

Halk Gayrimenkul Yatırım Ortaklığı AŞ

Financial Statements
As at and For Year Ended
31 December 2016 with Independent Auditors'
Report Thereon

*“Convenience Translation to English of
Financial Statements
and Notes To The Financial Statements
Originally Issued In Turkish”*

13 February 2017

*This report includes 2 pages of independent
auditor’s report and 66 pages of financial
statements and notes to the financial
statements.*

Halk Gayrimenkul Yatırım Ortaklığı AŞ

Table of contents:

Independent auditors' report

Statement of financial position (balance sheet)

Statement of profit or loss and other comprehensive income

Statement of changes in equity

Statement of cash flows

Notes to the financial statements

Convenience Translation of the Independent Auditors' Report
Originally Prepared and Issued in Turkish to English

To the Board of Directors of Halk Gayrimenkul Yatırım Ortaklığı

Report on the Financial Statements

We have audited the accompanying financial statements of Halk Gayrimenkul Yatırım Ortaklığı Anonim Şirketi ("the Company") which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Turkish Accounting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by the Capital Markets Board of Turkey ("CMB") and Independent Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards.

Emphasis of matter

As explained in Note 4 to the financial statements, the Company generates 54% portion of its revenue from its related parties.

Report on Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code ("TCC") no. 6102; Auditors' Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Company on 13 February 2017.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that for the period 1 January - 31 December 2016, the Company's bookkeeping activities and financial statements are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

3) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member of KPMG International Cooperative

Alper Güvenç, SMMM
Partner

13 February 2017
İstanbul, Türkiye

Additional paragraph for convenience translation to English:

As explained in Note 2.1, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey.

INDEX

	<u>Page</u>
FINANCIAL POSITION (BALANCE SHEET)	1
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	2
STATEMENT OF CHANGES IN EQUITY	4
STATEMENT OF CASH FLOWS	5
NOTES TO THE FINANCIAL STATEMENTS	
Note 1 Reporting entity	7
Note 2 Basis of presentation of financial statements	8
Note 3 Joint operations	21
Note 4 Related party disclosures	23
Note 5 Cash and cash equivalents	25
Note 6 Financial investments	26
Note 7 Trade receivables and payables	27
Note 8 Inventories	28
Note 9 Deferred income	29
Note 10 Investment property	29
Note 11 Tangible assets	40
Note 12 Intangible assets	41
Note 13 Loans and borrowings	42
Note 14 Provisions, contingent assets and liabilities	43
Note 15 Employee benefits	46
Note 16 Prepaid expenses, Other current/non-current assets	47
Note 17 Share capital, reserves and other equity items	49
Note 18 Revenue and cost of sales	51
Note 19 Administrative expenses	52
Note 20 Marketing, sales and distribution expenses	52
Note 21 Other operating income / (expenses)	53
Note 22 Financial expenses	53
Note 23 Income tax	53
Note 24 Earnings per share	54
Note 25 Nature and level of risk arising from financial instruments	54
Note 26 Financial instruments	63
Note 27 Subsequent events	64
Appendix I Control of compliance with restrictions on the investment portfolio	65

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ
STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)
AS AT 31 DECEMBER 2016
(Amounts expressed in Turkish Lira ("TL") unless otherwise stated

ASSETS	Notes	Audited 31 December 2016	Audited (Restated) ^(*) 31 December 2015	Audited (Restated) ^(*) 31 December 2014
CURRENT ASSETS		233,670,563	144,495,869	183,420,241
Cash and cash equivalents	5	51,301,426	16,436,458	8,658,261
Financial investments		--	--	37,928,769
Trade receivables	7	16,867,810	10,076,498	11,984,216
- Due from related parties	4	--	4,649,752	--
- Other		16,867,810	5,426,746	11,984,216
Inventories	8	152,820,902	97,964,900	103,090,737
Prepaid expenses	16	386,883	146,252	244,912
- Related parties	4	220,227	52,219	192,728
- Other		166,656	94,033	52,184
Current tax assets		919,613	79,076	1,094,638
Other current assets	16	11,373,929	19,792,685	20,418,708
- Related parties	4	416	214,083	--
- Other		11,373,513	19,578,602	20,418,708
NON-CURRENT ASSETS		1,621,169,412	1,478,573,514	1,247,843,534
Trade receivables	7	35,274,459	19,033,739	317,535
- Other		35,274,459	19,033,739	317,535
Investment property	10	1,505,807,691	1,437,454,787	1,216,388,470
Prepaid expenses	16	56,127,988	7,547,569	19,616,841
- Related parties	4	--	--	--
- Other		56,127,988	7,547,569	19,616,841
Tangible assets	11	421,443	587,723	915,395
- Furniture and fixtures		421,443	587,723	915,395
Intangible assets	12	316,274	530,242	703,933
- Computer software		316,274	530,242	703,933
Other non-current assets	16	23,221,557	13,419,454	9,901,360
- Other		23,221,557	13,419,454	9,901,360
TOTAL ASSETS		1,854,839,975	1,623,069,383	1,431,263,775
LIABILITIES				
SHORT-TERM LIABILITIES		31,496,435	52,951,759	87,142,074
Current portion of long term borrowings	13	3,397,355	3,396,983	3,397,361
- Borrowings from related parties	4	3,397,355	3,396,983	3,397,361
- Bank loans		3,397,355	3,396,983	3,397,361
Trade payables	7	534,202	1,841,360	606,561
- Due to related parties	4	63,264	51,172	126,242
- Other	7	470,938	1,790,188	480,319
Short term portions of employee benefits	15	801,155	719,224	676,601
Deferred income	9	21,520,181	44,070,843	76,802,390
- Other		21,520,181	44,070,843	76,802,390
Other short-term liabilities		5,243,542	2,923,349	5,659,161
- Other		5,243,542	2,923,349	5,659,161
LONG-TERM LIABILITIES		193,147,796	42,315,152	13,470,697
Long term borrowings	13	9,152,608	11,349,972	13,340,555
- Borrowings from related parties	4	9,152,608	11,349,972	13,340,555
- Bank loans		9,152,608	11,349,972	13,340,555
Long term portions of employee benefits	15	202,050	151,665	130,142
Deferred income	9	183,793,138	30,813,515	--
- Other		183,793,138	30,813,515	--
EQUITY	17	1,630,195,744	1,527,802,472	1,330,651,004
Share capital		790,000,000	743,000,000	697,900,000
Own shares acquired		(22,271,814)	(20,946,784)	(19,675,318)
Share premium		49,945,096	49,945,096	49,945,096
Other comprehensive income that will never be reclassified to profit or loss		649	3,446	(19,660)
- Defined benefit plan actuarial gains / (losses)		649	3,446	(19,660)
Restricted reserves		37,486,655	32,833,600	28,363,063
Retained earnings		667,368,102	520,046,712	424,953,925
Net profit for the period		107,667,056	202,920,402	149,183,898
TOTAL LIABILITIES AND EQUITY		1,854,839,975	1,623,069,383	1,431,263,775

(*) See note 2.1.4

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

		Audited	Audited
		1 January –	(Restated)^(*)
	<i>Notes</i>	31 December 2016	31 December 2015
Revenue	18	79,567,962	99,656,111
Cost of sales	18	(14,222,613)	(28,815,988)
Gross profit		65,345,349	70,840,123
Administrative expenses	19	(13,029,882)	(8,879,352)
Marketing, selling and distribution expenses	20	(5,098,168)	--
Other operating income	21	69,866,427	147,315,393
Other operating expenses	21	(7,976,173)	(4,732,635)
Operating profit		109,107,553	204,543,529
Financial expenses	22	(1,440,497)	(1,623,127)
Profit before tax		107,667,056	202,920,402
Tax income / (expense)	23	--	--
NET PROFIT FOR THE PERIOD		107,667,056	202,920,402
Earnings per share	24	0.13629	0.25686
NET PROFIT FOR THE PERIOD		107,667,056	202,920,402
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income non- reclassified to profit or loss</i>		(2,797)	23,106
- <i>Defined benefit plan actuarial gains (losses)</i>		<i>(2,797)</i>	<i>23,106</i>
<i>Other comprehensive income reclassified to profit or loss</i>		--	--
- <i>Net change in fair value of available-for-sale financial assets</i>		--	--
Other comprehensive income		(2,797)	23,106
TOTAL COMPREHENSIVE INCOME		107,664,259	202,943,508

(*) See note 2.1.4

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

					Other comprehensive income that are or may be reclassified to profit or loss	Other comprehensive income that will never be reclassified to profit or loss		Accumulated profit		
	Notes	Share capital	Own shares acquired	Share premiums	Net loss in fair value of available-for-sale financial assets	Net change in remeasurements of defined benefit liability	Restricted reserves	Retained earnings	Net profit for the period	Total
Balance at 1 January 2015	17	697,900,000	(19,675,318)	49,945,096	--	(19,660)	28,363,063	9,933,568	61,347,146	827,793,895
Effects of changes in accounting policy	2.1.4	--	--	--	--	--	--	415,020,357	87,836,752	502,857,109
Balances at 1 January 2015 (Restated)		697,900,000	(19,675,318)	49,945,096	--	(19,660)	28,363,063	424,953,925	149,183,898	1,330,651,004
Transfer to reserves		--	--	--	--	--	4,470,537	144,713,361	(149,183,898)	--
Total comprehensive income		--	--	--	--	23,106	--	--	202,920,402	202,943,508
Capital increase		45,100,000	(1,271,466)	--	--	--	--	(43,828,534)	--	--
Dividend payment	17	--	--	--	--	--	--	(5,792,040)	--	(5,792,040)
Balance at 31 December 2015	17	743,000,000	(20,946,784)	49,945,096	--	3,446	32,833,600	520,046,712	202,920,402	1,527,802,472
Balance at 1 January 2016	17	743,000,000	(20,946,784)	49,945,096	--	3,446	32,833,600	520,046,712	202,920,402	1,527,802,472
Transfer to reserves		--	--	--	--	--	4,653,055	198,267,347	(202,920,402)	--
Total comprehensive income		--	--	--	--	(2,797)	--	--	107,667,056	107,664,259
Capital increase		47,000,000	(1,325,030)	--	--	--	--	(45,674,970)	--	--
Dividend payment	17	--	--	--	--	--	--	(5,270,987)	--	(5,270,987)
Balance as at 31 December 2016	17	790,000,000	(22,271,814)	49,945,096	--	649	37,486,655	667,368,102	107,667,056	1,630,195,744

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016***(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)*

	Notes	Audited 1 January – 31 December 2016	Audited (Restated) ^(*) 1 January – 31 December 2015
<u>Cash flows from operating activities</u>		49,936,222	95,476,764
Net profit for the period		107,667,056	202,920,402
Adjustments related with net profit reconciliation:			
Adjustments to depreciation and amortization	11,12	417,805	557,026
Adjustments to the provisions		182,222	89,867
-Adjustments to provision for employee severance indemnity		182,222	89,867
Change in fair value of investment properties	10	(61,699,278)	(142,786,751)
Adjustments to the interest income and interest expense		(5,617,645)	1,052,783
-Adjustments to the interest income		(7,000,695)	(570,344)
-Adjustments to the interest expense	22	1,383,050	1,623,127
Adjustments to the unrealized foreign currency conversion		--	203,993
Adjustments to the fair value loss / profit		--	(998,008)
-Adjustments to the financial assets at fair value through profit or loss		--	(998,008)
Changes in working capital			
Adjustments to the increase/decrease in inventory		(54,856,002)	5,125,837
Adjustments to the increase/decrease in trade receivables		(23,032,032)	(17,012,479)
-The increase/decrease in due from related parties		4,649,752	4,649,752
-The increase/decrease in trade receivables		(27,681,784)	(21,662,231)
Adjustments to the increase/decrease in prepaid expenses		(48,821,050)	12,167,932
Adjustments to the increase/decrease in other current assets		(2,223,884)	(1,876,509)
Adjustments to the increase/decrease in trade payables		(1,307,158)	1,234,799
-The increase/decrease in due to related parties		12,092	(75,070)
-The increase/decrease in trade payables from other parties		(1,319,250)	1,309,869
Adjustments to the increase/decrease in deferred income		130,428,961	(1,918,032)
Adjustments to the increase/decrease in other liabilities		2,317,396	(2,712,705)
Cash flows related to the operating activities			
Proceeds from sale of shares or debt instruments of a business organization or funds		--	38,979,163
Interest received		6,529,737	527,553
Dividend received		--	--
Other cash outflows		(49,906)	(78,107)
<u>Cash flows used in investing activities</u>			
Proceed from sale of tangible assets	11	4,140	6,162
Cash payments for acquisition of tangible assets	11	(41,697)	(23,107)
Cash payments for acquisition of intangible assets	12	--	(38,718)
Cash payments for acquisition of investment property	10	(6,653,626)	(78,279,566)
Net cash used in investment activities		(6,691,183)	(78,335,229)

(*) See note 2.1.4

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)
(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

	<i>Notes</i>	Audited	Audited (Restated)^(*)
		1 January – 31 December 2016	1 January – 31 December 2015
<u>Cash flows from financing activities</u>			
Interest paid		(1,318,540)	(1,518,244)
Repayment of borrowings		(2,261,502)	(2,095,845)
-Bank borrowings paid		(2,261,502)	(2,095,845)
Dividend paid	17	(5,270,987)	(5,792,040)
Net cash used in financing activities		(8,851,029)	(9,406,129)
Net increase / (decrease) in cash and cash equivalents before the effect of foreign currency conversion adjustments		34,394,010	7,735,406
The effect of foreign currency conversion adjustments in cash and cash equivalents		--	--
Net increase / (decrease) in cash and cash equivalents		34,394,010	7,735,406
Cash and cash equivalents at the beginning		16,393,667	8,658,261
Cash and cash equivalents at the period end	5	50,787,677	16,393,667

(*) See note 2.1.4

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

1. REPORTING ENTITY

Halk Gayrimenkul Yatırım Ortaklığı AŞ's (the "Company") main activity is to invest in properties, property projects and property related capital market instruments. In accordance with the relevant article of the Capital Markets Board of Turkey's ("CMB") Communiqué on the Principles of Real Estate Investment Trusts, the main objective of the Company is to invest in properties, property projects and property related capital market instruments.

Basis of operations of the Company are consistent with the regulatory requirements of CMB on the Principles of Real Estate Investment Trusts. Investment property portfolio of the Company consists of lands and rental properties which are used as bank branches and head office. The Company obtained the authorization to operate by CMB's document dated 24 September 2010 and numbered 9546 and registered by CMB.

The Company was established on 18 October 2010. Registered capital ceiling of the Company is TL 1,500,000,000. Paid in capital of the Company is TL 790,000,000, 196,217,979 of the total paid in capital was paid in cash whereas TL 466,282,021 of the total paid in capital was paid in kind and TL 127,500,000 as paid bonus issue.

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 2016, the number of personnel employed in the Company is 40 (31 December 2015: 39).

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 CMB by 29 August 2012 for the purpose of initial public offering of the increasing amount of B group of shares TL 185,500,000 notional amount which is increased from TL 477,000,000 issued capital of the Company to TL 662,500,000 within TL 1,500,000,000 registered capital ceiling. Application was approved in accordance with the decision promulgated by CMB's numbered 4/97 on 8 February 2013. As at 13-15 February 2013 there has been an initial public offering of B group shares of TL 185,500,000 notional amount by restricting the existent shareholders for purchasing the new shares. After the collection of the demand the Company's shares started to trade in Borsa İstanbul at 22 February 2013.

As at 11 June 2015, the Company increased its share capital to TL 743,000,000 by transferring TL 45,100,000 from retained earnings to 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 4 September 2014, the Company has signed Joint Operation Agreement with Vakıf Gayrimenkul Yatırım Ortaklığı AŞ for developing real estate project.

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis of presentation

2.1.1. Statement of compliance

The accompanying financial statements and explanatory notes have been prepared in accordance with Turkish Accounting Standards (“TAS”) promulgated by the Public Oversight Accounting and Auditing Standards Authority (“POA”) as set out in the communiqué numbered II-14.1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) of the Capital Markets Board of Turkey (“CMB”), which is published on 13 June 2013 at the Official Gazette numbered 28676. TAS included Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations.

As at 31 December 2016, the financial statements of the Company have been approved by the Board of Directors of the Company on 13 February 2017.

Additional paragraph for convenience translation into English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed may have significant influence on the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles generally accepted in such countries.

2.1.2. Basis of presentation of financial statements

The accompanying financial statements have been prepared in accordance with the “Announcement on Financial Statements and Footnote Formats” of CMB dated 7 June 2013.

2.1.3. Functional and presentation currency

These financial statements are presented in Turkish Lira (“TL”), which is the Company’s functional currency. All financial information is presented in TL unless otherwise stated.

2.1.4. Changes in accounting policies

Except for the change in accounting policies below, the accounting policies applied for the year ended 31 December 2016 have been applied consistently for the year ended 31 December 2015 in preparing these financial statements. Changes in accounting policies are applied retrospectively and restating the prior year financial statements.

Changes in investment property accounting policy

As of 31 December 2016, beginning from the fourth quarter of the current year, accounting policy has changed to fair value method in accordance with “TAS 40 Investment Property” for an appropriate presentation of the Company’s financial performance. Accounting policy is applied retrospectively due to the changes in measurement of investment properties and the financial statements of prior period are restated in accordance with the Turkish Accounting Standard (TAS) – 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The effects of aforementioned adjustments on financial statements dated 31 December 2015 and 31 December 2014 are summarized below.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

*(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)***2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)****2.1. Basis of presentation (continued)****2.1.4. Changes in accounting policies (continued)****Changes in investment property accounting policy (continued)**

31 December 2015	Reported	Accounting policy change effects	Restated
Statement of financial position			
Investment property	789,101,181	648,353,606	1,437,454,787
Non-current assets	830,219,908	648,353,606	1,478,573,514
Total assets	974,715,777	648,353,606	1,623,069,383
Previous year's profit	17,189,603	502,857,109	520,046,712
Net profit for the period	57,423,905	145,496,497	202,920,402
Equity	879,448,866	648,353,606	1,527,802,472
Total liabilities	974,715,777	648,353,606	1,623,069,383

31 December 2014	Reported	Accounting policy change effects	Restated
Statement of financial position			
Investment property	713,531,361	502,857,109	1,216,388,470
Non-current assets	744,986,425	502,857,109	1,247,843,534
Total assets	928,406,666	502,857,109	1,431,263,775
Previous year's profit	9,933,568	415,020,357	424,953,925
Net profit for the period	61,347,146	87,836,752	149,183,898
Equity	827,793,895	502,857,109	1,330,651,004
Total liabilities	928,406,666	502,857,109	1,431,263,775

31 December 2015	Reported	Accounting policy change effects	Restated
Statement of profit or loss			
Cost of sales	(31,525,734)	2,709,746	(28,815,988)
Gross profit	68,130,377	2,709,746	70,840,123
General administrative and marketing and distribution expenses	(8,879,352)	--	(8,879,352)
Other operating income	667,142	146,648,251	147,315,393
Operating profit	59,047,032	145,496,497	204,543,529
Operating profit before tax	57,423,905	145,496,497	202,920,402
Net profit for the period	57,423,905	145,496,497	202,920,402

31 December 2015	Reported	Accounting policy change effects	Restated
Other comprehensive income			
Net profit for the year	57,423,905	145,496,497	202,920,402
Total comprehensive income	57,447,011	145,496,497	202,943,508

1 January 2015	Reported	Accounting policy change effects	Restated
Statement of changes in equity			
Previous year's profit	9,933,568	415,020,357	424,953,925
Net profit for the period	61,347,146	87,836,752	149,183,898

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.1. Basis of presentation (continued)

2.1.4. Changes in accounting policies (continued)

Changes in investment property accounting policy (continued)

31 December 2015	Reported	Accounting policy change effects	Restated
Statement of cash flow			
Net profit for the period	57,423,905	145,496,497	202,920,402
Adjustments to depreciation and amortization	3,266,772	(2,709,746)	557,026
Change in fair value of investment properties	--	142,786,751	142,786,751
Operating profit from before the changes in working capital	61,039,312	--	61,039,312
Net cash provided by operating activities	95,476,764	--	95,476,764
31 December 2015			
Earnings per share		Accounting policy change effects	0.18417

2.1.5. Control of compliance with restrictions on the investment portfolio

As at 31 December 2016, the information in "Control of compliance with restrictions on the investment portfolio" note are summary information prepared from financial statements which are presented within the framework Communiqué II.14.1 in accordance with the accounting and reporting principles accepted by the CMB and published in the Official Gazette dated 28 May 2013 numbered 28660, numbered III-48.1 "Communiqué on Real Estate Investment Basis" related to control of compliance with restrictions on the investment portfolio.

"Control of compliance with restrictions on the investment portfolio" is prepared from accompanying financial statements.

2.2. Changes in accounting estimates and errors

Changes in accounting estimates, if only for one period, are made in the current period, if it is related to future periods, by covering future periods, are applied prospectively. There is no change in estimates in the current period. Material errors are corrected, retrospectively; restating the prior year financial statements. There is no material errors discovered in the current period.

2.3. New standards and interpretations implemented and not yet adopted as at 31 December 2016

2.3.1. The standards and interpretations adopted in 2016

The Company has applied all the standards and interpretations issued by the POA which are effective as at 31 December 2016.

2.3.2. Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. New standards and interpretations implemented and not yet adopted as at 31 December 2016 (continued)

2.3.2. Standards issued but not yet effective and not early adopted (continued)

TFRS 9 - Financial Instruments – Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2018. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

TFRS 15 Revenue from Contracts with Customers

As issued in September 2016, the new standard replaces existing TFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognizing revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under TFRS. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Company will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 9 Financial Instruments – Hedge Accounting and amendments to TFRS 9, TFRS 7 and TAS 39 -IFRS 9 (2013)

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging transactions. Further, the new standard removes the 1 January 2015 effective date of IFRS 9. The new version of IFRS 9 issued after IFRS 9 (2013) introduces the mandatory effective date of 1 January 2018 for IFRS 9, with early adoption permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IFRS 9 Financial Instruments (2014)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. New standards and interpretations implemented and not yet adopted as at 31 December 2016 (continued)

2.3.2. Standards issued but not yet effective and not early adopted (continued)

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The amendments clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. 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. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

IAS 7 Statement of Cash Flows has been amended as part of the IASB’s broader disclosure initiative to improve presentation and disclosure in financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

Amendments to IAS 12 Income Taxes– Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. New standards and interpretations implemented and not yet adopted as at 31 December 2016 (continued)

2.3.2. Standards issued but not yet effective and not early adopted (continued)

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA (continued)

IAS 40 – Transfers of Investment Property

Amendments to IAS 40 - Transfers of Investment Property issued by IASB have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management’s intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2014–2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Company does not expect that these amendments will have significant impact on the financial position or performance of the Company.

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 1 “First Time Adoption of International Financial Reporting Standards”

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters related to disclosures for financial instruments, employee benefits and consolidated financial statements.

IFRS 12 “Disclosure of Interests in Other Entities”

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of IFRS 12, when an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5.

IAS 28 “Investments in Associates and Joint Ventures”

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.4. Summary of significant accounting policies

2.4.1. Accounting for joint operations

The Company has signed a joint operation agreements with Vakıf Gayrimenkul Yatırım Ortaklığı AŞ and Er Konut İnş. Taah. İnş. Malz. Nak. ve Mad. Tic. ve San. A.Ş. for developing real estate projects.

The Company as a joint operator recognize its share in assets, liabilities, revenues and expenses interest in the joint operation in accordance with the TFRS 11 “Joint Arrangements”.

2.4.2. Revenue and expenses

Revenue is recognised when there is a possibility of obtaining economic benefit and when it is possible to measure the revenue in a reliable manner. In order to recognise revenue below mentioned conditions should have been formed.

Rental income from investment property

Rental income from investment properties are recognised on accrual basis. Revenue is recognised when there is a possibility of economic benefits will flow to the entity and when it is possible to measure the revenue reliably. The rental income in which important portion of owner’s risks and rewards are transferred to the leaseholder is classified as financial lease. All other leases are classified as operating leases.

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 the way of “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 revenue as deferred income and share of construction entity as liability to contractor. 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 into the comprehensive income statement.

Revenue

Revenue consists of rental income from real estate, real estate sales revenue and income from capital market instruments. Rental income recorded on an accrual basis and the income from capital market instruments recorded as in accordance with the accounting policies disclosed in Note 2.4.8.

Sales income

Revenue is recognised when the significant risks and rewards of ownership of the investment property are transferred to the buyer and the amount is reliably measured. Revenue is recognised when and only when the Company transfers the significant risks and rewards of ownership of the goods to the buyer, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue and cost of sales are recognised once the sales contracts of the projects are in line with the above stated criteria.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.4 Summary of significant accounting policies *(continued)*

2.4.2. Revenue and expenses *(continued)*

Interest income

Interest income is recognised in profit or loss on accrual basis.

Other income and expense

Other income and expense is recognised in profit or loss on accrual basis.

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. Finance income earned from project loans of which has not been used as an investment for a temporary period are net off with the borrowing costs. All other borrowing costs are recognised in profit or loss in the period which they are incurred.

2.4.3. Investment property

The investment properties that the Company owns are measured by fair value in accordance with TMS 40 “Investment Property”.

Investment properties are kind of properties held by the Company to earn rent or benefit from valuation increases. A gain or loss arising from a change in fair value of investment property is recognized in profit or loss for the related period which it rises (Note 10).

Investment properties are recognized as asset if and only the economic benefits in the future are likely to enter the firm and the cost of investment properties are dependably measurable.

Management considers level of completion of construction, comparability of constructional project in Market, identifiability of cash flows credibly which are following completion of construction, risks of real estate property, backgrounds and reconstruction permits of other construction which has same qualifications for faithfully evaluation of fair value of real estate properties which are under construction.

2.4.4. Inventories

Inventories are measured at the lower of cost and net realizable value. As at 31 December 2016, cost components included in the inventory consist of the land cost which is held for sale of the residence project by the Company.

The Company enters into revenue sharing agreements with construction entities in order to increase sales proceeds from the sales of vacant lands. These lands which are subject to revenue sharing agreements (“LSRSA”) are accounted at cost until the sale is recognised. Sale is recognised when risk and rewards of ownership of land is transferred to the ultimate customers (customers of the construction entities) and when the sales proceeds are reliably determinable.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.4 Summary of significant accounting policies *(continued)*

2.4.5. Tangible assets

All tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation

Depreciation is recognised on a straight-line basis over the useful lives of the property, plant and equipment from the date of acquisition. The expected useful life of furniture and fixtures is 5 years. The useful life of leasehold improvements, accounted under tangible assets, is equal to life of rent agreements.

Subsequent expenditure

Expenditures incurred to replace a component of tangible assets that is accounted for separately, including major inspection and overhaul costs, are capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are recognised in profit or loss as expense as incurred. The gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2.4.6. Intangible assets

All intangible assets are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization

Amortization is recognised on a straight-line basis over the useful lives of intangible assets. The expected useful life of licence rights is between 4-10 years.

2.4.7. Impairment of assets

The Company determines whether there are any indicators for impairment at every reporting date. In the case of an indicator, the recoverable value of that asset is estimated. Where 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

2.4.8. Financial instruments

The Company has the following financial assets; cash and cash equivalents, financial investments and trade receivables; and has the following financial liabilities; loans and borrowings and trade payables.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.4. Summary of significant accounting policies *(continued)*

2.4.8. Financial instruments *(continued)*

i) Non-derivative financial assets

The Company initially recognises the financial assets on the date they are originated.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below: The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset that is created or retained by the Company is recognized as a separate asset or liability.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash, bank deposits with maturity periods of less than three-months and other highly liquid short-term investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. The carrying values of these assets are close to their fair values.

Financial assets at fair value through profit or loss

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

Held for trading financial assets recognized initially on the trade date by their carrying amount and adjusted to their fair value after initial recognition. Gain and losses of held for trading financial assets are recognized through profit or loss.

Available for sale financial assets

Available for sale financial assets are the financial assets other than assets held for trading purposes, financial assets at fair value through profit or loss, held to maturity financial assets and loans and receivables.

Available-for-sale financial assets are subsequently measured at their fair values. Unrecognised gains or losses derived from the difference between their fair value and the discounted values calculated per effective interest rate method are recorded in “other comprehensive income that are and may be reclassified to profit or loss” under other comprehensive income. In case of sales, the realised gain or losses are recognised directly in the statement of operations.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized using effective interest method.

Trade and other receivables

The Company initially recognises trade and other receivables on the date that they are originated and then discounted at the market rate of interest at the reporting date. Specific allowances are identified as being impaired based on regular reviews of outstanding balances to reduce receivables to their recoverable amounts.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.4. Summary of significant accounting policies (continued)

2.4.8. Financial instruments (continued)

ii) Non-derivative financial liabilities

Loans and borrowings

Loans and borrowings are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The Company derecognizes a financial liability when its contractual liabilities are discharged, cancelled or expire.

Trade and other payables

Trade and other payables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

iii) Paid-in capital

Ordinary shares

Ordinary shares are classified as paid in capital. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

2.4.9. Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.4.10. Effects of changes in exchange rates

The financial statements of the Company is presented in the currency of the primary economic environment in which the entity operates. For the purpose of the financial statements, the results and financial position of the Company is expressed in TRY, which is the functional currency of the Company, and the presentation currency for the financial statements.

Income and expenses from transactions in foreign currencies have been translated into Turkish Lira (“TL”) at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL at the exchange rates prevailing at the balance sheet date. Exchange gains or losses arising from conversion of foreign currency items have been included in the income statement.

2.4.11. Earnings per share

Earnings per share are calculated by dividing profit or loss by the weighted average number of ordinary shares outstanding during the period. In Turkey, companies to existing shareholders from retained earnings and shareholders’ equity, shares distributing shares (“bonus shares”) may increase their capital. In case of calculation of earnings per share, this export of bonus share is accepted as issued shares. Therefore average of weighted number of shares used in calculation of earnings per share is provided by applying issued of bonus share retrospectively.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS *(continued)*

2.4. Summary of significant accounting policies *(continued)*

2.4.12. Subsequent events

Subsequent events represent the events that occur against or on behalf of the Company between the reporting date and the date when reporting was authorised for the issue. There are two types of subsequent events:

- those that provide evidence of conditions that existed as at reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

If there is evidence of such events as of reporting date or if such events occur after reporting date and if adjustments are necessary, the Company’s financial statements are adjusted according to the new situation. The Company discloses the post-balance sheet events that are not adjusting events but material.

2.4.13. Provisions, contingent liabilities and contingent assets

A provision is recognised when the Company has a present implicit or legal obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the specified criteria are not met, the Company discloses the related issues in the notes.

If the inflow of economic benefits is probable, contingent assets are disclosed in the notes to the financial statements. If the inflow of the economic benefit is more than likely to occur, such asset and income statement effect are recognised in the financial statements at the relevant period that income change effect occurs.

2.4.14. Related parties

Shareholders, key management and board members, in each case together with companies controlled by or affiliated with them, and associated companies are considered and referred to as related parties. Transactions with the related parties consist of the transfer of the assets and liabilities between related parties by a price or free of charge.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.4 Summary of significant accounting policies (continued)

2.4.15. Segment reporting

The Company operates solely as real estate investments trust therefore segment information is not presented.

2.4.16. Discontinued operations

None.

2.4.17. Government grants and incentives

As disclosed in Note 2.4.18, the Company which operates as a real estate investment trust, is exempt from corporate tax.

2.4.18. Taxation

Corporate income tax

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 New 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 temporary Article (1) of the New 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 New 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 New Corporate Tax Law, real estate investment company 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 Article 5 of the Corporate Tax Law, deferred tax is not recognised.

2.4.19. Employee benefits / reserve for employee severance indemnity

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Company.

The provision for employee severance indemnity has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees.

2.4.20. Statement of cash flows

The Company presents statement of cash flows as an integral part of other financial statements to inform the users of financial statements about the changes in its net assets, its financial structure and its ability to manage the amount and timing of its cash flows under new condition.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.5. Significant accounting estimations, presumption and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant accounting estimates used are described in the following notes:

Note 10 Investment property

3. JOINT OPERATIONS

As at 31 December 2016 and 31 December 2015, voting right of the Company in the joint operation is as follows:

Voting right in the joint operation	31 December 2016	31 December 2015
Halk GYO-Vakıf GYO Adi Ortaklığı	50.0%	50.0%

Voting right in the joint operation	31 December 2016	31 December 2015
Halk GYO- Erkonut Adi Ortaklığı	50.0%	--

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 right. The Company has signed a joint operation agreement with Vakıf Gayrimenkul Yatırım Ortaklığı AŞ for developing real estate projects.

As at 31 December 2016 and 31 December 2015, the Company’s share in financial statements of the Halk GYO-Vakıf GYO Adi Ortaklığı is as follows:

	31 December 2016	31 December 2015
Non-current assets	56,212,076	20,707,816
Current assets	113,175,403	72,250,814
Short-term liabilities	(2,745,975)	(630,357)
Long-term liabilities	(171,312,519)	(92,348,198)
Equity	19,925	19,925
Net assets	(4,651,090)	--
	1 January –	1 January –
	31 December 2016	31 December 2015
Income	--	--
Expenses	(4,651,090)	--
Net loss	(4,651,090)	--

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

3. JOINT OPERATIONS (continued)

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 right. The Company has signed a joint operation agreement with Er Konut İnş. Taah. İnş. Malz. Nak. ve Mad. Tic. ve San. A.Ş. for developing real estate projects.

As at 31 December 2016 and 31 December 2015, the Company’s share in financial statements of the Halk GYO-Erkonut Adi Ortaklığı is as follows:

	31 December 2016	31 December 2015
Non-current assets	13,626,495	--
Current assets	46,046,528	--
Short-term liabilities	(871,588)	--
Long-term liabilities	(58,902,340)	--
Equity	(50,000)	--
Net assets	(150,905)	--
	1 January –	1 January –
	31 December 2016	31 December 2015
Income	--	--
Expenses	(150,905)	--
Net loss	(150,905)	--

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016***(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)***4. RELATED PARTY DISCLOSURES****4.1. Due from / to related parties**

	31 December 2016	31 December 2015	31 December 2014
<i>Banks-Demand deposits</i>			
Halkbank	812,955	391,196	424,071
<i>Banks-Time deposits</i>			
Halkbank	49,757,297	15,243,274	7,902,288
<i>Banks -Other liquid assets</i>			
Halkbank	154,128	650,330	331,560
<i>Bank Bonds-Financial investments</i>			
Halkbank	--	--	34,841,163
Total	50,724,380	16,284,800	43,499,300
<i>Due from related parties</i>			
Halkbank	--	4,649,752	--
<i>Prepaid expenses</i>	220,227	52,219	192,728
Halk Sigorta AŞ	216,938	46,875	188,977
Halk Hayat ve Emeklilik AŞ	3,289	5,344	3,751
<i>Other current assets</i>	416	214,083	--
Halkbank	416	214,083	--
<i>Capitalization of expenses on investment properties</i>	118	1,013,850	42,668
Halkbank	118	759,939	1,875
Halk Sigorta AŞ	--	253,911	40,793
Total	220,761	5,929,904	235,396
<i>Financial borrowings</i>			
Halkbank –short term	3,397,355	3,396,983	3,397,361
Halkbank –long term	9,152,608	11,349,972	13,340,555
Total	12,549,963	14,746,955	16,737,916
<i>Due to related parties</i>			
Halk Sigorta AŞ	46,773	50,907	126,242
Halkbank AŞ	16,491	265	--
Total	63,264	51,172	126,242
<i>Short term deferred income</i>			
Halkbank	--	--	2,788,350
Total	--	--	2,788,350
<i>Loan contribution fee paid to related parties</i>			
Halkbank	1,746,272	--	--
Total	1,746,272	--	--

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016*(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)***4. RELATED PARTY DISCLOSURES (continued)****4.2. Income and expenses from related parties**

	1 January – 31 December 2016	1 January – 31 December 2015
<i>Revenue-Rental income</i>		
Halkbank	36,664,702	35,661,459
Halk Hayat ve Emeklilik AŞ	92,184	86,665
Halk Sigorta AŞ	76,185	86,665
Halk Faktoring AŞ	--	60,926
Total	36,833,071	35,895,715
<i>Revenue-Interest income</i>		
Halkbank deposit interest income	6,109,911	569,249
Halk Yatırım Menkul Değerler AŞ	90,800	--
Halkbank financial investment interest income	--	942,497
Total	6,200,711	1,511,746
<i>Other income</i>		
Halk Hayat ve Emeklilik AŞ	--	9,146
Halk Sigorta AŞ	--	1,582
Total	--	10,728
<i>Financial expenses-Interest expenses</i>		
Halkbank	1,383,050	1,623,127
Total	1,383,050	1,623,127
<i>Cost of sales-Commission expenses</i>		
Halk Yatırım Menkul Değerler AŞ	--	695
Total	--	695
<i>Cost of sales-Other expenses</i>		
Halk Sigorta AŞ	621,580	203,265
Halk Hayat ve Emeklilik AŞ	24,508	7,646
Halkbank	6,923	62,554
Halk Yatırım Menkul Değerler A.Ş.	2,500	2,500
Total	655,511	273,465

For the year ended 31 December 2016, 54% of the revenue comprised the rent and interest income from the related parties (31 December 2015: 37%).

For the year ended 31 December 2016 and 2015, interest income was generated from term deposits and interest expenses comprised from interest expenses on borrowings.

For the year ended 31 December 2016, total benefit which has been provided to Company's top executives is amounting to TL 936,620 (31 December 2015: TL 832,223).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

5. CASH AND CASH EQUIVALENTS

As at 31 December 2016, 31 December 2015 and 31 December 2014, cash and cash equivalents are as follows:

	31 December 2016	31 December 2015	31 December 2014
Banks-Time deposits	50,290,076	15,245,167	7,902,288
Banks-Demand deposits	844,566	393,560	424,195
Other liquid assets ^(*)	166,784	797,731	331,778
Cash and cash equivalents in the statement of financial position	51,301,426	16,436,458	8,658,261
Interest income accruals on cash equivalents	(513,749)	(42,791)	--
Cash and cash equivalents in the statement of cash flows	50,787,677	16,393,667	8,658,261

^(*) As at 31 December 2016, 31 December 2015 and 31 December 2014, other liquid assets consist of credit card receivables from sales of residential unit of Bizimtepe Aydos and Erzurum Şehristan Project.

As at 31 December 2016, 31 December 2015 and 31 December 2014, the details of time deposits at banks, bank bonds and reverse repo are as follows:

31 December 2016	Amount	Nominal interest rate (%)	Maturity
Time deposits			
TL	6,860,197	10.80%	19 January 2017
TL	5,875,305	10.80%	5 January 2017
TL	5,054,590	10.80%	12 January 2017
TL	4,093,068	10.75%	19 January 2017
TL	4,078,357	11.00%	19 January 2017
TL	4,078,357	11.00%	12 January 2017
TL	4,008,607	8.75%	12 January 2017
TL	4,001,913	8.75%	19 January 2017
TL	3,516,525	10.80%	12 January 2017
TL	2,034,863	11.00%	5 January 2017
TL	1,777,942	8.00%	2 January 2017
TL	1,610,859	10.80%	5 January 2017
TL	1,428,880	8.00%	2 January 2017
TL	727,281	8.00%	2 January 2017
TL	702,907	8.00%	2 January 2017
TL	355,980	8.00%	2 January 2017
TL	65,412	8.00%	2 January 2017
TL	19,033	8.25%	2 January 2017
Total	50,290,076		

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

5. CASH AND CASH EQUIVALENTS (continued)

31 December 2015	Amount	Nominal interest rate (%)	Maturity
<u>Time deposits</u>			
TL	5,524,976	12.75%	19 January 2016
TL	3,013,623	12.75%	19 January 2016
TL	2,004,192	12.75%	28 January 2016
TL	1,992,336	8.00%	4 January 2016
TL	1,663,460	8.00%	4 January 2016
TL	735,712	8.00%	4 January 2016
TL	182,066	8.00%	4 January 2016
TL	121,872	9.00%	4 January 2016
TL	5,037	9.00%	4 January 2016
TL	1,893	9.00%	4 January 2016
Total	15,245,167		

31 December 2014	Amount	Nominal interest rate (%)	Maturity
<u>Time deposits</u>			
TL	4,452,288	8.00%	2 January 2015
TL	2,500,000	8.25%	8 January 2015
TL	950,000	8.25%	15 January 2015
	7,902,288		

6. FINANCIAL INVESTMENTS

As at 31 December 2016, the Company has not any financial investment (31 December 2015: None).

As at 31 December 2014, the Company's all of the financial investments comprise of financial assets at fair value through profit or loss and available for sale financial assets, and held to maturity assets, the details of financial investments are as follows:

	Cost	Carrying amount	Maturity	Interest rate (%)
31 December 2014				
<i>Financial assets at fair value through profit or loss</i>				
Bank bonds	34,816,162	34,841,163	5 June 2015	8.49 %
Lease certificates	3,000,000	3,087,606	23 March 2015	9.95 %
Total	37,816,162	37,928,769		
Total financial investments	37,816,162	37,928,769		

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

7. TRADE RECEIVABLES AND TRADE PAYABLES

Trade receivables

The Company’s short term trade receivables consist of notes receivable from sale of residential and rental income at Bakırköy Project, Eskişehir, Bizimtepe Aydos Project and Erzurum Şehristan Project respectively amounting to TL 2,022,556, TL 10,902,192 , TL 996,980 and other receivables amounting to TL 2,946,082 (31 December 2015: Bakırköy Project TL 1,297,847, Panorama Plus Eskişehir TL 547,737, Bizimtepe Aydos Project TL 3,558,719, and Kocaeli Şekerpinar Project TL 4,649,752 and other receivables amounting to TL 22,443) (31 December 2014: Referans Bakırköy Project TL 8,781,572, Eskişehir Panorama Plus Project TL 3,198,840 and other TL 3,804).

The Company’s long-term trade receivables consist of notes receivable from sale of residential units at Bakırköy Project, Bizimtepe Aydos Project and Erzurum Şehristan Project respectively amounting to TL 6,060,202, TL 29,062,160 and TL 152,097 (31 December 2015: Bakırköy Project TL 15,394,330 and Bizimtepe Aydos Project TL 3,639,409) (31 December 2014: Bakırköy Project TL 317,535).

Trade payables

As at 31 December 2016, 31 December 2015 and 31 December 2014, trade payables are as follows:

Short term trade payables

	31 December 2016	31 December 2015	31 December 2014
Other trade payables	470,938	1,790,188	480,319
Trade payables to related parties (Note 4)	63,264	51,172	126,242
Total	534,202	1,841,360	606,561

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

8. INVENTORIES

As at 31 December 2016, 31 December 2015 and 31 December 2014, inventories are as follows:

Land stocks	31 December 2015			31 December 2016	
	Cost	Additions	Disposals	Cost	Cost
İstanbul Bakırköy Land – Residence Project ⁽¹⁾	10,061,154	--	(3,914,434)		6,146,720
Eskişehir- Odunpazarı Land – Residence Project ⁽²⁾	22,591,755	--	(8,485,285)		14,106,470
Sancaktepe Project ⁽³⁾	65,311,991	36,087,362	--		101,399,353
Erzurum Şehristan Project ⁽⁴⁾	--	31,168,359	--		31,168,359
Total	97,964,900	67,255,721	(12,399,719)		152,820,902

(1) The Company has arranged a bid to develop a project on Bakırköy Land as Land Sale of Revenue Sharing Agreement (LSRSA) and as a consequence signed a contract with a firm on 17 February 2012. The Company registered for each plot that the project takes place for construction servitude on 24 February 2014. As at 31 December 2016, 52 independent unit was sold amounting to TL 14,015,299 and cost of sales relating to these sales is amounting to TL 3,914,355 (31 December 2015: 120 independent unit sold amounting to TL 35,835,980 and cost of sales relating to these sales is amounting to TL 10,692,648).

The Company has received an advance payment from subcontractor due to agreement 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.

Referans Bakırköy Project plans which first construction permission was obtained as at 31 May 2012 and still 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 has been approved by relevant authorities as at 19 September 2013. As at 31 December 2016, the deed transfer process of 262 independent units has been completed.

(2) Eskişehir Odunpazarı Land is registered to Odunpazarı/Eskişehir neighbourhood with 1452 block 89 plot and 90 plot. It has place 13,073 m². Eskişehir Odunpazarı Land is registered to 110 plot with change at the partition plan at 22 March 2013. The Company has acquired the plot belongs to Eskişehir Municipality within new 110 plot cost value of TL 668,000 at 22 March 2013 and registered previously named 89 plot and 90 plot as 110 plot. Due to new partition plan investment property is entrusted from 13,073 m² registered as 9,811 m². After entrusting, description of the plot has changed to land from factory building. The deeds of floor easement of 97 residential and 5 commercial units were taken as of 30 December 2014. As at 31 December 2016, 23 independent unit was sold amounting to TL 10,572,462 and cost of sales relating to these sales is amounting to TL 9,028,862 (As at 31 December 2015, 46 independent unit was sold amounting to TL 19,593,827 and cost of sales relating to these sales is amounting to TL 16,237,690). Block D and Block B amounting to TL 2,288,616 have been transferred to the investment property in 2015.

(3) As at 16 October 2014, land in Sancaktepe/İstanbul was purchased amounting to TL 110,000,000 by Halk GYO-Vakıf GYO Adi Ortaklığı for real estate project. The main contractor services agreement has been signed at 22 October 2015 and the construction permit has been granted on 06 November 2015. There is no restriction on the land stock.

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

Land stocks	31 December 2014			31 December 2015	
	Cost	Additions	Disposals	Cost	Cost
İstanbul Bakırköy Land – Residence Project ⁽¹⁾	20,753,802	--	(10,692,648)		10,061,154
Eskişehir- Odunpazarı Land – Residence Project ⁽²⁾	26,233,422	14,884,639	(18,526,306)		22,591,755
Sancaktepe Project ⁽³⁾	56,103,513	9,208,478	--		65,311,991
Total	103,090,737	24,093,117	(29,218,954)		97,964,900

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

9. DEFERRED INCOME

As at 31 December 2016, 31 December 2015 and 31 December 2014, the details of long and short term deferred income are as follow:

	31 December 2016	31 December 2015	31 December 2014
Deferred residential sale income ⁽¹⁾	21,520,181	44,070,843	55,814,040
Advances taken from subcontractors	--	--	18,200,000
Deferred rental income	--	--	2,788,350
Total short term deferred income	21,520,181	44,070,843	76,802,390
Deferred residential sale income ⁽²⁾	183,793,138	30,813,515	--
Total long term deferred income	183,793,138	30,813,515	--
Total deferred income	205,313,319	74,884,358	76,802,390

(1) Deferred residential unit sale income consist of TL 19,669,024 provided by sales of residences from LSRSA project realized on an estate located in Bakırköy and TL 1,851,157 provided by sales of residence project realized from Eskisehir-Odunpazarı Project Deferred residential unit sale income consists of balances in according to sales on LSRSA project. Due to the contract 50.5% revenue from sales is collected by the Company. As at 31 December 2016, TL 27,753,068 of sale is actualized and payment was made to subcontractor at amount progress portion. Referans Bakırköy Project consists of 254 residential and 73 commercial units. As at 31 December 2016, 291 unit has been sold amounting to TL 200.6 Million and conveyance of title has been completed for 262 residential unit amounting to TL 178.6 Million.

(2) Total long term deferred income consist of TL 157,172,304 provided by sales of residences from Bizimtepe Aydos Project, which is on Sancaktepe land and TL 26,620,834 provided by sales of residences from Şehristan Project, which is on Erzurum land.

10. INVESTMENT PROPERTY

As at 31 December 2016, 31 December 2015 and 31 December 2014, the details of investment property are as follow:

	31 December 2016	31 December 2015	31 December 2014
Buildings	859,345,116	737,765,116	461,397,555
Investment property under construction	646,462,575	699,689,671	754,990,915
Total	1,505,807,691	1,437,454,787	1,216,388,470

Fair value measurement

The fair values of investment properties were determined by market comparison technique. The fair value measurement of investment properties is classified as level 2.

Insurance amount on investment properties as at 31 December 2016 is TL 245,334,793 (31 December 2015: TL 310,434,793).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

10. INVESTMENT PROPERTY (continued)

As at 31 December 2016, investment property movement is as follows:

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

- (a) In the current period, due to Hotel Project on Salıpazarı Building, agreement stamp tax and other duties amounting to TL 329,553 and other expenses amounting to TL 930 are capitalized on the cost of project.
- (b) In the current period, due to İstanbul Financial Center Project, architecture and engineering expenses amounting to TL 1,566,395, project management expenses amounting to TL 217,702 agreement stamp tax and other duties amounting to TL 1,294,940 and other expenses amounting to TL 187,646 are capitalized on the cost of project.
- (c) In the current period, due to planned banking base on Kocaeli Şekerpınar Office Project, construction expenses amounting to TL 2,602,979 agreement stamp tax and other duties amounting to TL 66,636 and other expenses amounting to TL 386,845 are capitalized on the cost of project.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016***(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)***10. INVESTMENT PROPERTY (continued)**

As at 31 December 2015, investment property movement is as follows:

Investment property	31 December 2014 Fair value balance	Additions	Transfers	Fair value difference	31 December 2015 Fair value balance
İstanbul Karaköy Building	28,500,000	--	--	1,500,000	30,000,000
İstanbul Salıpazarı Building	43,400,000	--	--	3,280,000	46,680,000
İzmir Konak Building-1	18,530,000	--	--	2,852,200	21,382,200
Ankara Kızılay Building	17,675,000	--	--	(1,475,000)	16,200,000
İstanbul Beyoğlu Building	19,270,000	--	--	2,730,000	22,000,000
İstanbul Beşiktaş Building	15,114,000	--	--	916,000	16,030,000
İstanbul Etiler Building	14,575,000	--	--	1,625,000	16,200,000
İstanbul Şişli Building	13,000,000	--	--	1,325,000	14,325,000
İzmir Konak Building-2	12,600,000	--	--	870,000	13,470,000
Ankara Başkent Building	13,224,000	--	--	(2,224,000)	11,000,000
İstanbul Bakırköy Building	19,602,000	--	--	1,263,000	20,865,000
Bursa Building	10,865,000	--	--	995,000	11,860,000
Ankara Bahçelievler Building 1	9,077,500	--	--	(77,500)	9,000,000
Kocaeli Building	8,567,000	--	--	1,977,000	10,544,000
İstanbul Fatih Building	9,050,000	--	--	950,000	10,000,000
İstanbul Caddebostan Building	7,165,000	--	--	11,525,000	18,690,000
Sakarya Adapazarı Building	8,212,050	--	--	820,450	9,032,500
Ankara Bahçelievler Building 2	7,735,000	--	--	(85,000)	7,650,000
İstanbul Ataköy Building	10,290,000	--	--	685,000	10,975,000
İstanbul Nişantaşı Building	7,475,000	--	--	725,000	8,200,000
Halkbank Finance Tower	167,471,005	--	--	13,734,355	181,205,360
Park Dedeman Levent Hotel	--	--	135,690,224	9,417,344	145,107,568
Kocaeli Şekerpinar Banking Center	--	--	68,853,894	13,667,706	82,521,600
Eskişehir- Panaroma Plus Project - Block D	--	1,644,422	--	2,532,603	4,177,025
Eskişehir- Panaroma Plus Project - Block B17	--	644,194	--	5,669	649,863
Buildings total	461,397,555	2,288,616	204,544,118	69,534,827	737,765,116
Levent Hotel Project (a)	108,160,115	27,530,109	(135,690,224)	--	--
İstanbul Financial Center Project (b)	574,633,400	7,621,024	--	49,842,316	632,096,740
Kocaeli Şekerpinar Office Project (c)	72,197,400	40,839,817	(68,853,894)	23,409,608	67,592,931
Total investment property under construction	754,990,915	75,990,950	(204,544,118)	73,251,924	699,689,671
Total	1,216,388,470	78,279,566	--	142,786,751	1,437,454,787

- (a) In the current period, due to Hotel Project on Levent Land, construction expenses amounting to TL 25,912,832, project management expenses amounting to TL 631,812 agreement stamp tax and other duties amounting to TL 885,195 and other expenses amounting to TL 100,270 are capitalized on the cost of project.
- (b) In the current period, due to İstanbul Financial Center Project, project management expenses amounting to TL 315,058, architecture and engineering expenses amounting to TL 5,640,950, agreement stamp tax and other duties amounting to TL 1,525,304 and other expenses amounting to TL 139,712 are capitalized on the cost of project.
- (c) In the current period, due to planned banking base on Kocaeli Şekerpinar Office Project, architecture and engineering expenses amounting to TL 1,536,352, construction expenses amounting to TL 39,189,063, agreement stamp tax and other duties amounting to TL 37,757 and other expenses amounting to TL 76,645 are capitalized on the cost of project.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

10. INVESTMENT PROPERTY (continued)

Buildings

i. İstanbul Karaköy Building

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

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 CMB and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Karaköy Building has been determined as TL 32,600,000 according to market value approach based on the report dated 13 December 2016 prepared by real estate appraisal company licensed by CMB. There is no restriction on the investment property. The Company rented this property to Halkbank and Halk Faktoring AŞ. The Company earned TL 1,397,550 of rental income for the period started 1 January 2016 and ended 31 December 2016.

ii. İstanbul Salıpaazarı Building

İstanbul Salıpaazarı Building is registered to Beyoğlu/İstanbul Kılıçali neighbourhood with 57 city block and 14th plot. It is a 1,196 m² of land.

The value of the investment property has been determined as TL 22,000,000 according to the report dated 13 November 2009 prepared by real estate appraisal company licensed by CMB and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Salıpaazarı Building has been determined as TL 49,362,000 according to market value approach based on the report dated 16 December 2016 prepared by real estate appraisal company licensed by CMB. There is no restriction on the investment property. The Company earned TL 395,653 of rental income for the period started 1 January 2016 and ended 31 December 2016. The Company signed an agreement with Beril Otelcilik Turizm ve Tic. Ltd. Şti. to rent Salıpaazarı Building as a hotel. It was decided to renovate as a hotel and the alterations permit has been granted on 6 January 2017.

iii. İzmir Konak Building-1

İzmir Konak Corporate Building is registered to Konak/İzmir Akdeniz neighbourhood with 971 city block and 17rd plot. It is a massive block bank building with a place of 739 m². For the independent sections of the property there is no construction servitude.

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 company licensed by CMB and it was devolved as capital in kind on 2 November 2010 by Halkbank. The fair value of Konak Corporate Building has been determined as TL 25,130,000 according to market value approach based on the report dated 14 December 2016 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 1,270,500 of rental income for the period started 1 January 2016 and ended 31 December 2016.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

10. INVESTMENT PROPERTY (continued)

Buildings (continued)

iv. Ankara Kızılay Building

Ankara Kızılay Building is registered to Çankaya/Ankara Cumhuriyet neighbourhood with 1064 city block and 14th plot. It is a massive block apartment with a place of 272 m².

The value of the investment property has been determined as TL 12,475,237 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 Kızılay Building and Service Building has been determined as TL 17,013,475 according to market value approach based on the report dated 23 December 2016 prepared by real estate appraisal company licensed by CMB. There is no restriction on the investment property. The Company has rented this property to HalkBank. The Company earned TL 1,282,600 of rental income for the period started 1 January 2016 and ended 31 December 2016.

v. İstanbul Beyoğlu Building

İstanbul Beyoğlu Building is registered to Beyoğlu/İstanbul Hüseyinağa neighbourhood with 338 city block and 8th plot. It is a massive office block with a place of 195 m².

The value of the investment property has been determined as TL 12,000,000 according to the report dated 9 December 2009 prepared by real estate appraisal company licensed by CMB and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Beyoğlu Building has been determined as TL 24,555,000 according to market value approach based on the report dated 14 December 2016 prepared by real estate appraisal company licensed by CMB. There is no restriction on the 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 1,394,884 of rental income for the period started 1 January 2016 and ended 31 December 2016.

vi. İstanbul Beşiktaş Building

İstanbul Beşiktaş Building is registered to Beşiktaş/İstanbul Sinanpaşa neighbourhood with 291 city block and 93rd plot. It is a massive block office building with a place of 267 m².

The value of the investment property has been determined as TL 11,893,840 according to the report dated 3 February 2010 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 27 October 2010 by Halkbank. The fair value of Beşiktaş Building has been determined as TL 18,320,000 according to market value approach based on the report dated 16 December 2016 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 1,210,000 of rental income for the period started 1 January 2016 and ended 31 December 2016.

vii. İstanbul Etiler Building

İstanbul Etiler Building is registered to Beşiktaş/İstanbul 1st Region with 578 city block and 3rd plot. It is a massive house with a place of 617 m².

The value of the investment property has been determined as TL 11,000,000 according to the report dated 13 November 2009 prepared by the experts assigned by Commercial Court and it was devolved as capital in kind on 27 October 2010 by Halkbank. The fair value of Etiler Building has been determined as TL 16,766,000 according to market value approach based on the report dated 16 December 2016 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 943,800 of rental income for the period started 1 January 2016 and ended 31 December 2016.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

10. INVESTMENT PROPERTY (continued)

Buildings (continued)

viii. İstanbul Şişli Building

İstanbul Şişli Building is registered to Şişli/İstanbul Meşrutiyet neighbourhood with, 129 plate, 954 city block and 62nd plot. It is a massive block apartment with a place of 200 m².

The value of the investment property has been determined as TL 11,000,000 according to the report dated 9 December 2009 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 Şişli Building has been determined as TL 15,135,034 according to market value approach based on the report dated 16 December 2016 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 931,700 of rental income for the period started 1 January 2016 and ended 31 December 2016.

ix. İzmir Konak Building -2

Izmir Konak Building is registered to Konak/İzmir Akdeniz neighbourhood with 2802 city block and 15th plot. It is a massive block bank building with a place of 616 m².

The value of the investment property has been determined as TL 10,290,000 according to the report dated 9 December 2009 prepared by real estate appraisal company licensed by CMB and it was devolved as capital in kind on 2 November 2010 by Halkbank. The fair value of Konak Building has been determined as TL 14,842,000 according to market value approach based on the report dated 16 December 2016 prepared by real estate appraisal company licensed by CMB. There is no restriction on the investment property. The Company rented 180 m² of ground floor and 400 m² of first floor to Halk Sigorta AŞ ("Halk Sigorta"), 171 m² of first floor to Halk Hayat Emeklilik and other divisions to Halkbank. The Company earned TL 873,194 of rental income for the period started 1 January 2016 and ended 31 December 2016.

x. Ankara Başkent Building

Ankara Başkent Building and Service Building is registered to Çankaya/Ankara Cumhuriyet neighbourhood with 1046 city block and 27th plot. It is a massive block apartment with a place of 205 m².

The value of the investment property has been 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 has been determined as TL 11,854,750 according to market value approach based on the report dated 16 December 2016 prepared by real estate appraisal company licensed by CMB. There is no restriction on the investment property. The Company rented this property to Halkbank and Ceda Akaryakıt. The Company earned TL 1,021,218 of rental income for the period started 1 January 2016 and ended 31 December 2016.

xi. İstanbul Bakırköy Building

İstanbul Bakırköy Building is registered to Bakırköy/İstanbul Zeytinlik neighbourhood with 101 city block and 29th plot. It is an eight-storey massive block apartment with a place of 213 m².

The value of the investment property has been 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 16 December 2016 dated report of a real estate valuation firm was licensed by CMB, the fair value of Bakırköy Building has been determined as TL 21,500,350 according to market value approach. There is no restriction on the investment property. The Company has rented this property to Halkbank. The Company earned TL 1,331,000 of rental income for the period started 1 January 2016 and ended 31 December 2016.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

10. INVESTMENT PROPERTY (continued)

Buildings (continued)

xii. 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.

The value of the investment property has been determined as TL 8,500,000 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 Bursa Building has been determined as TL 13,200,000 according to market value approach based on the report dated 16 December 2016 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 892,980 of rental income for the period started 1 January 2016 and ended 31 December 2016.

xiii. Ankara Bahçelievler Building-1

Ankara Bahçelievler Building-1 is registered to Çankaya/Ankara Yukarı Bahçelievler neighbourhood with 2758 city block and 29th plot. It is a five-storey massive block apartment with a place of 612 m².

The value of the investment property has been 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 has been determined as TL 9,860,000 according to market value approach based on the report dated 13 December 2016 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 673,970 of rental income for the period started 1 January 2016 and ended 31 December 2016.

xiv. Kocaeli Building

Kocaeli Building is registered to İzmit/Kocaeli Ömerağa neighbourhood with 870 city block and 48th plot. It is a massive block building with a place of 284 m².

The value of the investment property has been determined as TL 6,519,193 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 Kocaeli Building has been determined as TL 11,862,000 according to market value approach based on the report dated 14 December 2016 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 847,000 of rental income for the period started 1 January 2016 and ended 31 December 2016.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

10. INVESTMENT PROPERTY (continued)

Buildings (continued)

xv. *İstanbul Fatih Building*

İstanbul Commercial Building is registered to Fatih/İstanbul Hobyar neighbourhood with 418 city block and 2nd plot. It is a massive block bank building with a place of 208 m².

The value of the investment property has been determined as TL 6,380,000 according to the report dated 9 December 2009 prepared by real estate appraisal company licensed by CMB and it was devolved as capital in kind on 28 October 2010 by Halkbank. The fair value of Fatih Building has been determined as TL 11,253,750 according to market value approach based on the report dated 16 December 2016 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 605,000 of rental income for the period started 1 January 2016 and ended 31 December 2016.

xvi. *İstanbul Caddebostan Building*

İstanbul Caddebostan Building is registered to Kadıköy/İstanbul Erenköy neighbourhood with 368 city block and 25th plot. It is a massive block apartment with a garden with a place of 902 m².

The value of the investment property has been 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 has been determined as TL 11,225,000 according to market value approach based on the report dated 16 December 2016 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 57,558 of rental income for the period started 1 January 2016 and ended 31 December 2016. The agreement between the Company and Halkbank terminated on 25 January 2016. The main contractor services agreement has been signed on 3 November 2016 for “Caddebostan Building” which is in the urban transformation process. Land value has been taken into account because of urban transformation process.

xvii. *Sakarya Adapazarı Building*

Sakarya Adapazarı Building is registered to Adapazarı/Sakarya Cumhuriyet neighbourhood with 130 city block and 167th plot. It is a land with a place of 3,000 m².

The value of the investment property has been 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 has been determined as TL 10,875,000 according to market value approach based on the report dated 16 December 2016 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 773,553 of rental income for the period started 1 January 2016 and ended 31 December 2016.

xviii. *Ankara Bahçelievler Building-2*

Ankara Bahçelievler Building -2 is registered to Çankaya/Ankara Yukarı Bahçelievler neighbourhood with 2763 city block and 10th plot. It is a stone apartment with a place of 610 m².

The value of the investment property has been 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 has been determined as TL 8,100,000 according to market value approach based on the report dated 16 December 2016 prepared by real estate appraisal company licensed by CMB. There is no restriction on the investment property. The Company rented this property to Koton Mağazacılık Tekstil Sanayi ve Ticaret A.Ş (“Koton”). The Company earned TL 663,778 of rental income for the period started 1 January 2016 and ended 31 December 2016.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

10. INVESTMENT PROPERTY (continued)

Buildings (continued)

xix. İstanbul Ataköy Building

İstanbul Ataköy Building is registered to Bakırköy/İstanbul Kartaltepe neighbourhood with 115 city block and 174th plot. It is a massive block bank building with a place of 515 m².

The value of the investment property has been 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 has been determined as TL 11,260,000 according to market value approach based on the report dated 16 December 2016 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 747,175 of rental income for the period started 1 January 2016 and ended 31 December 2016.

xx. İstanbul Nişantaşı Building

İstanbul Nişantaşı Building is registered to Şişli/İstanbul Halaskargazi neighbourhood with 680 city block and 14th plot. It is an eight-storey massive apartment with a restaurant with a place of 221.50 m². Related property is classified as a cultural asset that is needed to be protected.

The value of the investment property has been determined as TL 5,000,000 according to the report dated 3 February 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 has been determined as TL 8,549,250 according to market value approach based on the report dated 16 December 2016 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 508,200 of rental income for the period started 1 January 2016 and ended 31 December 2016.

xxi. Halkbank Finance Tower

Halkbank Finance Tower is registered to Ataşehir/Küçükbakkalköy neighbourhood with 3332 city block and 24th plot. It is a land with a place of 7,995 m². The investment property has been purchased from the K Yapı Gayrimenkul Geliştirme İnş. San. ve Dış Tic. A.Ş. Due to related agreement, the payment of half of the cost value included VAT, TL 72,275,000 has been made concurrently transfer of 103 unit land register with servitude. 25% portion of sale price TL 36,137,500 was paid on 13 June 2012 and the last payment portion of sale price TL 33,237,500 was paid on 30 July 2012. The other part of payment TL 2,900,000 due to purchase is net off with the other transactions with the K Yapı Gayrimenkul Geliştirme İnş. San. ve Dış Tic. A.Ş. With the payment of first part, register fee of TL 2,070,600, settling expense of TL 509,253 and finance expense of TL 1,466,224 of the loan related with land are added to the building cost. TL 150,000,000 of mortgage has been given as collateral for the loan which obtained from the Halkbank.

The fair value of Halkbank Finance Tower has been determined as TL 186,636,280 according to market value approach based on the report dated 27 December 2016 prepared by real estate appraisal company licensed by CMB. The Company has recognized TL 15,199,980 of rental income for the period started 1 January 2016 and ended 31 December 2016.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

10. INVESTMENT PROPERTY (continued)

Buildings (continued)

xxii. Park Dedeman Levent Hotel

Levent Land is registered to Mecidiyeköy/Şişli neighbourhood with 1957 city block and 6th plot. The land is place of 2,791 m². The value of investment property has been determined as TL 25,799,000 according to the report dated 22 February 2010 by the experts assigned by Commercial Court and transferred to the Company as capital in kind on 3 November 2010 by Halkbank. The Hotel Project on the land has been started with the agreement between Dedeman Turizm Yönetimi AŞ. The fair value of Park Dedeman Levent Hotel has been determined as TL 165,378,233 according to cost value approach based on the report dated 27 December 2016 prepared by real estate appraisal company licensed by CMB. There is no restriction on the investment property.

The Company has recognized TL 9,137,850 of rental income for the period started 1 January 2016 and ended 31 December 2016.

xxiii. Kocaeli Şekerpınar Banking Center

Şekerpınar Banking Center is registered to Şekerpınar/Kocaeli neighbourhood with 420 block and 26 plot. There is no restriction on the investment property. Occupancy permit for Şekerpınar Banking Center is received as of 14.10.2015. Within the frame of the goodwill agreement signed with Halkbank on 21 May 2015, a 10-year lease agreement has been signed to be valid after 15 April 2015 with an amount of TL 442,625+VAT. The fair value of the investment property has been determined as TL 88,704,000 according to market value approach based on the report dated 22 December 2016 prepared by real estate appraisal company licensed by CMB.

The Company has recognized TL 5,547,331 of rental income for the period started 1 January 2016 and ended 31 December 2016.

xxiv. Eskişehir– Panaroma Plus Project - D Block

Eskişehir Block D is registered to Odunpazarı/Eskişehir neighbourhood with 13,124 block and 1 plot. There is no restriction on the investment property. Occupancy permit for Eskişehir Block D is received as of 28.08.2015. The Company signed 10-year lease agreement with Migros Ticaret A.Ş. on 20.08.2015. Within the frame of related lease agreement, starting date of leasing is determined as same date with opening. The fair value of the investment property has been determined as TL 4,199,760 according to market value approach based on the report dated 16 December 2016 prepared by real estate appraisal company licensed by CMB. The Company earned TL 151,861 of rental income for the period started 1 January 2016 and ended 31 December 2016.

xxv. Eskişehir– Panaroma Plus Project - B17 Block

Eskişehir Block B is registered to Odunpazarı/Eskişehir neighbourhood with 13,124 block and 1 plot. There is no restriction on the investment property. Occupancy permit for Eskişehir Block B is received as of 02.11.2015. The Company signed a lease agreement amounted TL 6,000+VAT with a real person on 01 November 2015. The fair value of the investment property has been determined as TL 862,650 according to market value approach based on the report dated 16 December 2016 prepared by real estate appraisal company licensed by CMB. The Company earned TL 72,600 of rental income for the period started 1 January 2016 and ended 31 December 2016.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

10. INVESTMENT PROPERTY (continued)

Buildings (continued)

Kocaeli Şekerpınar Office Project

Şekerpınar Office Project is registered to Şekerpınar/Kocaeli neighbourhood with 420 block and 26 plot. It has place 15,652 m². There is no restriction on the 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. The fair value of the investment property of second zone of the Project, Block B, has been determined as TL 70,300,584 according to market value approach based on the report dated 22 December 2016 prepared by real estate appraisal company licensed by CMB. After the completion, the fair value of the property shall be TL 76,633,516.

Investment property under construction

İstanbul Financial Center Project

Ataşehir Land is registered to Ümraniye/İstanbul Küçükbakkalköy neighbourhood with 3328 city block and 3rd plot. It has a place of 28,732 m². The value of the investment property has been 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 at 28 October 2010 by Halkbank. The fair value of Ataşehir Land has been determined as TL 646,462,575 according to market value approach based on the report dated 22 December 2016 prepared by real estate appraisal company licensed by CMB. There is no restriction on the investment property. The Company applied for construction licence as at 31 December 2014.

Istanbul Finance Center project is developed under coordination of Ministry of Environment and Urbanisation of Turkish Republic. A protocol and initial confirmation is signed between the Company and the Ministry regarding the administration process of the Project.

At 25 December 2012, previous 3323 city block and 3rd plot of the Company has revised at the new partition plan of the Project and new land is registered as 3328 block 4th plot and 3328 block 11th plot. Plots have surface area of 16,337 m² and 12,395 m², 135,835 m² and 102,953 m² 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 IFC in İstanbul have been granted for the mixed use (office&retail) project. The main contractor services agreement has been signed on 8 December 2016 for "IFC Project".

Operating leases

The Company as lessor

The Company has signed operating lease agreements with HalkBank, Koton, Halk Sigorta, Turkish Treasury, Beril Otelcilik Turizm and Ceda Akaryakıt Turizm as lessor. The future minimum lease payments as at 31 December 2016, 31 December 2015 and 31 December 2014 under non-cancellable leases are as follows:

	31 December 2016	31 December 2015	31 December 2014
Less than one year	47,668,231	31,442,378	25,573,539
Between one and five years	151,368,362	107,116,477	6,823,753
More than five years	50,827,720	46,780,737	575,785
Total	249,864,313	185,339,592	32,973,077

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

11. TANGIBLE ASSETS

Movement schedule of tangible assets for the period from 1 January 2016 to 31 December 2016 are as follows:

	1 January 2016	Additions	Disposals	31 December 2016
<u>Cost</u>				
Furniture and fixtures	1,133,691	41,697	(7,230)	1,168,158
Leasehold improvements	661,327	--	--	661,327
	1,795,018	41,697	(7,230)	1,829,485
<u>Accumulated depreciation</u>				
Furniture and fixtures	(545,968)	(203,837)	3,090	(746,715)
Leasehold improvements	(661,327)	--	--	(661,327)
	(1,207,295)	(203,837)	3,090	(1,408,042)
	587,723	(162,140)	(4,140)	421,443

For the year ended 31 December 2016 tangible assets amounting to TL 41,697 were acquired.

As at 31 December 2016, total insurance on tangible assets amounting TL 1,140,000 (31 December 2015: TL 1,400,000).

Movement schedule of tangible assets for the period from 1 January 2015 to 31 December 2015 are as follows:

	1 January 2015	Additions	Disposals	31 December 2015
<u>Cost</u>				
Furniture and fixtures	1,119,413	23,107	(8,829)	1,133,691
Leasehold improvements	661,327	--	--	661,327
	1,780,740	23,107	(8,829)	1,795,018
<u>Accumulated depreciation</u>				
Furniture and fixtures	(385,003)	(163,632)	2,667	(545,968)
Leasehold improvements	(480,342)	(180,985)	--	(661,327)
	(865,345)	(344,617)	2,667	(1,207,295)
	915,395	(321,510)	(6,162)	587,723

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016*(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)***12. INTANGIBLE ASSETS**

Movement schedule of intangible assets for the period from 1 January 2016 to 31 December 2016 are as follows:

	1 January 2016	Additions	Disposals	31 December 2016
<u>Cost</u>				
Other intangible assets	755,396	--	--	755,396
	755,396	--	--	755,396
<u>Accumulated depreciation</u>				
Other intangible assets	(225,154)	(213,968)	--	(439,122)
	(225,154)	(213,968)	--	(439,122)
	530,242	(213,968)	--	316,274

For the year ended 31 December 2016 no intangible assets were acquired.

As at 31 December 2016, there is no insurance on intangible assets (31 December 2015: None).

Movement schedule of intangible assets for the period from 1 January 2015 to 31 December 2015 are as follows:

	1 January 2015	Additions	Disposals	31 December 2015
<u>Cost</u>				
Other intangible assets	716,678	38,718	--	755,396
	716,678	38,718	--	755,396
<u>Accumulated depreciation</u>				
Other intangible assets	(12,745)	(212,409)	--	(225,154)
	(12,745)	(212,409)	--	(225,154)
	703,933	(173,691)	--	530,242

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

13. LOANS AND BORROWINGS

As at 31 December 2016, 31 December 2015 and 31 December 2014, financial borrowings are as follows:

	31 December 2016	31 December 2015	31 December 2014
Short-term financial liabilities:			
Short-term portion of long-term borrowings	3,397,355	3,396,983	3,397,361
Total short-term borrowings	3,397,355	3,396,983	3,397,361
Long-term borrowings:			
Long-term bank loans	9,152,608	11,349,972	13,340,555
Total long-term liabilities	9,152,608	11,349,972	13,340,555
Total financial liabilities	12,549,963	14,746,955	16,737,916

Financial debt repayment schedule is as follows:

	31 December 2016	31 December 2015	31 December 2015
Less than 1 year	3,397,355	3,396,983	3,397,361
1–2 between years	3,073,640	3,072,510	3,073,017
2–3 between years	2,780,637	2,779,748	2,779,488
3–4 between years	2,514,587	2,514,760	2,514,646
4–5 between years	783,744	2,274,149	2,274,931
More than 5 years	--	708,805	2,698,473
Total	12,549,963	14,746,955	16,737,916

31 December 2016:

Currency	Nominal interest rate (%)	Maturity	Short-term	Long-term
TL	8	2021	3,397,355	9,152,608
Total			3,397,355	9,152,608

31 December 2015:

Currency	Nominal interest rate (%)	Maturity	Short-term	Long-term
TL	8	2021	3,396,983	11,349,972
Total			3,396,983	11,349,972

31 December 2014:

Currency	Nominal interest rate (%)	Maturity	Short-term	Long-term
TL	8	2021	3,397,361	13,340,555
Total			3,397,361	13,340,555

(*) Real estate located in İstanbul Beyoğlu Asmalımescit purchased with Halkbank loan at 25 April 2011 (sold out 8 September 2011).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

14. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

As at 31 December 2016, The Company is subject of three labour law suits, three consumer law suits, four tax law suit one commercial law suit and one administrative suit which has been filed against the Company.

The possible claims against the Company are amounting to;

- 1) Labour law suit which is in judgement process at İstanbul Anadolu Labor Court amounting to TL 56,880.
- 2) Consumer law suit which is in judgement process at Eskişehir Consumer Court amounting to TL 67,760.

According to the decision of CMB's on 9 September 2009 related to the commitments of publicly owned companies given to the guarantee 3rd party's debts, the commitments given;

For companies other than publicly owned associations and financial institutions;

- i) For their own corporate identities
- ii) In favour of fully consolidated associations
- iii) In favour of 3rd parties to continue their operations will not be limited.

After the decision is published at the Platform of Public Enlightenment, publicly owned companies will not give commitments 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 commitments have already been given it will be reduced to nil until 31 December 2014.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

14. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (continued)

As at 31 December 2016, 31 December 2015 and 31 December 2014 commitments, pledges and mortgages (CPM) given are as follows:

	31 December 2016		31 December 2015		31 December 2014	
	Original amount	Book value	Original amount	Book value	Original amount	Book value
A. Commitments given in the name of own legal entity ⁽¹⁾	256,159,616	256,159,616	249,807,018	249,807,018	150,849,009	150,849,009
B. Commitments given in favour of full consolidated subsidiaries	--	--	--	--	--	--
C. Commitments given to guarantee the debts of third parties to continue their operations ⁽²⁾	73,948,731	73,948,731	--	--	--	--
D. Other commitments given;	--	--	--	--	--	--
- in favour of parent company	--	--	--	--	--	--
- in favour of group companies other than mentioned in bullets B and C	--	--	--	--	--	--
- in favour of third parties other than mentioned in bullets C	--	--	--	--	--	--
Total	330,108,347	330,108,347	249,807,018	249,807,018	150,849,009	150,849,009

⁽¹⁾ The mortgages have been given to Halkbank related to loan used for the Halkbank Finance Tower amounting to TL 150,000,000 (31 December 2015: TL 150,000,000) (Although loan agreement has been closed, mortgage has not been cancelled under general loan agreement between Halkbank and the Company) guarantee letter given for road accession commitment of and guarantee letter given for road accession commitment of Halkbank Finance Tower amounting to TL 97,504,542 (31 December 2015: TL 97,504,542), there is no guarantee letter given for electricity and gas supply commitment of Eskişehir Project (31 December 2015: TL 149,255 and TL 6,750). The mortgages have been given to customers related to loan used for Eskişehir project and Bakırköy project amounting to TL 4,780,000 as guarantor, related to Caddebostan Building renovation amounting to TL 1,266,407, related Şekerpinar project amounting TL 48,938, guarantee letter given for related VAT return amounting to TL 2,154,084 and Levent Hotel Project amounting to TL 368,882, related to suit amounting to 36,763 TL (31 December 2015: TL 325,523), and guarantee letter given for Kocaeli project amounting to TL 35,498 (31 December 2015: TL 538,448).

⁽²⁾ The balance consist of company's guarantor balance for the customers. The company's joint venture foundation of Halk Gyo-Vakıf Gyo Adı Ortaklığı begun pre-sales of residential at Bizimtepe Aydos Project. If customers use loans from banks that the Company agreed, Company will be guarantor to to the customers. Halk Gyo-Vakıf Gyo Adı Ortaklığı signed the general guarantee agreement with the agreed banks amounting to TL 850,565,000 as of 31 December 2016. The Company's responsibility is TL 425,282,500. The pre-sales of Halk Gyo-Vakıf Gyo Adı Ortaklığı amounting to TL 127,556,870 performed through the guarantee agreement. The risk of the Company is TL 63,778,435 due to the pre-sales through the guarantee agreements as of 31 December 2016. The proportion of other CPM and Company's equity is 3.91 % as of 31 December 2016.

⁽³⁾ The balance consist of company's guarantor balance for the customers. The company's joint venture foundation of Halk Gyo-Erkonut Adı Ortaklığı begun pre-sales of residential at Erzurum Şehristan Project. If customers use loans from banks that the Company agreed, Company will be guarantor to to the customers. Halk Gyo-Erkonut Adı Ortaklığı signed the general guarantee agreement with the agreed banks amounting to TL 175,000,000 as of 31 December 2016. The Company's responsibility is TL 87,500,000. The pre-sales of Halk Gyo-Vakıf Gyo Adı Ortaklığı amounting to TL 20,340,592 performed through the guarantee agreement. The risk of the Company is TL 10,170,296 due to the pre-sales through the guarantee agreements as of 31 December 2016. The proportion of other CPM and Company's equity is 0.62 % as of 31 December 2016.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

14. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (continued)

As at 31 December 2016 and 31 December 2015, the details of letter of guarantees are presented below:

	31 December 2016	31 December 2015
YDA İnşaat San. ve Tic. AŞ ⁽¹¹⁾	82,665,000	--
Haldız İnşaat Otomotiv ve Tic Ltd.Şti ⁽⁷⁾	26,950,000	19,560,000
Dedeman Turizm Yönetimi AŞ ⁽²⁾	14,839,600	12,710,400
Er Konut İnş. Taah. İnşaat Mlz. Nakliye ve Mad. Tic.AŞ ⁽⁹⁾	13,650,000	--
Sapaz Otelcilik Turizm İnşaat Sanayi ve Ticaret AŞ ⁽⁸⁾	5,564,850	4,766,400
Ilgazlar İnşaat Tic. ve San. AŞ ⁽⁶⁾	2,400,000	2,751,981
K Yapı Gayrimenkul Geliştirme İnş. San. ve Dış Tic. AŞ ⁽¹⁾	2,000,000	4,950,296
CNV Yapı Mimarlık San.Tic.Ltd.Şti. ⁽¹⁰⁾	1,610,000	--
Entegre Proje Yönetim Dan. Müh.Tic. AŞ ⁽⁴⁾	693,158	884,000
Koton Mağazacılık Tekstil San ve Tic AŞ ⁽⁵⁾	440,060	412,503
Borusan Makine ve Güç Sistemleri San.ve Tic. AŞ ⁽¹⁾	353,924	303,143
YPU Yapı Proje Uygulama Ltd. Şti. ⁽⁷⁾	337,170	368,100
Biskon Yapı AŞ ⁽³⁾	300,000	4,480,200
Megapol Mühendislik Tic. AŞ ⁽¹⁾	225,000	198,000
Mutlu Çilingiroğlu Mimarlık İnş. San. ve Tic. Ltd. Şti. ⁽⁷⁾	160,500	160,500
Ericsson Telekomünikasyon AŞ ⁽¹⁾	--	3,145,824
Proplan Proje Yönetim AŞ ⁽⁶⁾	--	73,800
Other	343,355	626,119
Total	152,532,617	55,391,266

(1) The Company has received letter of guarantee from the suppliers for architectural and construction activities within the scope of banking operations center project that being built on Kocaeli Şekerpinar Land.

(2) The Company has received letter of guarantee from the suppliers for architectural and construction activities within the scope of Dedeman Otel Project.

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

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

(5) Koton is the lessee of the Company.

(6) The Company is the contractor company of Eskişehir Panorama Project.

(7) Guarantee letter has been received from suppliers relating to architectural and construction businesses of Bizimtepe Aydos project.

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

(9) The Company has received letter of guarantee related to Erzurum Şehristan Project.

(10) Guarantee letter has been received from suppliers relating to renovation and construction of Caddebostan Building.

(11) Guarantee letter has been received from prime contractor of İFC Project.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

15. EMPLOYEE BENEFITS

As at 31 December 2016, 31 December 2015 and 31 December 2014 the details of employee benefits are presented below:

	31 December 2016	31 December 2015	31 December 2014
Short-term liabilities			
Employee premium provision	543,573	500,019	492,513
Vacation pay liability	257,582	219,205	184,088
Total	801,155	719,224	676,601

	31 December 2016	31 December 2015	31 December 2014
Long-term liabilities			
Provision for employee benefits	202,050	151,665	130,142
Total	202,050	151,665	130,142

In accordance with the existing labour code in Turkey, the Company is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The Company calculated the severance pay liability for the retirement of its employees by discounting the future liabilities to their present values and reflected to the financials.

TAS 19 – *Benefits for Employees Reserves* Standard, requires the company to book the severance pay liability by developing actuarial valuation methods.

Primary actuarial estimations used at the attached financial statements are stated below regarding 31 December 2016 31 December 2015 and 31 December 2014:

	31 December 2016	31 December 2015	31 December 2014
Discount rate	4.72%	4.72%	2.83%
Expected salary/limit increase rate	6.00%	6.00%	6.00%
Estimated retirement turnover rate	96%	96%	96%

	31 December 2016	31 December 2015	31 December 2014
Balance at the beginning	151,665	130,142	49,390
Interest cost	15,131	11,713	4,840
Service cost	82,363	58,638	61,333
Payments	(49,906)	(25,721)	(5,081)
Actuary difference	2,797	(23,107)	19,660
Balance at the end of period	202,050	151,665	130,142

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

16. PREPAID EXPENSES, OTHER CURRENT, NON-CURRENT ASSETS**Prepaid expenses**

As at 31 December 2016, 31 December 2015 and 31 December 2014, the details of prepaid expenses are presented below:

	31 December 2016	31 December 2015	31 December 2014
Prepaid insurance expenses	220,227	52,219	192,728
Prepaid advertising and promotion expenses	--	30,260	12,563
Other	166,656	63,773	39,621
Total short term prepaid expenses	386,883	146,252	244,912
Investment advances ^(*)	56,125,984	7,542,325	19,604,382
Other	2,004	5,244	12,459
Total long term prepaid expenses	56,127,988	7,547,569	19,616,841
Total prepaid expenses	56,514,871	7,693,821	19,861,753

(*) As at 31 December 2016, advances given consist of followings, related to İFM Project amounting to TL 37,879,038, project administration firms due to the Sancaktepe Project advance amounting TL 9,529,353 and due to the Erzurum Şehrstan Project advance amounting TL 7,873,322 and other advances given amounting to TL 844,271.

As at 31 December 2015, advances given consist of followings, due to the planned banking base Project on Kocaeli Şekerpinar Land amounting to TL 680,927, due to the İFC Project advance amounting TL 411,496 is given to the contractor architecture and project administration firms, and project administration firms and due to the Sancaktepe Project advance amounting TL 6,449,902.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

16. PREPAID EXPENSES, OTHER CURRENT, NON-CURRENT ASSETS (continued)**Other current assets**

As at 31 December 2016, 31 December 2015 and 31 December 2014, the details of other current assets are presented below:

	31 December 2016	31 December 2015	31 December 2014
Deferred value added tax (“VAT”)	9,400,241	18,855,145	19,897,516
Other current assets from related parties (Note 4)	--	214,083	--
Deposits and guarantees given	56,925	126,014	35,140
Advances given	1,351	3,088	7,357
Other	1,915,412	594,355	478,695
Total	11,373,929	19,792,685	20,418,708

Other non-current assets

As at 31 December 2016, 31 December 2015 and 31 December 2014, the details of other non-current assets are presented below:

	31 December 2016	31 December 2015	31 December 2014
Deferred value added tax (“VAT”)	23,221,557	13,419,454	9,901,360
Total	23,221,557	13,419,454	9,901,360

As at 31 December 2016, VAT receivable amounting to TL 23,221,557 caused by purchasing Sancaktepe land of Halk GYO-Vakıf GYO Adi Ortaklığı and purchasing Erzurum land of Halk GYO-Erkonut Adi Ortaklığı are classified to “other non-current assets”.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

17. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS

17.1. Paid in capital

As at 31 December 2016 and 31 December 2015, the issued and fully paid in capital of the Company is as follows:

	Group	31 December 2016		31 December 2015	
		Share %	Amount	Share %	Amount
Halkbank	A	1.58	12,482,570	1.58	11,739,936
Halkbank	B	70.38	556,019,397	70.38	522,939,741
Halk Yatırım	A	0.04	298,113	0.04	280,377
Halk Finansal Kiralama AŞ	A	<0.01	1	<0.01	1
Publicly held ^(*)	B	28.00	221,199,919	28.00	208,039,945
Pain in capital		100.00	790,000,000	100.00	743,000,000

(*) Halkbank has 58,178,538 B group shares with the share rate of 7.36 on publicly held (31 December 2015: 52,492,058).

The Company shares are issued into two type of groups; Group A and Group B to names. The Group A shares have the right to vote for the election of members of the Board of Directors ("BOD"). One more member of half of BOD members are elected through A Group shares' candidates and remaining members are elected through A Group and B Group shares' candidates by General Board. Capital increases in the Group A and B shares are issued as the Group A and B shares, respectively. However, if the BOD restricts the right of owning new shares for shareholders, new shares are issued as the Group B shares.

The Company has been established with registered capital ceiling is TL 1,500,000,000 registered shares of TL 1. The Company's nominal capital value is amounting to TL 790,000,000 and had been portioned to 790,000,000 shares. All capital value has been subscribed by the founders; amounting to TL 196,217,979 has been paid as cash, amounting to TL 127,500,000 has been paid as capital increase from reserves and amounting to TL 466,282,021 has been paid in kind by Halkbank which is the lead shareholder.

Due to the numbered 49/110 Board of the Directors of the Company as at 15 August 2012, the Company increased the capital to TL 662,500,000. Increased capital of TL 185,500,000, 185,500,000 unit shares, is publicly offered as at 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.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

17. SHARE CAPITAL, RESERVES AND OTHER EQUITY ITEMS (continued)

17.2. Own shares acquired

The Company's own shares acquired are accounted at their costs. The Company acquired its own shares having a notional amount of 22,271,814 (31 December 2015: 20,946,784 shares).

As at 31 December 2016, The Company's own shares acquired detail as follows:

Transaction	Transaction date	Notional amount	Weighted average share price	Transaction amount
Repurchase share	26 February 2013	933,649	1.34	1,251,090
Repurchase share	27 February 2013	736,571	1.34	987,004
Repurchase share	28 February 2013	1,000,000	1.34	1,340,000
Repurchase share	1 March 2013	2,297,269	1.32	3,021,922
Repurchase share	5 March 2013	3,455,130	1.33	4,608,678
Repurchase share	11 March 2013	457,867	1.32	604,384
Repurchase share	12 March 2013	586,245	1.32	773,843
Repurchase share	15 March 2013	2,000,000	1.32	2,640,000
Repurchase share	21 March 2013	7,210,586	1.33	9,582,612
Bonus shares	20 June 2013	314,024	0.00	--
Bonus shares	5 June 2014	683,977	0.00	--
Bonus shares	11 June 2015	1,271,466	0.00	--
Bonus shares	25 May 2016	1,325,030	0.00	--
Total own shares acquired		22,271,814	1.11	24,809,533

17.3. Share premiums

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 as share premium. Commission expenses, advertising expenses and consultancy expenses which are related with the initial public offering amounting to TL 8,847,688 are net off with share premium. Additionally, the difference of sales price over nominal value of own shares acquired amounted to TL 6,132,216 are net off with share premium.

17.4. Restricted reserves

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 of acquisition amount of the company's own shares acquired. The reserve for the company's own shares may be written back in the amount of any sold or destroyed shares valued at cost.

As at 31 December 2016, the Company's restricted reserves are legal reserves and amounting to TL 37,486,655 (31 December 2015: TL 32,833,600).

17.5. Dividend

As at 25 May 2016, dividend distributed to the shareholders is amounting to TL 5,423,899. Since the Company has written back its own shares in the amount of TL 152,912, net amount of dividend distributed to the shareholders is amounting to TL 5,270,987 (2015: TL 5,792,040).

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016***(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)***18. REVENUE AND COST OF SALES**

For the years ended 31 December 2016 and 31 December 2015, revenue is as follows:

	1 January – 31 December 2016	1 January – 31 December 2015
Rental income	47,930,935	42,065,203
Income from sales of residence	24,587,761	55,429,807
Other	--	6,133
Total property income	72,518,696	97,501,143
Interest income on deposits	7,000,695	570,344
Income from financial assets at fair value through profit and loss	--	1,462,628
Other	48,571	121,996
Total income from debt securities	7,049,266	2,154,968
Total revenue	79,567,962	99,656,111

For the years ended 31 December 2016 and 31 December 2015, cost of sales are as follows:

	1 January – 31 December 2016	1 January – 31 December 2015
Cost of residence sales	12,943,217	26,930,338
Property tax expense	675,253	632,991
Other	604,143	735,653
Total cost of property	14,222,613	28,298,982
Expense from financial assets at fair value through profit and loss	--	464,620
Commission expenses	--	52,386
Total cost of borrowing instruments	--	517,006
Total cost of sales	14,222,613	28,815,988

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016***(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)***19. ADMINISTRATIVE EXPENSES**

For the years ended 31 December 2016 and 31 December 2015, administrative expenses are as follows:

	1 January – 31 December 2016	1 January – 31 December 2015
Personnel expenses	6,172,141	5,728,391
Donation and aid expenses	3,550,000	--
Advertisement expenses	526,267	388,521
Consultancy expenses	524,102	443,144
Rent expenses	479,541	451,289
Outsourced service expenses	450,874	473,836
Amortisation expenses	417,805	557,026
Tax and duties expenses	358,123	357,229
Travel and rent a car expenses	335,450	248,172
Office and IT related expenses	145,199	159,133
Maintenance expenses	19,343	34,385
Other	51,037	38,226
Total	13,029,882	8,879,352

Personnel expenses

	1 January – 31 December 2016	1 January – 31 December 2015
Salaries and wages	4,055,655	4,072,373
Social security payroll tax	659,638	635,332
Attendance fee	411,785	267,239
Other	1,045,063	753,447
Total	6,172,141	5,728,391

20. MARKETING, SALES AND DISTRIBUTION EXPENSES

For the years ended 31 December 2016 and 31 December 2015, marketing, sales and distribution expenses are as follows:

	1 January – 31 December 2016	1 January – 31 December 2015
Commission expenses (*)	2,722,845	--
Advertisement expenses	1,493,197	--
Personnel expenses	43,182	--
Tax and duties expenses	69,741	--
Other	769,203	--
Total	5,098,168	--

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

21. OTHER OPERATING INCOME / (EXPENSES)

For the years ended 31 December 2016 and 31 December 2015, other operating income / (expense) are as follows:

	1 January – 31 December 2016	1 January – 31 December 2015
Other operating income		
Revaluation income of investment property	69,513,085	146,648,251
Foreign exchange gains	353,342	667,142
Total	69,866,427	147,315,393
Other operating expense		
Revaluation expense of investment property	(7,813,807)	(3,861,500)
Foreign exchange expenses	(162,366)	(871,135)
Total	(7,976,173)	(4,732,635)

22. FINANCIAL EXPENSES

For the years ended 31 December 2016 and 31 December 2015, financial expenses are as follows:

	1 January – 31 December 2016	1 January – 31 December 2015
Interest expenses	1,383,050	1,623,127
Commission expenses	57,447	--
Total	1,440,497	1,623,127

23. INCOME TAX

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

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

24. EARNINGS PER SHARE

Earnings per share stated in statement of comprehensive income are calculated by dividing net income for the period by the weighted average number of the Company's shares for the year.

There is no dilutive shares within the Company.

	1 January – 31 December 2016	1 January – 31 December 2015
Net profit for the period	107,667,056	202,920,402
Weighted average number of shares	790,000,000	790,000,000
Earnings per share (TL)	0.13629	0.25686

25. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS

This note presents information about the Company's exposure to each of the below risks, the Company's objectives, policies and processes for measuring and managing risk. The Company has exposure to the following risks from its operations:

- credit risk,
- liquidity risk,
- market risk.

25.1. Credit risk

The ownership of the financial assets brings the risk of not meeting the obligations of the agreement of the counter party. These risks are controlled by credit evaluations and restricting the maximum exposure to a counter party.

The Company has rented the substantial portion of its portfolio to main shareholder, group companies and government's institutes. Guarantee letters has been taken from the rest of its tenants and limits the credit risk.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016*(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)***25. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS** *(continued)***25.1. Credit risk** *(continued)*

As at 31 December 2016, credit risk exposure of financial assets is as follows:

31 December 2016	Receivables				Bank deposits	Financial Investments	Other	Total
	Trade receivables		Other receivables					
	Related parties	Other parties	Related parties	Other parties				
Exposure to maximum credit risk as at reporting date (A+B+C+D)	--	52,142,269	--	--	51,301,426	--	--	103,443,695
A. Net carrying value of financial assets which are neither impaired nor overdue	--	52,142,269	--	--	51,301,426	--	--	103,443,695
B. Net carrying value of financial assets which are overdue but not impaired	--	--	--	--	--	--	--	--
C. Net carrying value of impaired assets	--	--	--	--	--	--	--	--
- Past due (gross book value)	--	--	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--	--	--
- Covered portion of net book value (with letter of guarantee etc.)	--	--	--	--	--	--	--	--
D. - Overdue (gross book value)	--	--	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--	--	--
- Covered portion of net book value (with letter of guarantee etc.)	--	--	--	--	--	--	--	--
E. Off balance sheet items with credit risks	--	--	--	--	--	--	--	--

The Company does not have any overdue but impaired financial assets as at 31 December 2016.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016*(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)***25. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS** *(continued)***25.1. Credit risk** *(continued)*

As at 31 December 2015, credit risk exposure of financial assets is as follows:

31 December 2015	Receivables				Bank deposits	Financial investments	Other	Total
	Trade receivables		Other receivables					
	Related parties	Other parties	Related parties	Other parties				
Exposure to maximum credit risk as at reporting date (A+B+C+D)	4,649,752	24,460,485	--	--	16,436,458	--	--	45,546,695
A. Net carrying value of financial assets which are neither impaired nor overdue	4,649,752	24,460,485	--	--	16,436,458	--	--	45,546,695
B. Net carrying value of financial assets which are overdue but not impaired	--	--	--	--	--	--	--	--
C. Net carrying value of impaired assets	--	--	--	--	--	--	--	--
- Past due (gross book value)	--	--	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--	--	--
- Covered portion of net book value (with letter of guarantee etc.)	--	--	--	--	--	--	--	--
D. - Overdue (gross book value)	--	--	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--	--	--
- Covered portion of net book value (with letter of guarantee etc.)	--	--	--	--	--	--	--	--
E. Off balance sheet items with credit risks	--	--	--	--	--	--	--	--

The Company does not have any overdue but impaired financial assets as at 31 December 2015.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

25. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)

25.1. Credit risk (continued)

As at 31 December 2014, credit risk exposure of financial assets is as follows:

31 December 2014	Receivables				Bank deposits	Financial investments	Other	Total
	Trade receivables		Other receivables					
	Related parties	Other parties	Related parties	Other parties				
Exposure to maximum credit risk as at reporting date (A+B+C+D)	--	12,301,751	--	--	8,658,261	37,928,769	--	58,888,781
A. Net carrying value of financial assets which are neither impaired nor overdue	--	12,301,751	--	--	8,658,261	37,928,769	--	58,888,781
B. Net carrying value of financial assets which are overdue but not impaired	--	--	--	--	--	--	--	--
C. Net carrying value of impaired assets	--	--	--	--	--	--	--	--
- Past due (gross book value)	--	--	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--	--	--
- Covered portion of net book value (with letter of guarantee etc.)	--	--	--	--	--	--	--	--
D. - Overdue (gross book value)	--	--	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--	--	--
- Covered portion of net book value (with letter of guarantee etc.)	--	--	--	--	--	--	--	--
E. Off balance sheet items with credit risks	--	--	--	--	--	--	--	--

The Company does not have any overdue but impaired financial assets as at 31 December 2014.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

25. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)**25.2. Liquidity risk**

Liquidity risk is the inability of the Company to match the net funding requirements with sufficient liquidity.

The following table presents the Company's financial liabilities including payments according to their remaining contractual maturities:

Contractual maturities						
31 December 2016	Carrying value	Total of contractual cash flows	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
<i>Non-derivative financial liabilities</i>						
Loans and borrowings	12,549,963	15,513,512	895,010	2,685,031	11,933,471	--
Trade payables	534,202	534,202	534,202	--	--	--
Total	13,084,165	16,047,714	1,429,212	2,685,031	11,933,471	--

Contractual maturities						
31 December 2015	Carrying value	Total of contractual cash flows	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
<i>Non-derivative financial liabilities</i>						
Loans and borrowings	14,746,955	19,093,554	895,010	2,685,031	14,320,167	1,193,346
Trade payables	1,841,360	1,841,360	1,841,360	--	--	--
Total	16,588,315	20,934,914	2,736,370	2,685,031	14,320,167	1,193,346

Contractual maturities						
31 December 2014	Carrying value	Total of contractual cash flows	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
<i>Non-derivative financial liabilities</i>						
Loans and borrowings	16,737,916	22,673,596	895,010	2,685,031	14,320,167	4,773,388
Trade payables	606,561	606,561	606,561	--	--	--
Total	17,344,477	23,280,157	1,501,571	2,685,031	14,320,167	4,773,388

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

25. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS *(continued)*

25.3. Market risk

The Company is exposed to various market risks, including the effects of changes in exchange rates, interest rates, equity prices and credit spreads.

The total risk management program of the Company focuses on the unpredictability of the financial markets and aims at reducing the potential negative effects on the Company's financial performance.

Foreign currency risk

Exchange risk comprises the effects arising from exchange movements in the event foreign currency assets, liabilities and off-balance sheet items are owned. The Company is exposed to foreign currency risk regarding the sale of residential units to foreign customers at Bakırköy Project as generally US Dollar ("USD") bonds and checks.

As at 31 December 2016, 31 December 2015 and 31 December 2014, foreign currency assets and liabilities are as follows:

	31 December 2016 (Balance TL)	31 December 2015 (Balance TL)	31 December 2014 (Balance TL)
Total foreign currency assets	1,083,157	889,359	5,901,343
Total foreign currency liabilities	(1,109)	(916)	(1,372,565)
Net exposure	1,082,048	888,443	4,528,778

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

25. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)

25.3. Market risk (continued)

Foreign currency risk (continued)

	31 December 2016				31 December 2015				31 December 2014			
	TL (functional currency)	USD	EURO	GBP	TL (functional currency)	USD	EURO	GBP	TL (functional currency)	USD	EURO	GBP
1. Trade receivables	742,674	211,035	--	--	889,359	305,874	--	--	1,424,338	614,230	--	--
2a. Monetary financial assets	340,483	96,750	--	--	--	--	--	--	91,233	38,332	500	260
2b. Non-monetary financial assets	--	--	--	--	--	--	--	--	4,332,437	1,868,316	--	--
3. Other	--	--	--	--	--	--	--	--	--	--	--	--
4. CURRENT ASSETS	1,083,157	307,785	--	--	889,359	305,874	--	--	5,848,008	2,520,878	500	260
5. Trade receivables	--	--	--	--	--	--	--	--	53,335	23,000	--	--
6a. Monetary financial assets	--	--	--	--	--	--	--	--	--	--	--	--
6b. Non-monetary financial assets	--	--	--	--	--	--	--	--	--	--	--	--
7. Other	--	--	--	--	--	--	--	--	--	--	--	--
8. NON-CURRENT ASSETS	--	--	--	--	--	--	--	--	53,335	23,000	--	--
9. TOTAL ASSETS	1,083,157	307,785	--	--	889,359	305,874	--	--	5,901,343	2,543,878	500	260
10. Trade payables	--	--	--	--	--	--	--	--	1,372,565	588,614	2,704	--
11. Financial liabilities	--	--	--	--	--	--	--	--	--	--	--	--
12a. Monetary other liabilities	--	--	--	--	--	--	--	--	--	--	--	--
12b. Non-monetary liabilities	1,109	315	--	--	916	315	--	--	--	--	--	--
13. Short-term liabilities	1,109	315	--	--	916	315	--	--	1,372,565	588,614	2,704	--
14. Trade payables	--	--	--	--	--	--	--	--	--	--	--	--
15. Financial liabilities	--	--	--	--	--	--	--	--	--	--	--	--
16a. Financial liabilities	--	--	--	--	--	--	--	--	--	--	--	--
16b. Non-monetary liabilities	--	--	--	--	--	--	--	--	--	--	--	--
17. Long-term liabilities	--	--	--	--	--	--	--	--	--	--	--	--
18. TOTAL LIABILITIES	1,109	315	--	--	916	315	--	--	1,372,565	588,614	2,704	--
19. Off balance sheet derivatives net asset/liability position(19a-19b)	--	--	--	--	--	--	--	--	--	--	--	--
19a Active off balance sheet derivative(foreign currency)	--	--	--	--	--	--	--	--	--	--	--	--
19b. Passive off balance sheet derivative(foreign currency)	--	--	--	--	--	--	--	--	--	--	--	--
20. Net foreign currency asset liability position	1,082,048	307,470	--	--	888,443	305,559	--	--	4,528,778	1,955,264	(2,204)	260
21. Monetary accounts net foreign currency asset/liabilities position (1+2a+5+6a-10-11-12a-14-15-16a)	1,083,157	307,785	--	--	889,359	305,874	--	--	196,341	86,948	(2,204)	260
22. Fair value of financial assets used for foreign currency hedge	--	--	--	--	--	--	--	--	--	--	--	--
23. Hedged foreign currency assets amount	--	--	--	--	--	--	--	--	--	--	--	--
24. Hedged foreign currency liabilities amount	--	--	--	--	--	--	--	--	--	--	--	--

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

25. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)

25.3. Market risk (continued)

Foreign currency risk (continued)

Foreign currency sensitivity analysis:

31 December 2016	Profit/(loss)		Shareholder's equity	
	Devaluation of TL	Evaluation of TL	Devaluation of TL	Evaluation of TL
<i>10% change in USD against TL;</i>				
1-USD net assets/(liabilities)	108,316	(108,316)	108,316	(108,316)
2-USD proportion hedged from changes (-)	--	--	--	--
3-USD net effect (1+ 2)	108,316	(108,316)	108,316	(108,316)
<i>10% change in EURO against TL;</i>				
4-EURO net assets/(liabilities)	--	--	--	--
5-EURO proportion hedged from changes (-)	--	--	--	--
6-EURO net effect (4+ 5)	--	--	--	--
<i>10% change in GBP against TL;</i>				
7-GBP net assets/(liabilities)	--	--	--	--
8-GBP proportion hedged from changes (-)	--	--	--	--
9-GBP net effect (7+ 8)	--	--	--	--
Total (3+6+9)	108,316	(108,316)	108,316	(108,316)

31 December 2015	Profit/(loss)		Shareholder's equity	
	Devaluation of TL	Evaluation of TL	Devaluation of TL	Evaluation of TL
<i>10% change in USD against TL;</i>				
1-USD net assets/(liabilities)	88,844	(88,844)	88,844	(88,844)
2-USD proportion hedged from changes (-)	--	--	--	--
3-USD net effect (1+ 2)	88,844	(88,844)	88,844	(88,844)
<i>10% change in EURO against TL;</i>				
4-EURO net assets/(liabilities)	--	--	--	--
5-EURO proportion hedged from changes (-)	--	--	--	--
6-EURO net effect (4+ 5)	--	--	--	--
<i>10% change in GBP against TL;</i>				
7-GBP net assets/(liabilities)	--	--	--	--
8-GBP proportion hedged from changes (-)	--	--	--	--
9-GBP net effect (7+ 8)	--	--	--	--
Total (3+6+9)	88,844	(88,844)	88,844	(88,844)

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

25. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS (continued)

25.3. Market risk (continued)

Foreign currency risk (continued)

31 December 2014	Profit/(loss)		Shareholder's equity	
	Devaluation of TL	Evaluation of TL	Devaluation of TL	Evaluation of TL
10% change in USD against TL;				
1-USD net assets/(liabilities)	201,624	(201,624)	201,624	(201,624)
2-USD proportion hedged from changes (-)	--	--	--	--
3-USD net effect (1+ 2)	201,624	(201,624)	201,624	(201,624)
10% change in EURO against TL;				
4-EURO net assets/(liabilities)	(6,217)	6,217	(6,217)	6,217
5-EURO proportion hedged from changes (-)	--	--	--	--
6-EURO net effect (4+ 5)	(6,217)	6,217	(6,217)	6,217
10% change in GBP against TL;				
7-GBP net assets/(liabilities)	934	934	934	934
8-GBP proportion hedged from changes (-)	--	--	--	--
9-GBP net effect (7+ 8)	934	(934)	934	(934)
Total (3+6+9)	196,341	(196,341)	196,341	(196,341)

Interest rate risk

The Company is exposed to interest rate risk due to interest bearing assets and liabilities.

The table below shows the financial instruments sensitive to interest rates as at 31 December 2016, 31 December 2015 and 31 December 2014:

	31 December 2016	31 December 2015	31 December 2014
Financial instruments with fixed interest rates			
Financial assets	50,290,076	15,245,167	45,831,057
<i>Cash and cash equivalents</i>	<i>50,290,076</i>	<i>15,245,167</i>	<i>7,902,288</i>
<i>-Time deposits</i>	<i>50,290,076</i>	<i>15,245,167</i>	<i>7,902,288</i>
Financial investments	--	--	37,928,769
<i>-Bank bonds</i>	<i>--</i>	<i>--</i>	<i>34,841,163</i>
<i>-lease certificate</i>	<i>--</i>	<i>--</i>	<i>3,087,606</i>
Financial liabilities			
<i>Loans and borrowings</i>	<i>12,549,963</i>	<i>14,746,955</i>	<i>16,737,916</i>

Weighted interest rates which are applied to financial instruments as at 31 December 2016, 31 December 2015 and 31 December 2014 are as follows:

	31 December 2016	31 December 2015	31 December 2014
Financial instruments			
Time deposits –TL	10.23%	11.29%	8.11%
Financial investments –TL	--	--	8.58%
Loans and borrowings –TL	8.00%	8.00%	8.00%

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

25. NATURE AND LEVEL OF RISK ARISING FROM FINANCIAL INSTRUMENTS *(continued)*

25.4. Capital management

The Company manages capital by using effective portfolio management to reduce the risk of investment to minimum. The main objectives of the Company are to continue operations with generating revenue, to secure the benefits of the shareholders, cost of capital and to continue the optimum level of net liabilities/equity and to achieve the efficient capital structure continuity.

26. FINANCIAL INSTRUMENTS

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties.

A number of the Company’s accounting policies and disclosures require the determination of fair value for financial assets and liabilities.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Following assumptions and methods are used to estimate fair value of financial instruments, if fair values are applicable.

Financial assets

Financial investments, recognised in financial statements are reflected at fair values. The Company assumes that the carrying values of the cash and cash equivalents are close to their fair value because of their short-term nature.

Trade receivables

As at 31 December 2016, 31 December 2015 and 31 December 2014, fair value of the long term trade receivables are computed based on the Company’s default interest on contracts for trade receivable as at reporting date. The carrying values of short-term trade receivables are assumed to be close to their fair values due to their short term nature.

Financial liabilities

Loans and borrowings

As at 31 December 2016, 31 December 2015 and 31 December 2014, the fair value of loans and borrowings are calculated by using the Company’s borrowing rate at the reporting date.

Trade and other payables

The Company assumes that the carrying values of the trade payables are close to their fair value because of their short-term nature.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)

26. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

Except assets and liabilities presented below, the Company's management thought that recognised amounts of financial assets and liabilities in financial statements are close to fair values.

The table below represents comparison of fair value and recorded amount of financial instruments.

	Note	31 December 2016		31 December 2015		31 December 2014	
		Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<i>Financial assets</i>							
Trade receivables	7	52,142,269	49,753,618	29,110,237	28,929,857	12,301,751	12,254,151
<i>Financial liabilities</i>							
Loans and borrowings	13	12,549,963	12,495,211	14,746,955	14,669,334	16,737,916	16,635,443

Classification of fair value measurement

TFRS 7 – Financial Instruments requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Company.

This distinction brings about a fair value measurement classification generally as follows:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Classification requires using observable market data if possible.

Classification of fair value measurement

As at 31 December 2016 and 31 December 2015, there is no asset and liabilities which are measured at fair value in the financials.

As at 31 December 2014 classification of fair value of financial assets and liabilities measured at fair value are as follows:

Financial investments	31 December 2014	Level 1	Level 2	Level 3
Bank bonds	34,841,163	34,841,163	--	--
Lease certificates	3,087,606	3,087,606	--	--
	37,928,769	37,928,769	--	--

27. SUBSEQUENT EVENTS

None.

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

CONTROL OF COMPLIANCE WITH RESTRICTIONS ON THE INVESTMENT PORTFOLIO AS AT 31 DECEMBER 2016 ADDITIONAL NOTE

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

APPENDIX I-CONTROL OF COMPLIANCE WITH RESTRICTIONS ON THE INVESTMENT PORTFOLIO

The information contained herein, is summary information derived from the financial statements according to “Communiqué on Financial Reporting in Capital Market” of CMB and these information has been prepared in accordance with the control of portfolio limit compliance of CMB’s “Communiqué on Principles Regarding Real Estate Investment Trusts”, published in the Official Gazette numbered 28660 and III-48.1. In addition, as indicated in Note 1, information in the financial statement of the Company is unconsolidated data due to the Company has no subsidiary or joint venture.

As at 31 December 2016, the Company complied with the restrictions that stated on the paragraph “a, b, c, ç and d” of 24th substance, 22nd and 38th substance of CMB’s “Communiqué on Principles Regarding Real Estate Investment Trusts”, published in the Official Gazette numbered 28660 and III-48.1 and the ratios related with these restrictions is shown below (31 December 2015: There is no incompliance).

	Financial statement primary accounts items	Regulations	31 December 2016 (TL)	31 December 2015 (TL)
A	Monetary and capital market instruments	Serial: III-48.1, Article 24/(b)	51,301,426	16,436,458
B	Real estates, based on real estates, rights based on real estates	Serial: III-48.1, Article 24/(a)	1,658,628,593	1,535,419,687
C	Subsidiaries	Serial: III-48.1, Article 24/(b)	--	--
	Due from related parties (non-trade)	Serial: III-48.1, Article 23/(f)	--	--
	Other assets		144,909,956	71,213,238
D	Total assets	Serial: III-48.1, Article 3/(k)	1,854,839,975	1,623,069,383
E	Loans and borrowings	Serial: III-48.1, Article 31	12,549,963	14,746,955
F	Other financial liabilities	Serial: III-48.1, Article 31	--	--
G	Financial leasing obligation	Serial: III-48.1, Article 31	--	--
H	Due to related parties (non-trade)	Serial: III-48.1, Article 23/(f)	--	--
İ	Equity	Serial: III-48.1, Article 31	1,630,195,744	1,527,802,472
	Other liabilities		212,094,268	80,519,956
D	Total liabilities and equity	Serial: III-48.1, Article 3/(k)	1,854,839,975	1,623,069,383
	Other financial information	Regulations	31 December 2016 (TL)	31 December 2015 (TL)
A1	Financial markets instruments held for three years payment of real estates	Serial: III-48.1, Article 24/(b)	--	--
A2	Time deposit/ demand deposit/ TL / foreign currency	Serial: III-48.1, Article 24/(d)	51,134,642	15,638,727
A3	Foreign capital market instruments	Serial: III-48.1, Article 24/(d)	--	--
B1	Foreign real estates, projects, based on real estates	Serial: III-48.1, Article 24/(d)	--	--
B2	Idle land	Serial: III-48.1, Article 24/(c)	--	--
C1	Foreign Subsidiaries (operating companies)	Serial: III-48.1, Article 24/(d)	--	--
C2	Subsidiaries (operating companies)	Serial: III-48.1, Article 28	--	--
J	Non-cash loans	Serial: III-48.1, Article 31	179,978,289	99,807,018
K	Mortgage amounts on land that project to be developed and the ownership does not belong the partnership	Serial: III-48.1, Article 22/(e)	--	--
L	Total investments of monetary and capital market instruments at one company	Serial: III-48.1, Article 22/(1)	--	--

HALK GAYRİMENKUL YATIRIM ORTAKLIĞI AŞ

CONTROL OF COMPLIANCE WITH RESTRICTIONS ON THE INVESTMENT PORTFOLIO AS AT 31 DECEMBER 2016 ADDITIONAL NOTE

(Amounts expressed in Turkish Lira (“TL”) unless otherwise stated.)

APPENDIX I-CONTROL OF COMPLIANCE WITH RESTRICTIONS ON THE INVESTMENT PORTFOLIO (continued)

	Portfolio Restrictions	Regulations	Calculation	Min/Max Rate	31 December 2016 (TL)	31 December 2015 (TL)
1	Mortgage Amounts on Land that Project to be Developed and the Ownership Does Not Belong the Partnership	Serial: III-48.1, Article22/(e)	K/D	Maximum %10	--	--
2	Monetary and Capital Market Instruments	Serial: III-48.1, Article24/(a),(b)	(B+A1)/D	Minimum %51	89.42%	94.60%
3	Real estates, based on Real Estates, Rights based on Real Estates	Serial: III-48.1, Article24/(b)	(A+C-A1)/D	Maximum %49	2.77%	1.01%
4	Monetary and 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	Subsidiaries (Operating Companies)	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	11.82%	7.50%
8	Time Deposit/ Demand Deposit/ TL / Foreign Currency	Serial: III-48.1, Article24/(b)	(A2-A1)/D	Maximum %10	2.76%	0.96%
9	Total investments of monetary and capital market instruments at one company	Serial: III-48.1, Article 22/(1)	L/D	Maximum %10	--	--