(10,046,848)</b>	<b>(19,382,713)</b>
<b>B. Cash flows from investing activities</b>			
Cash outflows for purchase of property, plant and equipment and intangible assets	9-10	(946,405)	(50,946)
Cash outflows for investment properties	8	(157,743,064)	(116,139,662)
Cash inflows from sales of investment properties	8	4,236,600	862,650
		<b>(154,452,869)</b>	<b>(115,327,958)</b>
<b>C. Cash flows from financing activities</b>			
Proceeds from borrowings	22	694,580,081	257,808,062
Cash used for repayment of borrowings	22	(606,870,299)	(43,443,605)
Dividends paid	1	(3,692,870)	(2,915,412)
Interest paid		(13,536,430)	(4,905,297)
		<b>70,480,482</b>	<b>206,543,748</b>
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>		<b>(94,019,235)</b>	<b>71,833,077</b>
<b>D. Cash and cash equivalents at the beginning of the period</b>		<b>122,620,763</b>	<b>50,787,686</b>
<b>Cash and cash equivalents at the end of the period (A+B+C+D)</b>	<b>26</b>	<b>28,601,528</b>	<b>122,620,763</b>

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

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 operations will be referred as (“Company”) in this report (additionally please see Note 2.1 and 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 858,000,000 of which TL 196,217,979 was paid in cash whereas TL 513,282,021 was paid in kind, TL 110,500,000 was from reserves internally appropriated and TL 38,000,000 was incorporated from retained earnings.

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

As at 31 December 2018, the number of personnel employed in the Company is 38 (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 has applied to the CMB on 29 August 2012 to increase the issued capital from TL 477,000,000 to TL 662,500,000 within TL 1,500,000,000 registered capital ceiling, by initial public offering of the increase of TL 185,500,000 B group bearer shares. The application was approved in accordance with the CMB’s decision numbered 4/97 on 8 February 2013. During 13-15 February 2013, TL 185,500,000 B group shares offered to public by restricting the preemptive rights of the existing shareholders. After the collection of the investors demand, the Company’s shares started to be traded on İstanbul Stock Exchange with HLGYO title as of 22 February 2013.

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

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

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

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

As of 8 June 2018, the Company increased its share capital to TL 858,000,000 by transferring TL 38,000,000 from prior years’ profit to share capital.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

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

As at 16 March 2018 and 23 March 2018, the Company sold lease certificates with nominal value of TL 125,000,000 with a maturity date of 20 June 2018 and an interest rate of 13.40%, with a cash inflow at the amount of TL 125,000,000 from this issue. As at 20 June 2018, the Company has realized the repayment of this transaction at the amount of TL 129,345,233.

As at 30 March 2018, the Company issued finance bonds with nominal value of TL 80,000,000 with a maturity date of 19 September 2018 and an interest rate of 14.85%, with a cash inflow at the amount of TL 74.739.200 from this issue. As at 19 September 2018, the Company has realized the repayment of this transaction at the amount of TL 80,000,000.

As at 20 June 2018, the Company issued lease certificates with nominal value of TL 125,000,000 with a maturity date of 19 September 2018 and an interest rate of 17.00%, with a cash inflow at the amount of TL 125,000,000 from this issue. As at 19 September 2018, the Company has realized the repayment of this transaction at the amount of 130,297,945.

As at 19 September 2018, the Company issued finance bonds with nominal value of TL 50,00,000 with a maturity date of 21 December 2018 and an interest rate of 28.50% with a cash inflow at the amount of TL 46,615,000, from this issue. As at 21 December 2018, the Company has realized the repayment of this transaction at the amount of 50,000,000.

As at 19 September 2018, the Company issued lease certificates with nominal value of TL 125,000,000 with a maturity date of 19 December 2018 and an interest rate of 27% with a cash inflow at the amount of TL 125,000,000 from this issue. The nominal value of TL 3,560,000 of lease certificates dated 25 September 2018 has been repurchased and has been resold on 12 October 2018. Classifications have been made at the issued amount. As at 19 December 2018, the Company has realized the repayment of this transaction at the amount of 133,414,375.

As at 19 December 2018, the Company issued lease certificates with nominal value of TL 170,00,000 with a maturity date of 16 April 2019 and an interest rate of 23.60% with a cash inflow at the amount of TL 170,000,000, from this issue.

As at 12 October 2018, the Company issued lease certificates with nominal value of TL 75,00,000 with a maturity date of 22 January 2019 and an interest rate of 27.50% with a cash inflow at the amount of TL 75,000,000, from this issue.

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

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

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

#### Dividends paid:

The Company distributed dividend of TL 3,800,000 on 26 April 2018, in consideration of the decision taken at the 2017 Ordinary General Assembly held on 26 April 2018 (2017: TL 2,915,412). (The Company had dividend rebate amounting to TL 107,129 regarding the shares repurchased.) Net dividends paid amounted to TL 3,692,870.

#### Approval of financial statements:

Board of Directors has approved the financial statements and delegated authority for publishing it on 14 February 2019. 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.

##### 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.

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

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018**

(Amounts expressed in Turkish Lira (TL))

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

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

#### Interests in joint operations:

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

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

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

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

### **2.2 Changes in Accounting Policies**

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.



## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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

#### 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 restated. 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
<b>ASSETS</b>				
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
<b>TOTAL ASSETS</b>	<b>2,376,933,740</b>	<b>(683,632)</b>	<b>-</b>	<b>2,376,250,108</b>
<b>LIABILITIES</b>				
Deferred Income	242,418,401	-	(5,343,485)	237,074,916
Other Liabilities	1,393,329,533	-	-	1,393,329,533
Prior Years' Profits/Losses	741,185,806	(683,632)	5,343,485	745,845,659
<b>TOTAL LIABILITIES</b>	<b>2,376,933,740</b>	<b>(683,632)</b>	<b>-</b>	<b>2,376,250,108</b>

#### 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:

<b>Retained earnings - 31 December 2017</b>	<b>741,185,806</b>
Expected credit loss on cash and cash equivalents	(258,605)
Increase in allowance for doubtful trade receivables	(425,027)
<b>Adjustments to retained earnings from adoption of TFRS 9</b>	<b>(683,632)</b>
<b>Retained earnings -1 January 2018 – (with TFRS 9)</b>	<b>740,502,174</b>
Cumulative effect of previous year's adjustments as per TFRS 15	5,343,485
<b>Retained earnings 1 January 2018 – (including the effect of TFRS 9 and TFRS 15)</b>	<b>745,845,659</b>

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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

Subsequent to recognition of the Company's trade receivables by applying the simplified approach as required or permitted by TFRS 9, the Company either recognizes annual credit losses for its trade receivables when there is not any significant increase in the level of credit risk or recognizes impairment for lifetime credit losses expected when there is significant increase.

#### c) **TFRS 15 Revenue from Contracts with Customers**

At the initial transition to TFRS 15 "Revenue from Contracts with Customers", the Company has recognized the standart TFRS 15 "Revenue from Contracts with Customers", which superseded TAS 18, applying the cumulative effect method, as of the initial application date at 1 January 2018. Through this method, the Company recorded the cumulative effect regarding the initial transition to TFRS 15 in the retained earnings at the application date. For this reason, the readjustment of the financial statements of previous years was not necessary and these financial statements are presented in accordance with TAS 18. The transition effect of the standart is recognized in compliance with the simplified approach. As per this transition method, the Company utilised the standart only for the contracts that are concluded as of the initial application date at 1 January 2018 and recorded the cumulative effect measured at previous year's losses. The effect of the aforementioned changes on the prior year's gains, dated 1 January 2018, is as follows:

<b>Prior years' profit - 31 December 2017</b>	<b>741,185,806</b>
Effect according to TFRS 15 Cumulative Effect Method	5,343,485
<b>Cumulative effect of previous year's adjustments as per TFRS 15</b>	<b>5,343,485</b>
<b>Prior years' profit – 1 January 2018 -(with TFRS 15)</b>	<b>746,529,291</b>
Cumulative effect of previous year's adjustments as per TFRS 9	(683,632)
<b>Prior years' profit – 1 January 2018 – (including the effect of TFRS 9 and TFRS 15)</b>	<b>745,845,659</b>

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

#### 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 year but if the estimated changes affect the following periods, changes are applied both on the current and following years prospectively. In the current year, there are not any material errors and changes in accounting estimate methods of the Company.

#### 2.4 New and Revised Turkish Accounting Standards

##### a) Amendments and comments in effect as of 2018

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<sup>1</sup></i>
Annual Improvements to TFRS Standards 2014–2016 Cycle	<i>TFRS 1, TMS 28</i>

#### **TFRS 9 *Financial Instruments***

TFRS 9 introduced new requirements for the classification and measurement of financial assets / liabilities and for derecognition and for general hedge accounting and it supersedes TAS 39 Financial Instruments: Recognition and Measurement.

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.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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

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.

#### ***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

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

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

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.

#### ***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.

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

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

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.

#### ***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.
- **TMS 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.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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

#### 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<sup>1</sup></i>
Amendments to TAS 28	<i>Long-term Interests in Associates and Joint Ventures<sup>1</sup></i>
TFRS Interpretation 23	<i>Uncertainty over Income Tax Treatments<sup>1</sup></i>

<sup>1</sup> 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.

#### **TFRS Interpretation 23 *Uncertainty over Income Tax Treatments***

This Interpretation clarifies how to apply the terms of recognition and measurement as per TAS 12 when there is an uncertainty over income tax treatments.

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.**

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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).
- (iii) 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*

Revenue is recognized when the the performance obligation is fulfilled as the contractually pledged real estate is transferred to the customer. When the customer acquires the control of the real estate the real estate is considered to be transferred.



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

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

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

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

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

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

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

#### **Borrowing Costs**

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

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

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

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 shall classify 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, an Company changes its business model for managing financial assets it shall reclassify all affected financial assets. If an entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The Company shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 at amortized cost

A financial asset shall be 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 regarding the financial assets at amortised cost, shall be calculated by using the effective interest method. This shall be 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 entity shall apply 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 subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply 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 in accordance with this Standard, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss.

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

##### Financial assets at FVTOCI

A financial asset shall be 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.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 at FVTOCI (cont'd)

A gain or loss on a financial asset measured at fair value through other comprehensive income shall be 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 entity shall account for the cumulative gain or loss that was previously recognised in other comprehensive income. Interest calculated using the effective interest method is recognised in profit or loss.

At initial recognition, an entity can 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 at FVTPL

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.

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

When a financial liability is recognised initially, the Company measures it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

An entity shall classify 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, shall be 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: When the Company continues to recognise an asset to the extent of its continuing involvement, the entity also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset.

(c) contingent consideration recognised by an acquirer in a business combination to which TFRS 3 applies. Such contingent consideration shall 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.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 its statement of financial position when, and only, the entity becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received. An entity shall remove a financial liability from its statement of financial position when, and only, the obligation specified in the contract is discharged or cancelled or expires.

##### Derivative financial instruments and financial risk 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 financial risk 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.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 of each Company entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The results and financial position of each entity are expressed in TL, which is the functional currency of the Company, and the presentation currency for the financial statements. In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- 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 profit or loss are determined by dividing net earnings by the weighted average number of shares that have been outstanding during the related period.

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

##### Events After the Reporting Period

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

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

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

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

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

As the Company only operates in Turkey and in the field of real estate investment, there are no business segments apart from those disclosed in the notes regarding the revenue and the cost of sales and reporting details in accordance with geographic segments to be reported..

### **2.7 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. Any future changes in these estimates and assumptions may cause significant impact on the Company's financial statements.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 December 2018	31 December 2017
Halk GYO-Vakıf GYO Joint Operation	50%	50%
Halk GYO-Erkonut Joint Operation	50%	50%
Halk GYO-Teknik Yapı Joint Operation	50%	50%

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

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

	31 December 2018	31 December 2017
Halk GYO-Vakıf GYO Adi Ortaklığı		
Current assets	93,267,604	206,892,687
Non-current assets	3,501,319	34,709,604
Current liabilities	(8,844,324)	(182,421,467)
	1 January- 31 December 2018	1 January- 31 December 2017
Income/(Expenses)	27,710,214	(2,901,639)

##### Halk GYO-Erkonut Adi Ortaklığı

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

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

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

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

	31 December 2018	31 December 2017
Halk GYO-Erkonut Adi Ortaklığı		
Current assets	40,093,573	70,350,910
Non-current assets	15,095	12,703,177
Current liabilities	(5,721,325)	(49,486,778)
	1 January- 31 December 2018	1 January- 31 December 2017
Income/(Expenses)	15,495,419	(56,683)

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

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

	31 December 2018	31 December 2017
Halk GYO-Teknik Yapı Adi Ortaklığı		
Current assets	8,151,289	3,108,217
Non-current assets	15,973,326	15,350,087
Current liabilities	(31,392,312)	(1,963,853)
Non-current liabilities	(2,987,240)	-
	1 January- 31 December 2018	1 January- 31 December 2017
Expenses	(9,053,144)	(1,252,021)

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

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

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

	31 December 2018	31 December 2017
<u>Deposits at Halk Bank</u>		
Demand deposits	629,156	607,886
Time deposits	28,121,306	30,720,512
Pos balance	11,132	-
	<u>28,761,594</u>	<u>31,328,398</u>
Halk Varlık Yönetimi A.Ş. lease certificate issuance (Note 22)	250,839,562	100,435,616
Short term loans received from Halk Bank (Note 22)	25,955,799	6,719,830
Long term loans received from Halk Bank (Note 22)	4,030,427	3,397,671
Halk Leasing Financial Lease Agreement (Note 22)	23,999,353	-





# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

Transactions with related parties	1 January - 31 December 2018			
	Interest income	Interest expenses	Rent income	Other expenses
<u>Shareholders</u>				
Halkbank A.Ş.	5,440,630	5,969,724	40,607,422	256,188
<u>Related parties controlled by main shareholder</u>				
Halk Varlık Kiralama A.Ş.	-	5,352,871	-	-
Halk Hayat ve Emeklilik A.Ş.	-	-	59,702	16,971
Halk Leasing Finansal Kiralama A.Ş.	-	969,107	-	-
Halk Sigorta A.Ş. (*)	-	-	-	1,358,380
	<u>5,440,630</u>	<u>12,291,702</u>	<u>40,667,124</u>	<u>1,631,539</u>

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

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

### Compensation of key management personnel:

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

	1 January- 31 December 2018	1 January- 31 December 2017
Salaries and other short term benefits	<u>1,434,490</u>	<u>1,246,448</u>
	<u>1,434,490</u>	<u>1,246,448</u>

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 December 2018	31 December 2017
<u>Current trade receivables</u>		
Trade receivables	9,854,608	36,555,385
Receivables from related parties (Note 4)	1,175	148,189
Allowance for doubtful receivables (-) (*)	(98,558)	-
	<u>9,757,225</u>	<u>36,703,574</u>

(\*) The balance consists of expected credit loss for trade receivables calculated in accordance with TFRS 9.

	31 December 2018	31 December 2017
<u>Movement of Allowance for Doubtful Receivables</u>		
Balance at beginning of the year	(425,027)	-
Amounts written off during the year	326,469	-
Closing balance	<u>(98,558)</u>	<u>-</u>

The Company's short term trade receivables comprise sale of residences and rental income from Referans Bakırköy Project, Bizimtepe Aydos Project, Eskişehir Panorama Plus Project and Erzurum Şehristan Project respectively amounting to TL 831,222 (31 December 2017: TL 0), TL 3,929,705 (31 December 2017: TL 29,550,211), TL 1,389,173 (31 December 2017: TL 1,389,173), TL 1,029,262 (31 December 2017: TL 5,151,009), and rental receivables TL 2,676,421 (31 December 2017: TL 613,181). Rental receivables of the Company are guaranteed with guarantee letters.

As at 31 December 2018, the Company does not have trade receivables past due (31 December 2017: the Company does not have trade receivables past due).

	31 December 2018	31 December 2017
<u>Non-current trade receivables</u>		
Trade receivables	6,279,174	5,799,107
Allowance for doubtful receivables (-)	(62,792)	-
	<u>6,216,382</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 2,777,855 (31 December 2017: TL 4,166,782) and TL 3,501,319, respectively (31 December 2017: 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.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 December 2018	31 December 2017
Short term trade payables		
Trade payables	15,549,139	17,609,234
Trade payables to related parties (Note 4)	79,078	416,723
	<u>15,628,217</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

Land stocks	31 December 2017			31 December 2018
	Cost Value	Addition	Disposal	Cost Value
Referans Bakırköy Residence Project <sup>(1)</sup>	2,739,448	-	(2,265,491)	473,957
Panaroma Plus Residence Project <sup>(2)</sup>	7,199,079	-	(2,565,266)	4,633,813
Sancaktepe - Residence Project <sup>(3)</sup>	177,343,489	31,773,307	(145,518,981)	63,597,815
Erzurum - Şehristan Residence Project <sup>(4)</sup>	61,669,985	11,236,985	(45,192,515)	27,714,455
İzmir Residence Project <sup>(5)</sup>	3,052,403	3,548,980	-	6,601,383
Total	<u>252,004,404</u>	<u>46,559,272</u>	<u>(195,542,253)</u>	<u>103,021,423</u>

Land stocks	31 December 2016			31 December 2017
	Cost Value	Addition	Disposal	Cost Value
Referans Bakırköy Residence Project (1)	6,146,720	2,721,356	(6,128,628)	2,739,448
Panaroma Plus Residence Project (2)	14,106,470	-	(6,907,391)	7,199,079
Sancaktepe - Residence Project (3)	101,399,353	75,944,136	-	177,343,489
Erzurum - Şehristan Residence Project (4)	31,168,359	30,501,626	-	61,669,985
İzmir Residence Project (5)	-	3,052,403	-	3,052,403
Total	<u>152,820,902</u>	<u>112,219,521</u>	<u>(13,036,019)</u>	<u>252,004,404</u>

<sup>(1)</sup> The Company has arranged a bid to develop a project on Bakırköy Land as Land Sale of Revenue Sharing Agreement (LSRSA) and as a consequence signed a contract with a firm on 17 February 2012. The Company registered for each plot that the project takes place for construction servitude on 24 February 2014.

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.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

#### 6. INVENTORIES (cont'd)

(1) (cont'd) In 2017, in-kind sharing was realized with the contractor, leaving 27 independent units to the contractor and retaining 9 for the Company.

In 2018, transfer of 5 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 1,949,715 and cost of sales in the amount of TL 1,060,088 (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).

(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 13,570 m<sup>2</sup> as 110 plot. Due to new partition plan investment property is entrusted from 13,073 m<sup>2</sup> registered as 9,811 m<sup>2</sup>. 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, 4 independent units were sold amounting to TL 1,635,000 and cost of sales relating to these sales is amounting to TL 1,305,063 (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.

In addition, the independent unit Eskişehir B Block 12 presented under Inventories were rented out on 1 June 2018 and TL 680,634 of Inventories was reclassified to Investment Properties for the relevant independent unit. The independent unit Eskişehir B Block 13 presented under Inventories were rented out on 1 October 2018 and TL 607,604 of Inventories was reclassified to Investment Properties for the relevant independent unit.

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

As of 31 December 2018, the independent units were gradually delivered and 753 independent units have been delivered so far after the relevant transactions were completed. Total sale of TL 187,395,433 was recognized and TL 148,395,114 was accounted for in cost of sales. In 2018, the deed transfer process of 601 independent units has been completed (2017: None).

(4) As at 1 April 2016, a land in Yakutiye /Erzurum was purchased for TL 17,500,000 by Halk GYO-Erkonut Adi Ortaklığı for real estate development project. The main contractor services agreement was signed at 31 May 2016 and the construction permit was granted on 10 May 2016. There is no restriction on the land. As of 31 December 2018, the independent units were gradually delivered and 404 independent units have been delivered so far after the relevant transactions were completed. Total sale of TL 61,944,577 was recognized and TL 46,136,315 was accounted for in cost of sales. In 2018, the deed transfer process of 357 independent units has been completed (2017: None).

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

#### 6. INVENTORIES (cont'd)

(5) As at 24 August 2017, Halk GYO and Teknik Yapı Adi Ortaklığı signed a LSRSA contract for a mixed project on the parcels located in İzmir, Konak Province, Umurbey and Kuruçay districts and this amount comprise of the official expenses made for the project. There is no restriction on the land. First stage within the scope of Land Sale of Revenue Sharing Agreement (Evora İzmir), construction permits belong to 451 residences stated in 7700 land 1 parcel purchased on 27 September 2018. As of 31 December 2018 sales commitment agreements were signed for 38 independent units.

#### 7. PREPAID EXPENSES AND DEFERRED INCOME

	31 December 2018	31 December 2017
Short Term Prepaid Expenses		
Prepaid insurance expenses (Note 4)	298,429	103,490
Other	349,148	214,822
	<u>647,577</u>	<u>318,312</u>
Long term prepaid expenses		
Investment advances (*)	118,780,712	67,861,990
Other	48,296	-
	<u>118,829,008</u>	<u>67,861,990</u>

(\*) As at 31 December 2018, the advances given comprise those given to the main contractor and the project management contractors of the IFC Project amounting to TL 102,981,318 (31 December 2017: TL 48,322,828), İzmir Project amounting to TL 15,776,089 (31 December 2017 TL 15,240,000), Sancaktepe Project amounting to TL 0 (31 December 2017: TL 1,633,304), Erzurum Şehristan Project amounting to TL 15,095 (31 December 2017: TL 1.821.587), Caddebostan Project amounting to TL 8,210 (31 December 2017: TL 844,271).

	31 December 2018	31 December 2017
Short Term Deferred Income		
Deferred residential sale income <sup>(1)</sup>	10,102,627	242,418,401
Other	13,750	-
	<u>10,116,377</u>	<u>242,418,401</u>

(1) Deferred residential sale income consist of TL 710,592 (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 21,945 (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 December 2018, of the total 327 units of the project which consists of 254 residential and 73 commercial units 325 units have been sold for TL 215,3 Million (excluding advances from contractor) and transfer of title deeds has been completed for 315 residential units with the sales value of TL 209 Million.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

### 7. PREPAID EXPENSES AND DEFERRED INCOME

(1) (cont'd) (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). Additionally the balance includes advances received for sales of residence project on Eskişehir-Odunpazarı land amounting to TL 21.945 (31 December 2017: TL 6.129.217).

Deferred income consist of TL 5,444,637 and TL 1,017,775 (31 December 2017: TL 181,370,957, TL 47,107,334) generated from the sales of residences from Bizimtepe Aydos Project and Erzurum Şehristan Project, respectively. The Company has signed preliminary sales contracts for 773 residential units from total units of 1,037 residential and 48 commercial units for Bizimtepe Aydos Project and sales 403 residential and 6 commercial units from total units of 632 residential and 13 commercial units for Erzurum Şehristan Project.

### 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 2018 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 and cost value.

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

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

Details of the Company's investment properties and information about the fair value hierarchy as at 31 December 2018 and 31 December 2017 are as follows:

	31 December	Fair value as at 31 December 2018		
		Level 1	Level 2	Level 3
		TL	TL	TL
Land	7,286,000	-	7,286,000	-
Buildings	1,098,187,635	-	1,098,187,635	-
Investment properties under development	1,183,298,775	-	1,183,298,775	-
	<u>2,288,772,410</u>	<u>-</u>	<u>2,288,772,410</u>	<u>-</u>

  

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

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

As of 31 December 2018, the total amount of insurance on investment properties is TL 1,791,914,981 (31 December 2017: TL 258,524,795). As of 31 December 2018, the total amount of capitalized interest expenses on investment properties is TL 33,889,009 (31 December 2017: TL 394,879).

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

	31 December 2017			Fair value	31 December 2018
<b>Investment properties</b>	Fair value	Addition	Disposal	difference	Fair value
İstanbul Salıpazarı Arsası	-	5,178,343	-	2,107,657	7,286,000
<b>Total land</b>	-	<b>5,178,343</b>	-	<b>2,107,657</b>	<b>7,286,000</b>
İstanbul Karaköy Building	36,000,000	-	-	1,825,000	37,825,000
İstanbul Salıpazarı Building	59,728,296	5,550,542	-	15,777,162	81,056,000
İzmir Konak Building-1	27,156,000	-	-	1,638,550	28,794,550
Ankara Kızılay Building	17,013,475	-	-	1,701,348	18,714,823
İstanbul Beyoğlu Building	26,473,003	-	-	2,268,666	28,741,669
İstanbul Beşiktaş Building	19,465,000	-	-	1,881,000	21,346,000
İstanbul Etiler Building	18,440,000	-	-	2,086,000	20,526,000
İstanbul Şişli Bulding	16,262,529	-	-	2,581,875	18,844,404
İzmir Konak Building-2	16,090,500	-	-	96,296	16,186,796
Ankara Başkent Building	11,854,750	-	-	787,800	12,642,550
İstanbul Bakırköy Building	23,548,000	-	-	1,606,333	25,154,333
Bursa Building	14,400,400	-	-	1,709,600	16,110,000
Ankara Bahçelievler Building 1	9,863,250	-	-	907,420	10,770,670
Kocaeli Building	12,521,000	-	-	579,920	13,100,920
İstanbul Fatih Building	12,477,083	-	-	998,167	13,475,250
Sakarya Adapazarı Building	12,525,000	-	-	(1,545,301)	10,979,699
Ankara Bahçelievler Building 2	8,100,000	-	-	900,000	9,000,000
İstanbul Ataköy Building	12,463,200	-	-	491,466	12,954,666
İstanbul Nişantaşı Building	9,514,000	-	-	774,500	10,288,500
Halkbank Finance Tower	209,450,640	-	-	18,934,646	228,385,286
Park Dedeman Levent Hotel	176,319,803	-	-	69,818,197	246,138,000
Kocaeli Şekerpınar Block A	98,016,800	-	-	39,756,986	137,773,786
Eskişehir Panaroma Plus Project - Block D	4,236,600	-	(4,236,600)	-	-
Eskişehir Panaroma Plus Project - Block B1	-	-	-	-	-
Kocaeli Şekerpınar Office Project	75,832,883	163,896	-	1,998,533	77,995,312
Eskişehir B12 apartment	-	680,634	-	(386)	680,248
Eskişehir B13 apartment	-	607,604	-	95,569	703,173
<b>Total Buildings</b>	<b>927,752,212</b>	<b>7,002,676</b>	<b>(4,236,600)</b>	<b>167,669,347</b>	<b>1,098,187,635</b>
İstanbul Finance Center Project	888,120,000	143,620,643	-	127,254,357	1,158,995,000
İstanbul Cadedebostan Building Project	12,512,591	1,941,402	-	9,849,782	24,303,775
<b>Total investment properties under development</b>	<b>900,632,591</b>	<b>145,562,045</b>	-	<b>137,104,139</b>	<b>1,183,298,775</b>
<b>Total</b>	<b>1,828,384,803</b>	<b>157,743,064</b>	<b>(4,236,600)</b>	<b>306,881,143</b>	<b>2,288,772,410</b>



# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

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

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

##### *Buildings*

##### *İstanbul Karaköy Building*

Istanbul 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 37,825,000 according to market comparable approach based on the report dated 10 December 2018 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 recognized TL 170,579 of costs for the period 1 January 2017 - 31 December 2018 (1 January – 31 December 2017: TL 38,346). As of 23 October 2017, the rental agreement was terminated and there were not any lease transaction after that date.

##### *İstanbul Salıpazarı Building*

İstanbul Salıpazarı 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 Salıpazarı Building was determined as TL 81,056,000 according to the market comparable approach based on the report dated 28 December 2018 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company earned TL 5,622,266 of rental income for the period 1 January 2017 - 31 December 2018 (1 January – 31 December 2017: TL 1,506,411). The Company recognized TL 779,182 of costs for the period 1 January 2017 - 31 December 2018 (1 January – 31 December 2017: TL 165,532). The Company signed an agreement with Beril Otelcilik Turizm ve Tic. Ltd. Şti. to rent Salıpazarı 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. On 3 August 2018 the construction permit for the building has been obtained.

##### *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 28,794,550 according to the market comparable approach based on the report dated 28 December 2018 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 1,604,776 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 1,355,171). The relevant property has incurred expenses amounting to TL 96,604 in the reporting period of 2018 (1 January – 31 December 2017: TL 35,199).

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 m<sup>2</sup> at the deed register as apartment block.

The value of the investment property was determined as TL 12,475,237 according to the report dated 11 February 2010 prepared by the experts assigned by the Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Kızılay Building and Service Building was determined as TL 18,714,823 according to the market comparable approach based on the report dated 28 December 2018 prepared by real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company has rented this property to HalkBank. The Company earned TL 1,620,060 of rental income for the period of 1 January – 31 December 2018 (1 January – 31 December 2017: TL 1,368,077). The relevant property has incurred expenses amounting to TL 90,159 in the reporting period of 2018 (1 January – 31 December 2017: TL 25,970).

##### *İstanbul Beyoğlu Building*

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

The value of the investment property was determined as TL 12,000,000 according to the report dated 9 December 2009 prepared by a real estate appraisal firm licensed by the CMB and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Beyoğlu Building was determined as TL 28,741,669 according to the market comparable approach based on the report dated 28 December 2018 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented 2nd, 3rd, 4th, 5th and 6th floors of this property to Turkish Treasury and other divisions to Halkbank. The Company earned TL 1,415,812 of rental income for the period 1 January – 31 December 2018 (1 January – 31 December 2017: TL 1,510,810). The relevant property has incurred expenses amounting to TL 156,871 in the reporting period of 2018 (1 January – 31 December 2017: TL 53,408). The rental agreement with Republic of Turkey Prime Ministry Undersecretariat of Treasury (“Turkish Treasury”) has been terminated as of 1 April 2018.

##### *İstanbul Beşiktaş Building*

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

The value of the investment property was determined as TL 11,893,840 according to the report dated 12 January 2010 prepared by a real estate appraisal firm licensed by the CMB and it was devolved as capital in kind on 27 October 2010 by Halkbank. The fair value of Beşiktaş Building was determined as TL 21,346,000 according to the market comparable approach based on the report dated 21 December 2018 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 1,528,358 of rental income for the period 1 January – 31 December 2018 (1 January – 31 December 2017: TL 1,290,639). The relevant property has incurred expenses amounting to TL 76,203 in the reporting period of 2018 (1 January – 31 December 2017: TL 12,655).

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 20,526,000 according to the market comparable approach based on the report dated 21 December 2018 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 1,192,120 of rental income for the period 1 January – 31 December 2018 (1 January – 31 December 2017: TL 1,006,698). The relevant property has incurred expenses amounting to TL 428,937 in the reporting period of 2018 (1 January – 31 December 2017: TL 21,935).

##### *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 18,844,404 according to the market comparable approach based on the report dated 28 December 2018 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 1,176,836 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 993,792). The relevant property has incurred expenses amounting to TL 87,642 in the reporting period of 2018 (1 January – 31 December 2017: TL 28,965).

##### *İzmir Konak Building-2*

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

The value of the investment property was determined as TL 10,290,000 according to the report dated 9 December 2009 prepared by a real estate appraisal firm licensed by the CMB and it was devolved as capital in kind on 2 November 2010 by Halkbank. The fair value of Konak Building was determined as TL 16,186,796 according to the market comparable approach based on the report dated 28 December 2018 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 1,069,923 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 841,191). The relevant property has incurred expenses amounting to TL 437,232 in the reporting period of 2018 (1 January – 31 December 2017: TL 52,133).

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

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 12,642,550 according to the market comparable approach based on the report dated 21 December 2018 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 1,290,107 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 1,103,388). The relevant property has incurred expenses amounting to TL 64,934 in the reporting period of 2018 (1 January – 31 December 2017: TL 53,961).

##### ***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 27 December 2018 dated report of a real estate valuation firm licensed by the CMB, the fair value of Bakırköy Building was determined as TL 25,154,333 according to the market comparable approach. There is no restriction on this investment property. The Company has rented this property to Halkbank. The Company earned TL 1,681,194 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 1,419,703). The relevant property has incurred expenses amounting to TL 60,493 in the reporting period of 2018 (1 January – 31 December 2017: TL 11,616).

##### ***Bursa Building***

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

The value of the investment property has been determined as TL 8,500,000 according to the report dated 11 January 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Bursa Building was determined as TL 16,110,00 according to market comparable approach based on the report dated 27 December 2018 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 1,127,929 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 952,492). The relevant property has incurred expenses amounting to TL 296,297 in the reporting period of 2018 (1 January – 31 December 2017: TL 13,280).

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 10,770,670 according to the market comparable approach based on the report dated 20 December 2018 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 851,296 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 718,886). The relevant property has incurred expenses amounting to TL 106,672 in the reporting period of 2018 (1 January – 31 December 2017: TL 5,201).

##### *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 13,100,920 according to the market comparable approach based on the report dated 27 December 2018 prepared by a real estate appraisal firm licensed by the CMB. There is no restriction on this investment property. The Company rented this property to Halkbank. The Company earned TL 1,069,851 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 903,447). The relevant property has incurred expenses amounting to TL 45,628 in the reporting period of 2018 (1 January – 31 December 2017: TL 10,706).

##### *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 13,475,250 according to the market comparable approach based on the report dated 27 December 2018 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 764,179 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 645,320). The relevant property has incurred expenses amounting to TL 64,477 in the reporting period of 2018 (1 January – 31 December 2017: TL 27,794).

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

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018**

(Amounts expressed in Turkish Lira (TL))

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

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

##### ***Sakarya Adapazarı Building***

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

The value of the investment property was determined as TL 5,960,000 according to the report dated 11 January 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Adapazarı Building was determined as TL 10,979,699 according to the market comparable approach based on the report dated 28 December 2018 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 769,203 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 825,106). The relevant property has incurred expenses amounting to TL 44,047 in the reporting period of 2018 (1 January – 31 December 2017: TL 19,129).

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

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

The value of the investment property was determined as TL 5,684,746 according to the report dated 11 February 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Bahçelievler Building was determined as TL 9,000,000 according to the market comparable approach based on the report dated 10 December 2018 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 - 31 December 2018 (1 January – 31 December 2017: TL 281,751). 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. The relevant property has incurred expenses amounting to TL 32,779 in the reporting period of 2018 (1 January – 31 December 2017: TL 2,956).

##### ***İstanbul Ataköy Building***

İstanbul Ataköy Building is registered with Bakırköy/İstanbul Kartaltepe neighbourhood with 115 city block and 174th plot with 515 m<sup>2</sup> 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 12,954,666 according to the market comparable approach based on the report dated 27 December 2018 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 943,761 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 796,970). The relevant property has incurred expenses amounting to TL 39,543 in the reporting period of 2018 (1 January – 31 December 2017: TL 26,959).

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

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

##### *İstanbul Salıpaazarı Land*

İstanbul Salıpaazarı Land is registered with Beyoğlu/İstanbul Kılıçali neighbourhood with 57 city block and 15th plot 235.50 m2 land at the deed register.

The value of the investment property was determined as TL 5,000,000 according to the report dated 12 December 2017 prepared by a real estate appraisal firm licensed by the CMB and there is no restriction on this investment property. The Company has included the land in its portfolio as at 26 January 2018 with a value of TL 5.178.343.

The fair value of İstanbul Salıpaazarı Land was determined as TL 7,286,000 according to the report dated 10 December 2018 prepared by a real estate appraisal firm licensed by the CMB. The land has been included in the Company's portfolio as of 26 January 2018.

##### *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 10,288,500 according to the market comparable approach based on the report dated 21 December 2018 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 641,911 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 542,068). The relevant property has incurred expenses amounting to TL 110,957 in the reporting period of 2018 (1 January – 31 December 2017: TL 7,526).

##### *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 228,385,286 according to the market comparable approach based on the report dated 27 December 2018 prepared by a real estate appraisal firm licensed by the CMB. The Company rented this property to T. Halk Bankası A.Ş. The Company has recognized TL 15,750,000 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 15,165,760). The relevant property has incurred expenses amounting to TL 3,585,024 in the reporting period of 2018 (1 January – 31 December 2017: TL 351,834).



## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 A.Ş. The fair value of Park Dedeman Levent Hotel was determined as TL 246,138,000 according to the cost approach based on the report dated 13 December 2018 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 14,175,000 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 10,500,000). The relevant property has incurred expenses amounting to TL 1,368,282 in the reporting period of 2018 (1 January – 31 December 2017: TL 134,780).

##### *Kocaeli Şekerpinar Block A*

Şekerpinar Block A is registered with Şekerpinar/Kocaeli neighbourhood with 420 block and 26 plot. There is no restriction on this investment property. Occupancy permit for Şekerpinar 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, Şekerpinar Banking Center, was determined as TL 137,773,786 according to the cost approach based on the report dated 27 December 2018 prepared by a real estate appraisal firm licensed by the CMB.

The Company has recognized TL 6,677,948 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 5,980,045). The relevant property has incurred expenses amounting to TL 272,814 in the reporting period of 2018 (1 January – 31 December 2017: TL 193,397).

##### *Eskişehir– Panaroma Plus Konut Projesi – Flat B12*

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 an lease agreement amounting to TL 2,750 +VAT with real person and the leasing period has been started at 01 June 2018. The fair value of this investment property was determined as TL 680,248 according to the market value approach based on the report dated 28 December 2018 prepared by a real estate appraisal firm licensed by the CMB. The Company earned TL 19,250 of rental income for the period 1 January – 31 December 2018 (1 January – 31 December 2017: TL 0).

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

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018**

(Amounts expressed in Turkish Lira (TL))

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

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

##### ***Eskişehir– Panaroma Plus Konut Projesi – Flat B13***

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 an lease agreement amounting to TL 2,755 +VAT with real person and the leasing period has been started at 01 October 2018. The fair value of this investment property was determined as TL 703,173 according to the market value approach based on the report dated 28 December 2018 prepared by a real estate appraisal firm licensed by the CMB. The Company earned TL 8,265 of rental income for the period 1 January – 31 December 2018 (1 January – 31 December 2017: TL 0).

##### ***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 4,236,600 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 - 31 December 2018 (1 January – 31 December 2017: TL 65,266). The Company has signed a sale committment agreement for the related property on 26 April 2017 and the title deed has not been transferred. The Company has recognized the relevant property as an adjustment in the opening balance of prior years' profit (or other appropriate equity component) in the financial statements for the annual reporting period comprising the initial application of cumulative effect arising from the first adoption of the standard in accordance with paragraph C3 clause (b) and paragraph C7 under TFRS 15 "Revenue from Contracts with Customers".

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

Eskişehir Block B is registered with Odunpazarı/Eskişehir neighbourhood with 13,124 block and 1 plot. There is no restriction on this investment property. Occupancy permit for Eskişehir Block B was received as of 2 November 2015. The Company signed a lease agreement amounted to TL 6,000+VAT with a real person on 1 November 2015. The fair value of the investment property was determined as TL 862,650 according to the market value approach based on the report dated 19 December 2016 prepared by a real estate appraisal firm licensed by the CMB. The Company earned TL 0 of rental income for the period 1 January - 31 December 2018 (1 January – 31 December 2017: TL 71,616). The relevant property was sold on 7 December 2017.

##### ***Kocaeli Şekerpinar Office Project***

Şekerpinar land is registered with Şekerpinar/Kocaeli neighbourhood with 420 block and 26 plot with 15,562 m2 land at the deed register. There is no restriction on this investment property. The Company has signed an agreement for the architectural design of office buildings on the land due to construction a building for banking operational centre, and licence is received for the first and second zone as at 28 August 2013 and 28 March 2014, respectively. First zone of the Project, Block A, has been completed and classified as a building.

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

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018**

(Amounts expressed in Turkish Lira (TL))

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

##### ***Kocaeli Şekerpinar Office Project (cont'd)***

The fair value of second stage of the Project, Block B, was determined as TL 77,995,312, according to the current completion level based on the report dated 27 December 2018 prepared by a real estate appraisal firm licensed by the CMB. The relevant property has incurred expenses amounting to TL 358,031 in the reporting period of 2018 (1 January – 31 December 2017: TL 224,608).

##### ***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 m<sup>2</sup> at the deed register. The value of the investment property was determined as TL 229,846,920 according to the report dated 18 January 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Ataşehir Land has been determined as TL 1,158,995,000 according to the cost value method based on the report dated 27 December 2018 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 m<sup>2</sup> and 12,395 m<sup>2</sup>, 135,835 m<sup>2</sup> and 102,953 m<sup>2</sup> 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.

##### ***İstanbul Caddebostan Building***

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

The value of the investment property was determined as TL 6,300,000 according to the report dated 11 January 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 3 November 2010 by Halkbank. The fair value of Caddebostan Building was determined as TL 24,303,775 according to market comparable approach based on the report dated 26 December 2018 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.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 December 2018 and 31 December 2017 under non-cancellable leases are as follows:

<u>Operational lease</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Less than one year	59,141,590	45,634,731
Between one and five years	182,540,699	149,138,974
More than five years	215,038,955	197,213,195
	<u>456,721,244</u>	<u>391,986,900</u>

### 9. PROPERTY, PLANT AND EQUIPMENT

<u>Cost Value</u>	<u>Furniture and fixture</u>	<u>Leashold improvements</u>	<u>Total</u>
Opening balance as at 1 January 2018	1,215,693	663,427	1,879,120
Additions	676,171	7,100	683,271
Disposals	(36,324)	-	(36,324)
Closing balance as at 31 December 2018	<u>1,855,540</u>	<u>670,527</u>	<u>2,526,067</u>

#### Accumulated Depreciation

Opening balance as at 1 January 2018	(947,052)	(661,416)	(1,608,468)
Period charge	(151,933)	(1,670)	(153,603)
Disposals	36,324	-	36,324
Closing balance as at 31 December 2018	<u>(1,062,661)</u>	<u>(663,086)</u>	<u>(1,725,747)</u>
Carrying value as at 31 December 2018	<u>792,879</u>	<u>7,441</u>	<u>800,320</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	47,535	2,100	49,635
Closing balance as at 31 December 2017	<u>1,215,693</u>	<u>663,427</u>	<u>1,879,120</u>

#### Accumulated Depreciation

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

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 153,603 (2017: TL 200,426) 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	263,134	263,134
Closing balance as at 31 December 2018	<u>1,019,841</u>	<u>1,019,841</u>

<u>Accumulated Amortization</u>		
Opening balance as at 1 January 2018	(650,989)	(650,989)
Period charge	(22,539)	(22,539)
Closing balance as at 31 December 2018	<u>(673,528)</u>	<u>(673,528)</u>
Carrying value as at 31 December 2018	<u>346,313</u>	<u>346,313</u>

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

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

Amortization expenses of TL 22,539 (2017: TL 211,867) have been charged in 'general administrative expenses'. The following useful lives are used in the calculation of amortization:

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

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

##### a) Provisions

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

	31 December 2018	31 December 2017
<u>Other short term provisions</u>		
Lawsuit provision	205,335	108,968
Other provisions	81,912	-
	<u>287,247</u>	<u>108,968</u>
	<u>Legal claims</u>	<u>Total</u>
Balance at 1 January 2018	108,968	108,968
Additional provisions recognized	96,367	96,367
Balance at 31 December 2018	<u>205,335</u>	<u>205,335</u>
	<u>Legal claims</u>	<u>Total</u>
Balance at 1 January 2017	67,760	67,760
Additional provisions recognized	41,208	41,208
Balance at 31 December 2017	<u>108,968</u>	<u>108,968</u>

##### 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.

The Company has filed 11 lawsuits comprised of 5 tax cases, 1 business case, 1 declaratory action, 1 cancellation of administrative jurisdiction, 1 executive proceeding and accordingly, 1 action for annulment of objection and 1 action for evacuation.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

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

31 December 2018		TL equivalent
A. CPMs given for Company's own legal personality(*)		246,161,558
	-Collateral	96,161,558
	-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(**)		122,908,086
	-Collateral	122,908,086
	-Pledge	-
	-Mortgage	-
D. Total amount of other CPMs		-
i. Total amount of CPMs given on behalf of the parent		-
	-Collateral	-
	-Pledge	-
	-Mortgage	-
ii. Total amount of CPMs given to on behalf of other Group companies which are not in scope of B and C		-
	-Collateral	-
	-Pledge	-
	-Mortgage	-
iii. Total amount of CPMs given on behalf of third parties which are not in scope of C		-
	-Collateral	-
	-Pledge	-
	-Mortgage	-
<b>Total</b>		<b>369,069,644</b>

(\*) 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 road accession commitment of Halkbank Finance Tower amounting to TL 92,161,475 (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 amounts given to directorate of execution for Eskişehir project respectively amounting to TL 0 (31 December 2017: TL 2.251.227) and TL 224,624 (31 December 2017: 0). Collateral given to main contractor of Caddebostan Building amounting to TL 219,564 (31 December 2017: TL 1,266,407). Guarantee letter given for Dedeman Hotel Project road construction participation amounting to TL 551,455 (31 December 2017: 395,375 TL). Guarantee letter given for Kocaeli project amounting to TL 13,440 (31 December 2017: 13,440 TL). Guarantee letter given for İzmir project amounting to TL 0 (31 December 2017: TL 33,440,000) (Guarantee letter given for İzmir project amounting to TL 33,440,000 was reclassified from article "A" to article "C").

(\*\*) 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 will be a guarantor for the customers. Halk GYO&Vakıf GYO Joint Venture signed a general guarantee agreement with the agreed banks amounting to TL 722,830,850. The Company's responsibility in this guarantee is TL 398,717,500. As of 31 December 2018, pre-sales of Halk GYO&Vakıf GYO Joint Venture performed through this guarantee agreement amounted to TL 45,661,700. As of 31 December 2018, the risk at 50% of the Company is TL 22,830,850 from the pre-sales through this guarantee agreement. As at August 2018 the Company has started the transfer of title deeds and as of 31 December 2018, the proportion of other relevant CPM to the Company's equity is 1%.

The balance consist of 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 a guarantor for 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 December 2018, pre-sales of Halk GYO&Erkonut Joint Venture performed through the guarantee agreement amounted to TL 7,774,472.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

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

(c) The risk at 50% of the Company is TL 3,887,236 from the pre-sales through this guarantee agreement as of 31 December 2018. As at August 2018 the Company has started the transfer of title deeds and as of 31 December 2018, the proportion of other relevant CPM to the Company's equity is 0,17 %.

In accordance to Teknik Yapı-Halk GYO Joint Venture İzmir Project, the joint venture has given guarantee letters for İzmir Konak Stage 1 Land Sale of Revenue Sharing amounting to TL 66,880,000 and the letter of conveyance to T.Halk Bankası A.Ş amounting to TL 125,500,000 as at 31 December 2018. Total risk for the transactions has been classified at 50% of the capital of the Company and amounted to TL 96,190,000. As of 31 December 2018, the proportion of other relevant CPM to the Company's equity is 4,22%.

As of 31 December 2018, the proportion of relevant CPMs given to the Company's equity is 0 % (31 December 2017: 0 %).

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



# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 December 2018 and 31 December 2017, the letters of guarantee received by the Company are as follows:

	31 Aralık 2018	31 December 2017
YDA İnşaat San. Ve Tic. A.Ş. (9)	152,709,440	120,240,000
Buga Otis Asansör San.ve Tic.A.Ş. (12)	42,316,560	-
Dedeman Turizm Yönetimi A.Ş. (2)	24,112,000	18,062,000
Haldız İnşaat Otomotiv ve Tic. Ltd. Şti. (1)	19,925,000	24,023,490
Sapaz Otelcilik Turizm İnşaat Sanayi Ve Ticaret A.Ş. (6)	9,042,000	6,773,250
Er Konut İnş. Taah. İnşaat Malz. Nak. ve Mad. Tic. A.Ş. (7)	3,165,095	13,650,000
Teknik Yapı Proje A.Ş. (13)	720,000	-
Entegre Proje Yönetim Dan.Müh.Tic. A.Ş. (4)	702,750	870,509
Abad Gayrimenkul A.Ş.	701,500	-
CNV Yapı Mimarlık San. Tic. Ltd. Şti. (8)	629,775	1,610,000
Biskon Yapı A.Ş. (3)	300,000	300,000
YPU Yapı Proje Uygulama Ltd. Şti. (7)	240,300	196,050
Direk Reklam İnş. San. Tic. A.Ş. (10)	235,410	211,542
Ceda Akaryakıt İnşaat Emlak Tur. Tic. Ltd. Şti. (11)	200,000	200,000
Mutlu Çilingiroğlu Miar Mimarlık İnş. San. Ve Tic. Ltd. Şti. (5)	-	160,500
Other	304,480	213,859
	<u>255,304,310</u>	<u>186,511,200</u>

<sup>(1)</sup> The Company has received letter of guarantee from the prime contractor Haldız İnşaat Otomotiv ve Tic. A.Ş. within the scope of Bizimtepe Aydos Project.

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

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

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

<sup>(5)</sup> Letters of guarantee have been received from suppliers relating to architectural and construction operations of Bizimtepe Aydos project.

<sup>(6)</sup> Sapaz Otelcilik Turizm İnşaat Sanayi ve Ticaret AŞ is a lessee of the Company.

<sup>(7)</sup> The Company has received a letter of guarantee for the Erzurum Şehristan Project.

<sup>(8)</sup> This letter of guarantee has been received for urban transformation process of Caddebostan Building.

<sup>(9)</sup> The Company has received a letter of guarantee from the primary contractor for architectural and construction activities for İstanbul Financial Center (IFC) Project.

<sup>(10)</sup> This letter of guarantee has been received from Direk Reklam İnş.San.Tic.A.Ş. for advertising contract of Sancaktepe Project.

<sup>(11)</sup> Ceda Akaryakıt İnşaat Emlak Tur.Tic.Ltd.Şti. is a lessee of the Company.

<sup>(12)</sup> This letter of guarantee 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).

<sup>(13)</sup> The Company has received a letter of guarantee for the İzmir Evora Project.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

#### 12. EMPLOYEE BENEFITS

##### Short-term provisions for employee benefits

	31 December 2018	31 December 2017
Employee bonus accruals	773,398	632,336
Unused vacation accruals	489,102	338,467
	<u>1,262,500</u>	<u>970,803</u>

##### Long-term provisions for employee benefits

	31 December 2018	31 December 2017
Retirement pay provision	529,935	318,371
	<u>529,935</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 31 December 2018 and 31 December 2017, are as follows:

	1 January- 31 December 2018	1 January- 31 December 2017
Provision at 1 January	318,371	202,050
Service cost	156,218	98,054
Interest cost	14,877	5,718
Retirement pay paid	(41,034)	-
Actuarial (gain) / loss	81,503	12,549
Provision at 31 December	<u>529,935</u>	<u>318,371</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 6,017.60 for each period of service at 31 December 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.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 December 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 3,84% real discount rate (31 December 2017: 3,74%) calculated by using 12% annual inflation rate and 16,30% interest rate. Estimated amount of retirement pay not paid due to voluntary leaves is also taken into consideration as 4,45% for employees with 0-15 years of service, and 0% for those with 16 or more years of service. Ceiling amount of TL 6,017.60 which is in effect since 1 January 2019 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 60,746 / TL (73,785). 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 4,345 / TL (4,553).

#### 13. OTHER ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
<u>Other current assets</u>		
Deferred value added tax ("VAT") (*)	66,985,147	17,515,717
Deposits and guarantees given	216,207	180,736
Business advances given	16,558	1,878
Other	474,296	1,164,607
	<u>67,692,208</u>	<u>18,862,938</u>
	31 December 2018	31 December 2017
<u>Other non-current assets</u>		
Deferred value added tax ("VAT") (**)	950,204	42,430,565
	<u>950,204</u>	<u>42,430,565</u>

(\*) As of 31 December 2018, VAT receivable amounting to TL 34,899,955 (31 December 2017: TL 0), from Sancaktepe project of Halk GYO-Vakıf GYO Joint Venture, TL 11,755,517 (31 December 2017: TL 0) from Erzurum project of Halk GYO-Erkonut Joint Venture and TL 20,329,675 (31 December 2017: TL 17,515,717) for Halk Gayrimenkul Yatırım Ortaklığı A.Ş., are classified under "other current assets" since the projects to be constructed on the land are short term projects.

(\*\*) As of 31 December 2018, VAT receivable amounting to TL 0 (31 December 2017: TL 31,443,975), from Sancaktepe project of Halk GYO-Vakıf GYO Joint Venture, TL 0 (31 December 2017: TL 10,881,590) from Erzurum project of Halk GYO-Erkonut Joint Venture and TL 950,204 (31 December 2017: TL 105,000) from Izmir Project of Teknik Yapı-Halk GYO Joint Venture, are classified under "other non-current assets" since the projects to be constructed on the land are long term projects.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

	31 December 2018	31 December 2017
<u>Other Current Liabilities</u>		
Deposits and guarantees received(*)	8,435,393	5,474,132
Taxes and funds payable	655,861	3,277,518
Other current liabilities	264,737	23,518
	<u>9,355,991</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 December 2018 and 31 December 2017 the share capital held is as follows:

Shareholders	Group	%	31 December 2018	%	31 December 2017
Halkbank	A	1.58	13,557,019	1.58	12,956,592
Halkbank(*)	B	70.4	603,879,347	70.38	577,134,085
Halk Yatırım Menkul Değerler A.Ş.	A	0.04	323,773	0.04	309,434
Halk Finansal Kiralama AŞ	A	<0,01	1	<0,01	1
Publicly traded	B	28.00	240,239,859	28.00	229,599,888
Nominal capital		100	858,000,000	100	820,000,000
Total capital			<u>858,000,000</u>		<u>820,000,000</u>

(\*) Halkbank also has 63,186,302 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 858,000,000 shares amounting to TL 858,000,000. All capital has been committed by the founders; TL 196,217,979 paid in cash, TL 195,500,000 incorporated into capital from reserves and TL 466,282,021 paid in kind (real estates) by main shareholder Halkbank.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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

As at 8 June 2018, the Company increased its share capital to TL 858,000,000 by transferring TL 38,000,000 from retained earnings to share capital.

##### b) Treasury shares acquired

The Company's treasury shares acquired are accounted for at cost. The Company holds 24,188,879 treasury shares as of 31 December 2018 (31 December 2017: 23,117,578 shares). The details of the treasury shares acquired for the year ended 31 December 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 reserve	20 June 2013	314,024	-	-
Bonus shares from incorporating reserve	5 June 2014	683,977	-	-
Bonus shares from incorporating reserve	11 June 2015	1,271,466	-	-
Bonus shares from incorporating reserve	25 May 2016	1,325,030	-	-
Bonus shares from incorporating reserve	17 August 2017	845,764	-	-
Bonus shares from incorporating reserve	8 June 2018	1,071,301	-	-
Total repurchased shares		<u>24,188,879</u>	<u>1.03</u>	<u>24,809,533</u>

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 December 2018, the Company's restricted reserves are legal reserves amounting to TL 42,011,650 (31 December 2017: TL 39,266,359).

##### e) Dividends

The Company distributed dividends in cash to the shareholders amounting to TL 3,800,000 on 26 April 2018 pursuant to the 2017 Ordinary Meeting of the General Assembly held on 26 April 2018 (2017: TL 2,915,412). (The Company received return of dividends amounting to TL 107,129 due to repurchased shares.) Net amount of the dividends paid is TL 3,692,871.

#### 15. REVENUE AND COST OF SALES

<u>Sales</u>	1 January- 31 December 2018	1 January- 31 December 2017
<b>Income on properties</b>	<b>313,924,770</b>	<b>74,963,767</b>
Income from sale of residence(*)	252,924,725	23,934,707
Rental income	61,000,045	51,029,060
<b>Income on debt instruments</b>	<b>5,234,204</b>	<b>7,276,915</b>
Interest income on deposits	5,234,204	7,276,915
	<u>319,158,974</u>	<u>82,240,682</u>

(\*)The Group recognized net sales amounting to TL 252,924,725 related to the performance obligations that may be fulfilled at any given time.

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

### 15. REVENUE AND COST OF SALES (cont'd)

<u>Cost of Sales</u>	1 January- 31 December 2018	1 January- 31 December 2017
Cost of residence sales	196,897,381	13,036,019
Taxes and other levies	5,275,218	1,867,756
Other	997,591	908,791
	<u>203,170,190</u>	<u>15,812,566</u>

### 16. EXPENSES BY NATURE

	1 January- 31 December 2018	1 January- 31 December 2017
Cost of residence sales	196,897,381	13,036,019
Personnel expenses	8,334,510	7,195,755
Advertisement expenses	4,181,195	2,426,451
Outsource servise expenses	391,017	1,000,529
Commission expenses	356,230	937,492
Travel and car expenses	761,025	789,573
Property tax expenses	927,790	1,867,756
Taxes and duties	5,120,731	629,399
Rent expenses	767,155	670,745
Depreciation and amortization charges	176,142	412,293
Consulting expenses	439,030	411,427
Stationery and IT related expenses	155,280	154,945
Maintanance expenses	134,103	41,726
Other	2,012,120	1,244,626
	<u>220,653,709</u>	<u>30,818,736</u>

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

	1 January- 31 December 2018	1 January- 31 December 2017
General administrative expenses (-)	12,811,718	11,584,483
Marketing expenses (-)	4,671,801	3,421,687
	<u>17,483,519</u>	<u>15,006,170</u>

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

#### a) Detail of general administrative expenses

	1 January- 31 December 2018	1 January- 31 December 2017
Personnel expenses	8,334,510	7,195,755
Advertisement expenses	1,102,035	835,344
Travel and car expenses	761,025	789,573
Taxes and duties	754,285	610,562
Outsource servise expenses	295,084	557,273
Rent expenses	599,171	523,544
Depreciation and amortization charges	176,142	412,293
Consulting expenses	439,030	411,427
Stationery and IT related expenses	155,280	154,945
Maintanance expenses	134,103	41,726
Other	61,053	52,041
	<u>12,811,718</u>	<u>11,584,483</u>

#### Detail of personnel expenses

	1 January- 31 December 2018	1 January- 31 December 2017
Wages and salaries	5,880,839	4,824,149
Social Security Instituion employer's shares	858,767	689,494
Board of directors' remunerations	456,712	591,032
Insurance expenses	504,194	340,929
Employee benefits provision	406,743	217,830
Other	227,255	532,321
	<u>8,334,510</u>	<u>7,195,755</u>

#### b) Detail of marketing expenses

	1 January- 31 December 2018	1 January- 31 December 2017
Advertisement expenses	3,079,161	1,591,107
Commission expenses (*)	356,230	937,492
Common building expenses	945,050	252,420
Sample flat furnishing expenses	14,477	190,836
Sales office rent expenses	167,984	147,201
Taxes and duties	9,766	18,837
Other	99,133	283,794
	<u>4,671,801</u>	<u>3,421,687</u>

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



# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

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

	1 January- 31 December 2018	1 January- 31 December 2017
Foreign exchange gains	4,446,995	1,386,836
Returns from consortium participation	1,176,495	-
Reversal for provisions	360,241	-
Forfeits from cancellation of preliminary sales contracts	181,575	462,663
Incentives and discounts from public institutions	-	516,963
Other income	151,255	566,226
	<u>6,316,561</u>	<u>2,932,688</u>

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

	1 January- 31 December 2018	1 January- 31 December 2017
Foreign exchange losses	(1,667,403)	(1,826,514)
Donations	-	(2,600,000)
Other expenses	(194,537)	-
	<u>(1,861,940)</u>	<u>(4,426,514)</u>

### 19. FINANCE COSTS

	1 January- 31 December 2018	1 January- 31 December 2017
Interest expenses on bank loans	6,849,704	2,212,374
Interest expenses on short term bonds	1,333,855	2,294,796
Interest expenses on short term lease certificates	5,352,871	398,127
Commission expenses	534,410	214,152
Borrowings costs for financial leases	969,107	-
	<u>15,039,947</u>	<u>5,119,449</u>
Capitalized under investment properties	33,494,130	468,699
Total finance expenses	<u>48,534,077</u>	<u>5,588,148</u>

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

#### 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

<b>Earning per share</b>	<b>1 January- 31 December 2018</b>	<b>1 January- 31 December 2017</b>
Weighted average number of shares	858,000,000	858,000,000
Net profit for the period	394,801,082	252,108,771
Earnings per share	0.4601	0.2938

#### 22. FINANCIAL INSTRUMENTS

##### Financial Liabilities

<b>Financial liabilities</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
a) Borrowing Instruments	250,839,562	197,215,447
b) Bank Loans	39,705,725	29,698,973
c) Finance Lease Payables(*)	24,078,915	-
	<b>314,624,202</b>	<b>226,914,420</b>

(\*) 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.

<b>Borrowing instruments</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<i>Short term bonds(*)</i>	-	96,779,831
<i>Short term lease certificates(**)</i>	250,839,562	100,435,616
	<b>250,839,562</b>	<b>197,215,447</b>

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

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

	31 December 2018	31 December 2017
Bank Loans		
<i>Short term bank loans</i>	32,277,472	19,581,472
<i>Short term portion of long term bank loans</i>	3,397,826	3,397,671
<i>Long term bank loans</i>	4,030,427	6,719,830
	<u>39,705,725</u>	<u>29,698,973</u>

Interest rates of financial liabilities are as follows:

Financial Instrument	Currency	Nominal interest rate	31 December 2018	
			Short term	Long term
Lease certificates	TL	24.84%	250,839,562	-
Floating rate loans	TL	26.82%	32,277,472	-
Fixed rate loans	TL	8.00%	3,397,826	4,030,427
			<u>286,514,860</u>	<u>4,030,427</u>

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

Maturities of bank borrowings are as follows:

	31 December 2018	31 December 2017
Less than 1 year	297,317,863	220,194,590
Between 1-2 years	13,992,333	3,073,780
Between 2-3 years	3,314,006	2,779,682
Between 3-4 years	-	866,368
	<u>314,624,202</u>	<u>226,914,420</u>

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

#### 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 changed from 2017. As of 31 December 2018 and 31 December 2017, the net debt/capital ratio calculated as net debt divided by total capital (net debt is calculated as total borrowings less cash and cash equivalents and short-term financial investments) is as follows:

	31 December 2018	31 December 2017
Financial liabilities	314,624,202	226,914,420
Less: Cash and cash equivalents	(28,825,032)	(123,145,273)
Net debt	285,799,170	103,769,147
Total shareholders equity	2,275,075,016	1,879,401,652
Total share capital	858,000,000	820,000,000
Gearing ratio	33%	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.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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				<u>Deposits at Banks</u>
	<u>Trade Receivables</u>		<u>Other Receivables</u>		
<u>31 December 2018</u>	<u>Related Parties</u>	<u>Other</u>	<u>Related Parties</u>	<u>Other</u>	
Maximum credit risk exposed as of balance sheet date (A+B+C+D) (*)	627	15,972,980	-	-	28,825,032
- Secured portion of the maximum credit risk by guarantees (**)	-	2,676,421	-	-	-
A. Net book value of financial assets that are neither past due nor impaired	627	15,972,980	-	-	28,825,032
B. Net book value of financial assets that are past due but not impaired	-	-	-	-	-
C. Net book value of the impaired assets	-	-	-	-	-
- Past due (gross amount)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Secured portion of the net book value by guarantees, etc.	-	-	-	-	-
- Not past due (gross amount)	-	-	-	-	-
- Impairment (-)	-	-	-	-	-
- Secured portion of the net book value by guarantees, etc.	-	-	-	-	-
D. Off-balance sheet items include credit risk	-	-	-	-	-

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

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

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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

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

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

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 gurantee. Credit risks which the Company is exposed and credibility of customers are being monitored regularly. Credit risk is being controlled by the risk management committee through limits which are determined and annually controlled by the Board of Directors.

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

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

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

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

31 December 2018

<b><u>Contractual Terms</u></b>	<b><u>Carrving value</u></b>	<b><u>Total Contractual</u></b>	<b><u>Less than 3</u></b>	<b><u>3 to 12 months</u></b>	<b><u>1 to 5 years</u></b>
		<b><u>Cash Outflows</u></b>			
		<b><u>(I+II+III+IV)</u></b>			
<b>Non-derivative financials liabilities</b>					
Bank loans	39,705,725	40,630,402	33,171,983	2,685,031	4,773,388
Debt securities issued	250,839,562	263,733,849	80,763,699	182,970,150	-
Financia lease liabilities	24,078,915	25,295,900	2,918,758	8,756,273	13,620,869
Trade payables	15,628,217	15,628,217	15,628,217	-	-
Other liabilities	9,355,991	9,355,991	9,355,991	-	-
Total liabilities	339,608,410	354,644,359	141,838,648	194,411,454	18,394,257

31 December 2017

<b><u>Contractual Terms</u></b>	<b><u>Carrving value</u></b>	<b><u>Total Contractual</u></b>	<b><u>Less than 3</u></b>	<b><u>3 to 12 months</u></b>	<b><u>1 to 5 years</u></b>
		<b><u>Cash Outflows</u></b>			
		<b><u>(I+II+III+IV)</u></b>			
<b>Non-derivative financials liabilities</b>					
Bank loans	29,698,973	31,514,942	20,476,482	2,685,031	8,353,429
Debt securities issued	197,215,447	203,158,433	203,158,433	-	-
Trade payables	18,025,957	18,025,957	18,025,957	-	-
Other liabilities	8,775,168	8,775,164	8,775,164	-	-
Total liabilities	253,715,545	261,474,496	250,436,036	2,685,031	8,353,429

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

#### b.3) Market risk management

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

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

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

	31 December 2018			
	TL Amount	US Dollar	Euro	GBP
1. Trade Receivables	-	-	-	-
2a. Monetary Financial Assets	2,169,749	-	359,945	-
2b. Non-monetary Financial Assets	831,222	158,000	-	-
3. Other	-	-	-	-
4. CURRENT ASSETS	3,000,971	158,000	359,945	-
5. Trade Receivables	-	-	-	-
6a. Monetary Financial Assets	-	-	-	-
6b. Non-monetary Financial Assets	-	-	-	-
7. Other	-	-	-	-
8. NON-CURRENT ASSETS	-	-	-	-
9. TOTAL ASSETS	3,000,971	158,000	359,945	-
10. Trade Payables	-	-	-	-
11. Financial Liabilities	10,803,003	-	1,792,137	-
12a. Monetary Other Liabilities	-	-	-	-
12b. Non-Monetary Other Liabilities	-	-	-	-
13. CURRENT LIABILITIES	10,803,003	-	1,792,137	-
14. Trade Payables	53,264	10,124	-	-
15. Financial Liabilities	13,196,350	-	2,189,176	-
16a. Monetary Other Liabilities	-	-	-	-
16b. Non-Monetary Other Liabilities	-	-	-	-
17. NON-CURRENT LIABILITIES	13,249,614	10,124	2,189,176	-
18. TOTAL LIABILITIES	24,052,617	10,124	3,981,313	-
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	(21,051,646)	147,876	(3,621,368)	-
21. Monetary Items Net Foreign Currency Assets / Liabilities (1+2a+5+6a-10-11-12a-14-15-16a)	(21,882,868)	(10,124)	(3,621,368)	-



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

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 December 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	(5,326)	5,326	(5,326)	5,326
2- US Dolar hedges (-)	-	-	-	-
<b>3- Net effect of US Dollar (1 +2)</b>	<b>(5,326)</b>	<b>5,326</b>	<b>(5,326)</b>	<b>5,326</b>
In case of Euro increases in 10% against TL				
4 - Euro net asset/liability	(2,182,960)	2,182,960	(2,182,960)	2,182,960
5 - Euro hedges (-)	-	-	-	-
<b>6- Net effect of Euro (4+5)</b>	<b>(2,182,960)</b>	<b>2,182,960</b>	<b>(2,182,960)</b>	<b>2,182,960</b>
In case of GBP increases in 10% against TL				
7 - GBP net asset/liability	-	-	-	-
8 - GBO hedges (-)	-	-	-	-
<b>9- Net effect of GBP (7+8)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>(2,188,286)</b>	<b>2,188,286</b>	<b>(2,188,286)</b>	<b>2,188,286</b>
	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 (-)	-	-	-	-
<b>3- Net effect of US Dollar (1 +2)</b>	<b>(119)</b>	<b>119</b>	<b>(119)</b>	<b>119</b>
In case of Euro increases in 10% against TL				
4 - Euro net asset/liability	907,362	(907,362)	907,362	(907,362)
5 - Euro hedges (-)	-	-	-	-
<b>6- Net effect of Euro (4+5)</b>	<b>907,362</b>	<b>(907,362)</b>	<b>907,362</b>	<b>(907,362)</b>
In case of GBP increases in 10% against TL				
7 - GBP net asset/liability	462	(462)	462	(462)
8 - GBO hedges (-)	-	-	-	-
<b>9- Net effect of GBP (7+8)</b>	<b>462</b>	<b>(462)</b>	<b>462</b>	<b>(462)</b>
	<b>907,705</b>	<b>(907,705)</b>	<b>907,705</b>	<b>(907,705)</b>

# HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

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

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

#### Interest rate sensitivity analysis

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

#### Interest Position Table

	31 December 2018	31 December 2017
<b>Fixed interest rate instruments</b>		
Financial liabilities	258,267,815	207,332,948
<b>Variable interest rate instruments</b>		
Financial liabilities	32,277,472	19,581,472

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

31 December 2018	Loans and receivables	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial assets</u>				
Cash and cash equivalents	28,825,032	-	28,825,032	26
Trade receivables	15,973,607	-	15,973,607	5
<u>Financial liabilities</u>				
Borrowings	-	314,624,202	314,624,202	22
Trade payables	-	15,549,139	15,549,139	5
Due to related parties	-	79,078	79,078	4
Other financial liabilities	-	9,355,991	9,355,991	13

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	-	9,546,977	17,609,234	5
Due to related parties	-	416,723	416,723	4
Other financial liabilities	-	8,775,168	8,775,168	13

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

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

##### Fair Value of Financial Instruments

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

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

#### 25. EVENTS AFTER THE REPORTING PERIOD

The return and principal payment of the borrowing arising from the lease certificate issued by the Company on 12 October 2018 with a nominal value of TL 75.000.000 bearing the interest rate of 27.5% was made at the maturity date of 22 January 2019.

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

	31 December 2018	31 December 2017
Cash at banks	28,814,246	123,138,273
<i>Demand deposits</i>	691,954	623,757
<i>Time deposits</i>	28,122,292	122,514,516
Expected credit loss (-)	(346)	-
Other liquid assets (*)	11,132	7,000
<i>Cash and cash equivalents in the statement of financial position</i>	28,825,032	123,145,273
Less: Interest income accruals on cash equivalents	(223,504)	(524,510)
<i>Cash and cash equivalents in the statement of cash flows</i>	28,601,528	122,620,763

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

(\*\*)As at 31 December 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.

## HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

### AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

(Amounts expressed in Turkish Lira (TL))

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

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

31 December 2018	Amount	Interest rate	Maturity
<b>Time deposits</b>			
TL	19,444	21%	2 January 2018
TL	1,062	2.00%	2 January 2018
TL	21,126	19.50%	2 January 2018
TL	550,000	22%	2 January 2018
TL	20,152,876	23,25%	22 January 2018
TL	5,208,111	22%	30 January 2018
EUR	2,169,673	3.75%	2 January 2018
	28,122,292		

31 December 2017	Amount	Interest rate	Maturity
<b>Time deposits</b>			
TL	639	3.22%	2 January 2018
TL	1,364	2.00%	2 January 2018
TL	3,529,916	14.25%	5 January 2018
TL	10,044,384	13.50%	22 January 2018
TL	18,131,359	14,30%	5 February 2018
TL	10,044,384	13.50%	20 February 2018
EUR	9,051,598	2.25%	23 February 2018
TL	71,710,872	13.50%	16 March 2018
	122,514,516		

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

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

One of the former directors of the Company's main shareholder, Türkiye Halk Bankası A.Ş. (main shareholder Bank) has been convicted and imprisoned for some of the charges by the court in the United States of America ("USA") of the violation of the USA sanctions involving Iran as of 16 May 2018. The subsequent legal process is not yet completed but ongoing for the defendant former director of the main shareholder Bank such as appeal and other legal rights following the trial.

Main shareholder Bank is not a trialist or defendant in this case. The respective court in this trial has not issued any administrative or monetary decision against the main shareholder Bank. Main shareholder Bank is always sensitive in complying with national and international regulations and puts considerable efforts in improving such compliance policies in line with international standards.

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

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

### **AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 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 (cont'd)**

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

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

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

As at 31 December 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 Gazete 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.

## AUDITED NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2018

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

	Financial statement primary account items	Regulation	31 December 2018 (TL)	31 December 2017 (TL)
<b>A</b>	Money and capital market instruments	Serial: III-48.1, Article 24/(b)	28,825,032	123,145,273
<b>B</b>	Real estates, based on real estates, rights based on real estates	Serial: III-48.1, Article24/(a)	2,391,793,833	2,080,389,207
<b>C</b>	Subsidiaries	Serial: III-48.1, Article24/(b)	--	--
	Due from related parties (non-trade)	Serial: III-48.1, Article23/(f)	--	--
	Other assets		206,260,620	173,399,260
<b>D</b>	<b>Total Assets</b>	Serial: III-48.1, Article3/(k)	<b>2,626,879,485</b>	<b>2,376,933,740</b>
<b>E</b>	Loans and borrowings	Serial: III-48.1, Article31	290,545,287	226,914,420
<b>F</b>	Other financial liabilities	Serial: III-48.1, Article31	--	--
<b>G</b>	Financial leasing obligations	Serial: III-48.1, Article31	24,078,915	--
<b>H</b>	Due to related parties (non-trade)	Serial: III-48.1, Article23/(f)	--	--
<b>İ</b>	Equity	Serial: III-48.1, Article31	2,275,075,016	1,879,401,652
	Other liabilities		37,180,267	270,617,668
<b>D</b>	<b>Total liabilities and equity</b>	Serial: III-48.1, Article3/(k)	<b>2,626,879,485</b>	<b>2,376,933,740</b>
	<b>Other financial information</b>		<b>31 December 2018 (TL)</b>	<b>31 December 2017 (TL)</b>
<b>A1</b>	Portion of money and capital markets instruments for real estate payments of 3 years	Serial: III-48.1, Article24/(b)	--	--
<b>A2</b>	Time deposit/ demand deposit/ TL / foreign currency	Serial: III-48.1, Article24/(b)	28,814,246	123,138,273
<b>A3</b>	Foreign capital market instruments	Serial: III-48.1, Article24/(d)	--	--
<b>B1</b>	Foreign real estates, based on real estates projects, rights for real estates	Serial: III-48.1, Article24/(d)	--	--
<b>B2</b>	Idle land	Serial: III-48.1, Article24/(c)	--	--
<b>C1</b>	Foreign Subsidiaries	Serial: III-48.1, Article24/(d)	--	--
<b>C2</b>	Investment in the operating company	Serial: III-48.1, Article28	--	--
<b>J</b>	Non-cash loans	Serial: III-48.1, Article31	219,069,644	283,396,956
<b>K</b>	Mortgage amounts on land that project to be developed but the ownership does not belong the entity	Serial: III-48.1, Article22/(e)	--	--
<b>L</b>	Total investments of money and capital market instruments at one company	Serial: III-48.1, Article22/(l)	--	--

**HALK GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.****AUDITED NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 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	1 December 2018 (TL)	1 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	91.05%	87.52%
3 Money and capital market instruments and associates	Serial: III-48.1, Article24/(b)	(A+C-A1)/D	Maximum %49	1.10%	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	23.46%	27.15%
8 Time Deposit/ Demand Deposit/ TL / Foreign Currency	Serial: III-48.1, Article24/(b)	(A2-A1)/D	Maximum %10	1.10%	5.18%
9 Total investments of money and capital market instruments at one company	Serial: III-48.1, Article22/(l)	L/D	Maximum %10	--	--