

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

**CONVENIENCE TRANSLATION OF
THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

(ORIGINALLY ISSUED IN TURKISH)

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

INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors of
EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.**

Report on the Financial Statements

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

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 ("TAS"), 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.

Auditor's 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 Capital Markets Board and Independent Auditing Standards which is a part of 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 the auditor's 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, the auditor considers 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 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 Emlak Konut Gayrimenkul Yatırım Ortaklığı A.Ş. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards.

Other Matter

The financial statements of the Company for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 29 February 2016.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 ("TCC"), the auditor's report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 27 February 2017.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Company's set of accounts and financial statements prepared for the period 1 January-31 December 2016 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

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

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

Koray Öztürk, SMMM
Partner

İstanbul, 27 February 2017

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

FINANCIAL STATEMENTS AT 31 DECEMBER 2016 AND 2015

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EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016 AND 2015

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

		<i>Audited</i> 31 December 2016	<i>Restated (*)</i> 31 December 2015	<i>Restated (*)</i> 1 January 2015
ASSETS				
Current assets		17,076,882	15,097,889	13,231,061
Cash and cash equivalents	3	2,501,233	3,005,003	2,606,133
Financial investments	4	140,795	143,819	236,798
Trade receivables	6	682,868	918,649	697,066
<i>Trade receivables due from related parties</i>	25	<i>21,087</i>	<i>204,172</i>	<i>26,499</i>
<i>Trade receivables due from unrelated parties</i>		<i>661,781</i>	<i>714,477</i>	<i>670,567</i>
Other receivables	7	838,505	499,781	443,060
Inventories	8	12,085,195	10,330,403	8,984,095
Prepaid expenses	15	543,811	33,962	11,544
Other current assets	14	284,475	166,272	252,365
Non-current assets		1,625,485	1,638,104	1,259,519
Trade receivables	6	1,466,854	1,483,100	1,220,622
Other receivables	7	1,053	168	166
Investment property	9	38,199	16,000	847
Property, plant and equipment	10	69,181	78,721	35,897
Intangible assets	11	2,605	1,874	1,987
Other non-current assets	14	47,593	58,241	-
Total assets		18,702,367	16,735,993	14,490,580

(*) See Note: 2.7

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2016 AND 2015

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

	Notes	Audited 31 December 2016	Restated (*) 31 December 2015	Restated (*) 1 January 2015
LIABILITIES AND EQUITY				
Current liabilities		7,954,280	7,140,154	5,248,974
Short term borrowings	5	-	-	515
Current portion of non-current borrowings	5	219,490	230,657	171,757
Trade payables	6	3,824,119	2,231,297	1,077,815
<i>Trade payables due to related parties</i>	25	3,510,865	1,881,778	558,203
<i>Trade payables due to unrelated parties</i>		313,254	349,519	519,612
Other payables	7	560,576	517,994	515,425
Deferred income	15	3,215,821	3,989,548	3,363,224
<i>Deferred income from related parties</i>	25	64,732	64,732	-
<i>Deferred income from unrelated parties</i>		3,151,089	3,924,816	3,363,224
Current provisions		134,274	170,658	120,238
<i>Current provisions for employee benefits</i>	13	6,190	4,626	3,609
<i>Other current provisions</i>	12	128,084	166,032	116,629
Non-current liabilities		17,894	270,440	490,322
Long term borrowings	5	-	214,000	434,000
Trade payables	6	71	36,192	36,192
Other payables		9,352	13,814	15,130
Deferred income	15	2,963	2,448	1,952
Long term provisions		5,508	3,986	3,048
<i>Long term provisions for employee benefits</i>	13	5,508	3,986	3,048
Shareholders' equity		10,730,193	9,325,399	8,751,284
Paid-in capital	16	3,800,000	3,800,000	3,800,000
Treasury shares (-)	16	(262,857)	(262,857)	(240,687)
Share premium	16	2,378,513	2,366,895	2,366,895
Other comprehensive income / expense not to be reclassified to profit or loss		(897)	(487)	(203)
- <i>Gain/(loss) on remeasurement of employee benefits</i>		(897)	(487)	(203)
Restricted reserves	16	423,295	357,908	292,674
Retained earnings		2,630,863	2,111,335	1,578,208
Net profit for the year		1,761,276	952,605	954,397
Total liabilities and equity		18,702,367	16,735,993	14,490,580

(*) See Note: 2.7

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

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

	Notes	Audited 1 January- 31 December 2016	Audited 1 January- 31 December 2015
Profit or loss			
Revenue	17	3,455,892	1,786,788
Cost of sales (-)	17	(1,619,678)	(898,788)
Gross profit		1,836,214	888,000
General administrative expenses (-)	18	(137,483)	(94,651)
Marketing expenses (-)	18	(56,084)	(28,570)
Other income from operating activities	20	288,987	183,663
Other expenses from operating activities (-)	20	(24,120)	(44,102)
Operating profit		1,907,514	904,340
Income from investing activities	21	13,810	14,570
Operating profit before financial income / (expense)		1,921,324	918,910
Financial income	22	94,312	84,504
Financial expenses (-)	22	(254,360)	(50,809)
Profit for the period from continued operations		1,761,276	952,605
Other comprehensive income / (loss)			
Items that will be reclassified to profit or loss			
<i>Actuarial losses related to employee benefit liabilities</i>	13	(410)	(284)
Total comprehensive income for the year		1,760,866	952,321
Earnings per share (in full TL)	24	0.0048	0.0026

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

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

	Share capital	Treasury shares (-)	Share premium	Restricted reserves	Other Comprehensive Income and Expense not to be Reclassified to Profit or Loss	Retained Earnings		Total equity
					Loss on remeasurement of employee benefits	Retained earnings	Net Income for the year	
1 January 2015	3,800,000	(240,687)	2,366,895	292,674	(203)	1,578,208	954,397	8,751,284
Transfers	-	-	-	65,234	-	889,163	(954,397)	-
Dividend payment (Note:16)	-	-	-	-	-	(356,036)	-	(356,036)
Increases / (decreases) related to the acquisition of treasury shares	-	(22,170)	-	-	-	-	-	(22,170)
Total comprehensive income	-	-	-	-	(284)	-	952,605	952,321
31 December 2015	3,800,000	(262,857)	2,366,895	357,908	(487)	2,111,335	952,605	9,325,399
1 January 2016	3,800,000	(262,857)	2,366,895	357,908	(487)	2,111,335	952,605	9,325,399
Transferler	-	-	-	65,387	-	887,218	(952,605)	-
Dividend payment (Note: 16)	-	-	-	-	-	(367,690)	-	(367,690)
Increases / (decreases) related to the acquisition of treasury shares	-	-	11,618	-	-	-	-	11,618
Total comprehensive income	-	-	-	-	(410)	-	1,761,276	1,760,866
31 December 2016	3,800,000	(262,857)	2,378,513	423,295	(897)	2,630,863	1,761,276	10,730,193

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

STATEMENTS OF CASH FLOWS AT 31 DECEMBER 2016 AND 2015

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

	Notes	1 January- 31 December 2016	1 January- 31 December 2015
Cash flows from operating activities			
Profit for the year		1,761,276	952,605
Adjustments to reconcile net profit			
Depreciation and amortization expenses	10.11	7,086	3,086
Adjustments for impairments	8	7,434	(986)
<i>Adjustments for impairment loss (reversal of impairment loss) of inventories</i>		7,434	(986)
Changes in provisions		(33,950)	60,747
<i>Adjustments for (reversal of) provisions related with employee benefits</i>	13	2,812	2,127
<i>Adjustments for (reversal of) lawsuit and/or penalty provisions</i>	12	(3,664)	17,606
<i>Adjustments for (reversal of) other provisions</i>	12	(33,098)	41,014
Adjustments for interest (income) expenses		(90,989)	(172,597)
<i>Adjustments for interest income</i>	20,22	(344,746)	(222,368)
<i>Adjustments for interest expense</i>	22	253,757	49,771
Adjustments for unrealised foreign exchange losses (gains)		-	(119)
Changes in net working capital		1,650,857	842,736
Adjustments for decrease (increase) in trade accounts receivable		167,769	(532,886)
<i>Decrease (increase) in trade accounts receivables from related parties</i>	25	183,085	(177,672)
<i>Decrease (Increase) in trade accounts receivables from unrelated parties</i>	6	(15,316)	(355,214)
Adjustments for decrease (increase) in inventories	8	237,774	(1,360,542)
Adjustments for increase (decrease) in trade accounts payable		(570,661)	1,200,434
<i>Increase (decrease) in trade accounts payables to related parties</i>	25	(498,275)	1,323,575
<i>Increase (decrease) in trade accounts payables to unrelated parties</i>	6	(72,386)	(123,141)
Adjustments for increase (decrease) in other operating receivables		(883,044)	19,781
Adjustments for increase (decrease) in other operating payables		(691,105)	666,482
Other adjustments for other increase (decrease) in working capital		730,426	(1,071,484)
Net cash flow from operating activities			
Interest received		121,257	19,634
Payments related with provisions for employee benefits	13	(137)	(172)
Income taxes paid		(44,542)	(36,382)
Cash flows from operating activities		718,594	(252,399)
Cash flows from investing activities			
Purchases of tangible and intangible assets	10,11	(19,945)	(45,730)
Sales of tangible and intangible assets		44	-
Interest received		13,810	17,362
Purchases of financial assets		(125,678)	(713,046)
Returns of financial assets		128,703	806,025
Cash flow from investing activities		(3,066)	64,611
Cash flow from financing activities			
Payments to acquire entity's shares or other equity instruments		-	(22,170)
<i>Payments to acquire entity's shares</i>		-	(22,170)
Repayments of borrowings, classified as financing activities		(220,000)	(160,515)
<i>Loan repayments</i>		(220,000)	(160,515)
Dividends Paid		(356,072)	(356,036)
Interest paid		(36,351)	(50,871)
Interest received		94,238	84,624
Other inflows (outflows) of cash		(631)	(1,151)
Cash flow from financing activities		(518,816)	(506,119)
Increase (decrease) in cash and cash equivalents before effect of exchange rate before effect of exchange rate changes			
		196,712	(693,907)
Effect of exchange rate changes on cash and cash equivalents		-	-
Net Increase (decrease) in cash and cash equivalents		196,712	(693,907)
Cash and cash equivalents at the beginning of the period	3	759,493	1,453,400
Cash and cash equivalents at the end of the period	3	956,205	759,493

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016 AND 2015

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

NOTE 1 – ORGANIZATION AND OPERATION OF THE COMPANY

Emlak Konut Gayrimenkul Yatırım Ortaklığı A.Ş. (“Emlak Konut GYO” or the “Company”) was established on 26 December 1990 as a subsidiary of Türkiye Emlak Bankası A.Ş. The Company is governed by its articles of association, and is also subject to the terms of the decree law about Public Finances Enterprises No. 233, in accordance with the statute of Türkiye Emlak Bankası A.Ş. The Company has been registered and started its activities on 6 March 1991. The Company’s articles of association were revised on 19 May 2001 and it became an entity subject to the Turkish Commercial Code No. 4603.

The Company was transformed into a Real Estate Investment Company with Senior Planning Committee Decree No. 99/T-29, dated 4 August 1999, and according to Statutory Decree No. 588, dated 29 December 1999. According to Permission No. 298, dated 20 June 2002, granted by the Capital Markets Board (“CMB”) regarding transformation of the Company into a Real Estate Investment Company and permission No. 5320, dated 25 June 2002, from the Republic of Turkey Ministry of Industry and Trade and amendment draft for the articles of association of the Company was submitted for the approval of the Board and the amendment draft was approved at the Ordinary General Shareholders Committee meeting of the Company convened on 22 July 2002, changing the articles of association accordingly.

The articles of association of the Company were certified by Istanbul Trade Registry Office on 29 July 2002 and entered into force after being published in Trade Registry Gazette dated 1 August 2002. As the result of the General Shareholders committee meeting of the Company convened on 28 February 2006, the title of the Company Emlak Gayrimenkul Yatırım Ortaklığı A.Ş. was changed to Emlak Konut Gayrimenkul Yatırım Ortaklığı A.Ş.

By the decision of the Board of Directors of Istanbul Stock Exchange Market on 26 November 2010, 25% portion of the Company’s class B shares with a nominal value of TL 625,000 has been trading on the stock exchange since 2 December 2010.

The registered address of the Company is as follows:

Barbaros Mah. Mor Sümbül Sok. No: 7/2 B (Batı Ataşehir) Ataşehir - İstanbul

The objective and operating activity of the Company is coordinating and executing Real Estate Property Projects mostly housing, besides, commercial units, educational units, social facilities, and all related aspects, controlling and building audit services of the ongoing projects, marketing and selling the finished housing. Due to statutory obligation to be in compliance with the Real Estate Investment Companies decrees and related CMB communiqués, The Company cannot be a part of construction business, but only can organize it by auctioning between the contractors.

The financial statements at 31 December 2016 have been approved by the Board of Directors on 27 February 2017. The General Assembly of the Company has the power to amend these financial statements.

The ultimate parent and ultimate controlling party of the company is T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (the Housing Development Administration of Turkey, “TOKİ”). TOKİ is a state institution under the control of Republic of Turkey Prime Ministry.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016 AND 2015

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

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

2.1 Basis of Preparation

The financial statements of the Company have been prepared in accordance with the communiqué numbered II-14,1 “Communiqué on the Principles of Financial Reporting In Capital Markets” (“the Communiqué”) announced by the Capital Markets Board (“CMB”) (hereinafter will be referred to as “the CMB Accounting Standards”) on 13 June 2013 which is published on Official Gazette numbered 28676. In accordance with article 5th of the CMB Accounting Standards, companies should apply Turkish Accounting Standards/Turkish Financial Reporting Standards (“TAS/TFRS”) and interpretations regarding these standards as adopted by the Public Oversight Accounting and Auditing Standards Authority (“POA”).

The financial statements of the Company is prepared as per the CMB announcement of 7 June 2013 relating to financial statements presentations.

In accordance with the CMB resolution issued on 17 March 2005, listed companies operating in Turkey are not subject to inflation accounting effective from 1 January 2005. Therefore, the financial statements of the Company have been prepared accordingly.

The Company maintains its books of accounts and prepare their statutory financial statements in accordance with the Turkish Commercial Code (“TCC”), tax legislation, the Uniform Chart of Accounts issued by the Ministry of Finance and principles issued by CMB. These financial statements have been prepared under historical cost conventions. The financial statements are based on the statutory records, which are maintained under historical cost conventions, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with TAS.

Accounting for the effects of hyperinflation

With the decision taken on 17 March 2005, the CMB has announced that, effective from 1 January 2005, for companies operating in Turkey and preparing their financial statements in accordance with CMB Financial Reporting Standards the application of inflation accounting is no longer required. Accordingly, the Company did not apply IAS 29 “Financial Reporting in Hyperinflationary Economies” issued by IASB in its financial statements for the accounting periods starting 1 January 2005.

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in TL, which is the Company’s functional and presentation currency.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016 AND 2015

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (continued)

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Going concern

The Company’s financial statements are prepared under the going concern assumption.

2.2 Changes in accounting policies, accounting estimates and errors

Significant changes in accounting policies or material errors are corrected, retrospectively; by restating the prior period financial statements.

2.3 Conformity with the Portfolio Limitations

The information presented in Additional Note of this report, regarding control of conformity with the portfolio limitations, is a summary information extracted from financial statements in accordance with Article 16 of Communiqué No: II-14.1, “Principles of Financial Reporting in Capital Markets” and is prepared in accordance with the provisions of the control of portfolio limitations of Communiqué No: III-48.1, “Principles Regarding Real Estate Investment Companies”.

2.4 Summary of significant accounting policies

The significant accounting policies followed in the preparation of these financial statements are summarized below;

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits and highly liquid investments, whose maturity at the time of purchase is less than three months and conversion risk on value at the date of sale is immaterial. For Land Subject to Revenue Sharing Agreements (“LSRSA”) projects, advances received from customers by construction entities, are deposited in bank accounts which are under the name of the Company. Since such cash balances are restricted, they are not treated as cash or cash equivalents in the cash flow statement (Note 3).

Related party transactions

Shareholders, key management personnel, Board of Directors, close family members, and companies which are controlled by those are regarded as related party for the purpose of preparation of these financial statements. In accordance with TAS 24 – Related party standards, the description of related parties has been restricted. The Company has also transactions with State owned banks and the Republic of Turkey Prime Ministry Undersecretariat of Treasury (the “Treasury”) however quantitative information regarding Turkish State Banks and Treasury is not disclosed in accordance with this exemption. The ultimate parent and ultimate controlling party of the Company is T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (the Housing Development Administration of Turkey, “TOKİ”). TOKİ is a State institution under control of Republic of Turkey Prime Ministry. The transactions made between the Company and TOKİ and its affiliates are presented in Note 25.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016 AND 2015

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Foreign currency transactions

The foreign exchange transactions during the year are translated into TL using the prevailing exchange rates on the related transaction dates. Foreign currency denominated monetary assets and liabilities are translated into TL with the exchange rates prevailing on the balance sheet dates. The foreign currency exchange gain and losses that arise by the exchange rate change based on monetary assets and liabilities are presented in the comprehensive income statement.

Financial assets

Classification

The financial assets of the Company consist of government bonds, treasury bills, trade receivables and long term bank deposits. Management determines the classification of its financial assets at initial recognition. Government bonds and treasury bills are classified as held to maturity financial assets except for the special issue long term government bonds obtained for HAS payments.

The special issue long term government bonds have been issued by the Treasury and given to the Company for payment of HAS payables. These bonds are non-negotiable on the secondary market and do not bear any interest. It is puttable on demand by the Company at par back to the Treasury, upon proof of payment to HAS beneficiaries. In order to eliminate an accounting mismatch with the measurement of HAS payables; these bonds are also accounted at par representing its fair value, as the matching liability is also accounted at par.

Receivables are financial assets which have fixed or defined payments. They are not traded in an active market and also they are not derivative instruments. They are classified as current assets if their maturity is less than 12 months, otherwise they are classified as non-current assets.

Trade receivables include receivables from residential unit sales on credit terms, receivables from sale of land and rent receivables from the units are classified to investment properties.

Recognition and measurement

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

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016 AND 2015

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Trade receivables and payables

Trade receivables of the Company that are created by way of providing goods are carried at amortized cost using the effective interest rate method. Trade receivables, net of unearned financial income, are measured at amortized cost, using the effective interest rate method, less the unearned financial income. Short term receivables with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant (Note 6).

An impairment provision for trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due in accordance with the original agreement terms. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collaterals, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is reversed through other operating income.

Trade payables consist of payables to suppliers for purchases of goods and services. Trade payables and other liabilities are carried at amortized cost using the effective interest rate method. Trade payables, are measured at amortized cost, using the effective interest rate method. Short term trade payables and other liabilities with no stated interest rate are measured at original invoice amount unless the effect of imputing interest is significant.

HAS payables are payables on demand therefore they are measured at their demand values and classified as short-term.

Employment termination benefits

Under Turkish labor law, the Company is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement.

The amount payable consists of one month’s salary limited to a maximum of 4,927.21 full TL as of 31 December 2016 (31 December 2014: 3,828.37 full TL).

Fair value of employment benefits are calculated based on the assumptions. Actuarial gains/losses will be accounted in the statements of comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

The employment termination benefit obligation as explained above is considered a defined benefit plan under TFRS. TFRS requires actuarial valuation methods to be developed to estimate the enterprise’s obligation for such benefits. The liability for this unfunded plan recognized in the balance sheet is the full present value of the defined benefit obligation at the end of the reporting period, calculated using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows from the retirement of its employees using the long-term TL interest rates.

The principal actuarial assumption is that the maximum liability will increase in line with inflation. Thus the effective discount rate applied represents the expected real interest rate after adjusting for the effects of future inflation. As the maximum liability amount is revised semi-annually by the authorities, the maximum amount of 4,426.16 full TL which is effective from 1 January 2017 has been taken into consideration when calculating the liability (1 January 2016: 4,092.53 full TL) (Note 13).

Financial liabilities

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective yield method in financial statements (Note 5).

Provisions, contingent assets and liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

Contingent assets or contingent obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are not included in financial statements and are treated as contingent assets or liabilities.

Land and Residential Unit Inventory

The company has four types of inventories in its financial statements (Note 8). These are;

1. Vacant land and plots;

Vacant land and plots are carried at lower of cost or net realizable value and represent vacant land and plot of the Company with no ongoing or planned construction project on them. Such land and plots are classified as inventories because the Company uses such land and plots the development of residual and commercial units, as explained below, which are also classified as inventories.

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

2. Turnkey Projects

Turnkey projects are valued at lower of cost or net realizable value. Turnkey projects costs consist of construction costs of the semi-finished residential units together with the cost of land on which these projects are developed. Upon completion of residential units costs including the cost of land are classified under completed residential unit inventories.

3. Land Subject to Revenue Sharing Agreements (“LSRSA”)

The Company enters into revenue sharing agreements with construction entities to maximize sales proceeds from the sale of its vacant land and plots. Such land and plot sold subject to revenue share agreements to construction entities are accounted at cost until sale is recognized. Sale is recognized when risk and rewards of ownership of land is transferred to the ultimate customers (that is the customers of the construction entities) and when the sales proceeds are reliably determinable.

4. Completed Residential and Commercial Unit Inventories

Completed turnkey and commercial units comprise units build in Turnkey projects and units acquired in return for land in some LSRSA projects. Completed residential and commercial units are received from LSRSA projects in cases where the Company’s share have not reached the projected minimum revenue as defined in the agreements, thus unsold units are then transferred at fair value by contractors to the Company.

Completed residential and commercial unit inventories are valued at lower of cost or net realizable value.

The Company takes into consideration independent expert valuation reports for inventory (land, finished and semi-finished residential and commercial units) separately at least once a year to determine the fair value of such projects as required by the CMB regulations for REICs, and uses these reports to assess impairment if any. Impairment charges are recorded in other operating expenses account balance in the comprehensive income statement in the period during which they are incurred. When the related inventory is subsequently sold the reversal of such impairment charges are recorded in other operating income.

Property, plant and equipment

Property and equipment are carried at cost less accumulated depreciation and provision for impairment, if any. Any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016 AND 2015

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Depreciation is calculated over of the cost of property and equipment using the straight-line method based on expected useful lives (Note 10).

The expected useful lives are stated below:

	Years
Buildings	50
Motor vehicles	5
Furniture and fixtures	4-5

Subsequent costs incurred for tangible assets are included in the asset’s carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statements during the financial period in which they were incurred.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the provision for impairment is charged to the income statement.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from the sales proceeds. Gains and losses on the disposal of property and equipment are then included in the related income and expense accounts, as appropriate.

Intangible assets and related amortization

Intangible assets comprise expenditure to acquire licenses and computer software. They are initially recognized at acquisition cost and amortized on a straight-line basis over 5 years their estimated useful lives (Note 11).

Whenever there is an indication that the intangible is impaired, the carrying amount of the intangible asset is reduced to its recoverable amount and the impairment loss is recognized as an expense.

Investment properties

Investment properties are defined as land and buildings held to earn rental income or capital appreciation or both, rather than for use in the production of goods or services or for administrative purposes; or sale in the ordinary course of business. The Company uses cost model for all investment properties. Investment properties are presented in the financial statements at cost less accumulated depreciation and less impairment, if any (Note 9).

Impairment of assets

The Company reviews all assets subject to amortization at each balance sheet date in order to see if there is a sign of impairment on the stated asset. If there is such a sign, carrying amount of the stated asset is projected. Impairment exists if the carrying value of an asset is greater than its net realizable value. Net recoverable value is the higher of the net sales value or value in use. Value in use is the present value of cash flows generated from the use of the asset and the disposal of the asset after its useful life. Impairment losses are recorded in the comprehensive income statement.

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NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016 AND 2015

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Impairment loss for an asset is reversed, if an increase in recoverable amount is related to a subsequent event following the booking of impairment by not exceeding the amount reserved for impairment. The Company takes the valuation reports for each property separately into consideration over investment property at least once a year to compare carrying value of assets with its net recoverable value and calculate the impairment if any.

Segment reporting

Operating segments shall be reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. Because the Company operates in only one geographical segment (Turkey) and only in the development of residential projects on its vacant land and plot inventories, the Company does not prepare a segment report.

Chief operating decision maker of the Company is its Board of Directors (“BOD”), and the BOD of the Company uses quarterly financial statements of the Company prepared in accordance with the TAS.

Revenue recognition

Revenue is recognized when it is probable that future economic benefits associated with the sales transaction will flow to the Company and revenue from the sales transaction can be measured reliably. Revenue is recognized when the following criteria are met;

1. Sale of vacant land and plots

Revenue is recognised, when all the significant risks and rewards of the vacant land and plots are transferred to the buyer and the amount of revenue can be measured reliably.

2. Sale of residential units produced by Turnkey projects

Revenue is recognised when all significant risks and rewards regarding the completed residential units are transferred to the customers and the amount of revenue is measured reliably.

3. Sale of land and plots by way of LSRSA

The Company recognizes the revenue for the sale of land by way of LSRSA when the transfer of title deed, which means the legal ownership of land, is transferred to the buyer, the construction company, which in return passes the ownership of such land to the buyers of the residential and commercial units sold. When the title deed is not transferred, the Company follows-up its revenue share in the deferred revenue (Note 15) and the share of the construction entity as a liability to contractors under LSRSA (Note 6).

The Company’s share in the Total Sales Revenue (“TSR”) is recorded as revenue from sale of land and the related cost of land is recognised as cost of land sold in the comprehensive income statement (Note 17).

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NOTES TO THE FINANCIAL STATEMENTS

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Interest income and expense

Interest income and expense are recognised on an accrual basis within ‘finance income’ and ‘finance expense’ using the effective interest rate method. Interest income comprises mostly interest income from time deposits and interest income from credit sales of residences (Note 20-22).

Paid-in capital

Ordinary shares are classified as equity. Proceeds from issuing new equity instruments are recorded net of transaction costs.

Share premium

Share premium represents the positive difference between the nominal value of issued shares and proceeds for such shares issued.

Treasury shares

The Company’s own shares which are bought by the Company itself from Information Sharing Environment (ISE) are named as treasury shares and recorded on nominal value in equities. Purchase/sale of treasury stocks is not associated with comprehensive income statement, and recognition is made directly on equities.

Earnings per share

Earnings per share are determined by dividing net comprehensive income by the weighted average number of shares that have been outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro rata distribution of their shares (“Bonus Shares”) to existing shareholders funded from retained earnings or other reserves. For the purpose of earnings per share computations, such Bonus Share issuances are regarded as issued shares for all periods presented and accordingly the weighted average number of shares used in earnings per share computations in prior periods is adjusted retroactively for the effects of these shares, issued without receiving cash or another consideration from shareholders. In case of increase in issued stock after balance sheet date but before the date that financial statement is prepared due to the bonus share distribution, earning per share calculation is performed taking account of total new share amount.

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NOTES TO THE FINANCIAL STATEMENTS

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

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Payments for Housing Acquisition Support (“HAS”)

HAS was a compulsory of saving fund, established by the state to be used by fund participants in the future for acquisition of affordable housing. All employees have paid compulsory contributions to this fund by way of deductions from their salaries between the years 1987 and 1995. This system aimed to collect the deducted amounts in a single account, apply interest to the savings and provide the employees with these contributions at the time they wish to acquire a house/residential unit in the future. However, this project was suspended in 1996 and as per decree law No. 588, issued in 1999, the decision was taken to terminate the HAS accounts. With this decree law, real estate corresponding to the monetary value of the HAS deductions which were held by Emlak Bankası was transferred to the Company as paid in Capital.

Within the scope of Law No. 5664, dated 30 May 2007, and the regulation issued on 14 August 2007, the decision was taken to pay back these savings, which were still held as capital in kind in the accounts of the Company, to the HAS beneficiaries. Accordingly, the shares of HAS beneficiaries were removed from the Company’s equity capital and comprehensive income for the current period based on the ratios specified in the law and recognized as debts to HAS beneficiaries under other payables. The amount payable was determined as the share in the net asset value of the Company at 28 February 2008. The payable amount does not bear any interest or does not change with subsequent changes in the net asset value in subsequent periods and is payable on demand any date after 28 February 2008. The Company has borrowed funds from the Republic of Turkey Prime Ministry Undersecretariat of Treasury (the “Treasury”) to make such payments.

Dividends

Dividends payable are recognized as an appropriation of the profit in the period in which they are declared.

Statement of cash flows

Cash flows during the period are classified and reported by operating, investing and financing activities in the cash flow statements.

Cash flows from operating activities represent the cash flows of the Company generated from its main activities.

Cash and cash equivalents comprise cash on hand and bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities equal or less than three months.

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NOTES TO THE FINANCIAL STATEMENTS

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of significant accounting policies (Continued)

Subsequent events

Subsequent events cover any events that arise between the reporting date and the balance sheet date, even if they occurred after any declaration of the net profit for the period or specific financial information publicly disclosed. The Company adjusts its financial statements if such subsequent events arise which require an adjustment to the financial statements (Note 29).

2.5 Critical accounting estimates, assumptions and judgments

The preparation of financial statements requires the use of assumptions and estimates that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues expenses which are reported throughout the period. Even though these assumptions and estimates rely on the best estimates of the Company management both the actual results may differ and not material for these financial statements.

Net realizable value of lands and home inventories

The estimated net realizable value of land and commercial units is less than the cost value, the allowance is recognized to reduce the value of inventories to their estimated net realizable value. To determine the estimated net realizable value, the fair value of the Company’s land and commercial units as at 31 December 2016 has been arrived at on the basis of a valuation carried out on by Atak Gayrimenkul Değerleme A.Ş. And Yetkin Gayrimenkul Değerleme A.Ş.

Legal Provision

As of 31 December 2016, a total of TL 183,995 lawsuits have been filed against the Company. For those cases in which there is a high probability of potential outflow of potential resources from these cases, a provision amounting to TL 73,238 has been provided by taking the opinion of the lawyers (Note:12). According to the legal judgment of the lawyers, there is no risk of any outflow of resources from the company.

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NOTES TO THE FINANCIAL STATEMENTS

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Changes in standards and interpretations

a) Amendments to TAS affecting amounts reported and/or disclosures in the financial statements

None.

New and revised TAS applied with no material effect on the financial statements

Amendments to TAS 16 and TAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortization</i> ¹
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	<i>Agriculture: Bearer Plants</i> ¹
Amendments to TFRS 11 and TFRS 1 Annual Improvements to 2011-2013 Cycle	<i>Accounting for Acquisition of Interests in Joint operations</i> ¹ <i>TFRS 1</i> ²
Amendments to TAS 1 Annual Improvements to 2012-2014 Cycle	<i>Disclosure Initiative</i> ² <i>TFRS 5, TFRS 7, TAS 34, TAS 19</i> ²
Amendments to TAS 27	<i>Equity Method in Separate Financial Statements</i> ²
Amendments to TFRS 10 and TAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to TFRS 10, TFRS 12 and TAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ²
TFRS 14	<i>Regulatory Deferral Accounts</i> ²

¹ Effective for annual periods beginning on or after 31 December 2015.

² Effective for annual periods beginning on or after 1 January 2016.

Amendments to TAS 16 and TAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016 AND 2015

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Changes in standards and interpretations

b) New and revised TAS applied with no material effect on the financial statements (cont’d)

Amendments to TAS 16 and TAS 41 and Amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 Agriculture: Bearer Plants

This amendment include ‘bearer plants’ within the scope of TAS 16 rather than TAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with TAS 16. The amendment also introduces a definition of ‘bearer plants’ as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of TAS 41.

Amendments to TAS 16 and TAS 41 also led to amendments in related provisions of TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40, respectively.

Amendments to TFRS 11 and TFRS 1 Accounting for Acquisition of Interests in Joint operations

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- Apply all of the business combinations accounting principles in TFRS 3 and other TAS, except for those principles that conflict with the guidance in TFRS 11,
- Disclose the information required by TFRS 3 and other TAS for business combinations.

Annual Improvements 2011-2013 Cycle

TFRS 1: Clarify which versions of TAS can be used on initial adoption (amends basis for conclusions only).

Amendments to TAS 1 Disclosure Initiative

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

Annual Improvements 2012-2014 Cycle

TFRS 5: Adds specific guidance in TFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

TFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Changes in standards and interpretations

b) New and revised TAS applied with no material effect on the financial statements (cont’d)

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

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

Amendments to TFRS 10, TFRS 12 and TAS 28 *Investment Entities: Applying the Consolidation Exception*

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent’s investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by TFRS 12.

TFRS 14 *Regulatory Deferral Accounts*

TFRS 14 *Regulatory Deferral Accounts* permits an entity, which is a first-time adopter of Turkish Financial Reporting Standards to continue to account, with some limited changes, for ‘regulatory deferral account balances’ in accordance with its previous GAAP, both on initial adoption of TFRS and in subsequent financial statements.

TFRS 14 also led to amendments in related provisions of TFRS 1.

c) New and revised TAS in issue but not yet effective

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

TFRS 9

*Financial Instruments*¹

TFRS 15

*Revenue from Contracts with Customers*¹

¹ Effective for annual periods beginning on or after 1 January 2018.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Changes in standards and interpretations

c) New and revised TAS in issue but not yet effective (cont'd)

TFRS 9 *Financial Instruments*

TFRS 9, issued by Public Oversight Authority ("POA") in 2010, introduces new requirements for the classification and measurement of financial assets. TFRS 9 is amended in 2011 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Revised version of IFRS 9 is issued by POA in January 2017 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income ("FVTOCI") measurement category for certain simple debt instruments.

TFRS 9 is effective for the annual periods beginning on or after 1 January 2018. Early adoption is permitted unless before 1 February 2015.

TFRS 15 *Revenue from Contracts with Customers*

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognize revenue when the entity satisfies a performance obligation.

The Company evaluates the effects of these standards, amendments and improvements on the financial statements.

2.7 Comparative information and revision of prior period financial statements

The financial statements of the Company have been prepared with the prior periods on a comparable basis in order to give consistent information about the financial position and performance. If the presentation or classification of the financial statements is changed, in order to maintain consistency, the financial statements of the prior periods are also reclassified in line with the related changes and the significant changes are explained.

1- The Company has audited the undrawn and unrecorded notes receivables classified under trade receivables in the current period and deferred receivables which they intentionally recorded in these amounts and decided that the two amounts should be netted. According to TAS 8 ("Accounting Policies, Changes in Accounting Estimates and Error"), the financial statements as of 31 December 2015 and 31 December 2014 have been restated as follows. The restatement has no effect on changes in equity and profit or loss and other comprehensive income statements.

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NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.7 Comparative information and revision of prior period financial statements (Continued)

	Previously Reported 31 December 2015	Restatement effect	Restated 31 December 2015
Trade receivables	1,410,160	(491,511)	918,649
Trade payables	2,553,198	(321,901)	2,231,297
Deferred income	4,159,158	(169,610)	3,989,548

	Previously Reported 1 January 2015	Restatement effect	Restated 1 January 2015
Trade receivables	1,159,972	(462,906)	697,066
Trade payables	1,376,240	(298,425)	1,077,815
Deferred income	3,527,705	(164,481)	3,363,224

2- The Company has restated the earnings per share by considering the number of treasury shares in determining the weighted average number of the shares outstanding. The effect of the change on the earnings per share amounts for the prior years are disclosed below. The changes do not have any effect on the statements of financial positions, profit or loss and other comprehensive income and changes in equity.

	Earnings Per Share	
	Previously Reported	Restated
1 January – 31 December 2015	0.0025	0.0026

3- The Company classified inventories under the non-current assets in previous periods. The company reassessed and decide to present its inventories under the current assets in accordance with TAS 1 standard. As of 31 December 2015, TL 8,523,344 and 31 December 2014, TL 8,243,895 of land and residence stocks which are classified in long-term stocks, are reclassified as short-term inventories.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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NOTE 3 – CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash on hand	2	4
Banks	2,501,231	3,004,999
- Demand deposit	133,748	65,500
- Time deposits up to 3 months maturity	2,367,483	2,939,499
	2,501,233	3,005,003

Maturities of cash and cash equivalents are as follows:

	31 December 2016	31 December 2015
Demand	133,748	65,504
Up to 3 month	2,367,483	2,939,499
Less: Blocked deposits with maturities less than 3 months	(88,194)	(41,432)
	2,413,037	2,963,571

Average effective interest rates of time deposits are as follows:

	31 December 2016	31 December 2015
	(%)	(%)
	7.94%	8.90%

The calculation of cash and cash equivalents of the Company for the use in statements of cash flows is as follows:

	31 December 2016	31 December 2015
Cash and cash equivalents	2,501,233	3,005,003
Less: Interest accruals	(8,074)	(8,525)
Less: LSRSA project deposits (*)	(368,484)	(301,997)
Less: TOKI deposits (**)	(1,111,138)	(1,908,051)
Less: Blocked deposits	(57,332)	(26,937)
	956,205	759,493

(*) The contractors’ portion of the residential unit sales in accordance with the related agreements, realized from the ongoing LSRSA projects is deposited in time deposit bank accounts that are opened for the related LSRSA projects. The Company has the authority to control these accounts TL 368, 484 (31 December 2015: TL 301,997) part of the total project amount deposits TL 30, 862 (31 December 2015: TL 14,495) consists of blocked deposits.

(**) According to the protocols signed with TOKİ regarding to land purchases, the cost of lands purchased from TOKİ is kept in time deposit accounts of Emlak Konut in the name of TOKİ, until the payment date determined by TOKİ. All of this accumulated interest income on time deposits will be paid to TOKİ.

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NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

The breakdown of foreign currency denominated cash equivalents in terms of TL is as follows:

	31 December 2016	31 December 2015
Dollar	538	15
	538	15

NOTE 4 - FINANCIAL INVESTMENTS

	31 December 2016	31 December 2015
Financial investments		
Bond	128,278	130,552
Special issue government bonds (*)	12,517	13,267
	140,795	143,819

(*) The Republic of Turkey, Undersecretariat of Treasury (“Turkish Treasury”) issues special Domestic Government Debt securities in the name of the Company to make the HAS payments on behalf of Turkish Treasury. In 2010, special Domestic Government Debt securities amounted to TL 429,617 has been issued to the Company. The Bonds are redeemed partially and early readapted and the amount is transferred to the Company’s accounts when the HAS lists are specified (Note 7). These government bonds are non-interest bearing and are not subject to sale on secondary market therefore the fair values are also their nominal values.

The Company acquired bonds amounting to TL 128,278 as of 31 December 2016 (31 December 2015: TL 130,552) from free market. These bonds are measured at fair value. The fair value of these bonds are calculated by using the effective interest rates quarterly. Average effective interest rate of financial assets at 31 December 2016 is 8.95 % (31 December 2015: 10.84%). As of 31 December 2016, average term of the treasury bills changes between three and six months (31 December 2015: changes between four and six months).

NOTE 5 - BORROWING COSTS

	31 December 2016	31 December 2015
Short-term financial liabilities		
Short-term portion of long-term borrowings	219,490	230,657
	219,490	230,657
Long-term financial liabilities		
Long-term borrowings	-	214,000
	-	214,000

NOTE 5 - BORROWING COSTS (Continued)

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According to the agreement signed with the Turkish Treasury in 25 July 2008, the Company has TL 214,000 remaining borrowing from the Turkish Treasury for financing its HAS payment liability. With respect to the agreement signed with the Turkish Treasury, the related borrowing has a floating interest rate and has a maturity of 10 October 2017. The interest rate is defined as the weighted average of the compound rate of discounted Government bonds issued by Turkish Treasury before each payment period.

The interest rate of the borrowing at 31 December 2016 is 9.32% (31 December 2015: 10.14%).

The redemption schedules of the borrowings at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
2017	-	214,000
	-	214,000

The allocation of interest rate sensitivity of financial liabilities according to their repricing dates is as follows:

	31 December 2016	31 December 2015
Less than 3 months	115,490	65,657
Between 3 - 12 months	104,000	165,000
Between 1 - 5 years	-	214,000
	219,490	444,657

It is anticipated that the long-term borrowings with the floating rates reflect the fair values of the borrowings.

NOTE 6 - TRADE RECEIVABLES AND PAYABLES

	31 December 2016	31 December 2015
Short-term trade receivables		
Receivables from sale of residential and commercial units	418,768	445,709
Receivables from LSRSA contractors invoiced	237,016	242,658
Receivables from related parties (Note 25)	21,087	204,172
Receivables from land sales	6,514	28,083
Rent receivables	1,449	1,385
Other	978	693
Unearned finance income	(2,944)	(4,051)
	682,868	918,649
Doubtful receivables	1,866	1,965
Less: Provision for doubtful receivables	(1,866)	(1,965)
	682,868	918,649

NOTE 6 - TRADE RECEIVABLES AND PAYABLES (Continued)

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016 AND 2015

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

	31 December 2016	31 December 2015
Long-term trade receivables		
Receivables from sale of residential and commercial units	1,539,837	1,565,891
Unearned finance income	(72,983)	(82,791)
	1,466,854	1,483,100

Movements of provision for doubtful receivables at 31 December 2016 and 2015 are as follows:

	2016	2015
Balance at 1 January	1,965	1,732
Provision charged for the period	-	247
Provision released within current period	(99)	(14)
Balance at 31 December	1,866	1,965

	31 December 2016	31 December 2015
Short-term trade payables		
Payables to related parties (Note 25)	3,510,865	1,881,778
Payables to LSRSA contractors invoiced	279,154	291,075
Time deposit interest accruals from LSRSA contractors invoiced (*)	17,169	31,457
Trade payables	16,931	26,987
	3,824,119	2,231,297

(*) The contractors’ portion of the residential unit sales as defined in the agreement which gained from ongoing LSRSA projects is deposited in the time deposit bank accounts under control of the Company within the related LSRSA projects (Note 3).

	31 December 2016	31 December 2015
Long-term trade payables		
Payables to land owners	71	36,192
	71	36,192

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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AT 31 DECEMBER 2016 AND 2015**

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NOTE 7 - OTHER RECEIVABLES AND PAYABLES

	31 December 2016	31 December 2015
Short-term other receivables		
Housing Acquisition Support (“HAS”) related		
receivables from Turkish Treasury	390,780	390,750
Receivables from contractors	441,771	103,726
Receivables from the authorities	5,826	5,279
Other	128	26
	838,505	499,781
	31 December 2016	31 December 2015
Long-term other receivables		
Deposits and guarantees given	1,053	168
	1,053	168
	31 December 2016	31 December 2015
Short term other payables		
Payable to HAS beneficiaries	403,447	404,079
Payable to contractors (*)	88,752	88,752
Taxes and funds payable	14,447	8,470
Deferred income	-	4,704
Other	53,930	11,989
	560,576	517,994

(*) The amount includes the unissued invoice by the contractor amount of TL 88,752 regarding to the units received as a result of revenue allocation at İzmir Mavisehir Phase 3 project, where the contractor filed a lawsuit regarding the revenue sharing percentages (31 December 2015: TL 88,752).

The movements of the payments either from Company’s shareholder’s equity to HAS beneficiaries and the detail of HAS payments and HAS receivables and payables related to Treasury Support as of for 31 December 2016 and 2015 are shown below:

	1 January 2016	Additions within the period	Disposals	31 December 2016
Treasury support share				
Receivable from Treasury	390,750	54	(24)	390,780
Special purpose government Bond (Note 4)	13,267	-	(750)	12,517
Cash generated from government bond redemption	62	876	(788)	150
Total consideration received or receivable from Treasury	404,079			403,447
Payable to HAS beneficiaries	(404,079)			(403,447)

NOTE 7 - OTHER RECEIVABLES AND PAYABLES (Continued)

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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	1 January 2015	Additions within the period	Disposals	31 December 2015
Treasury support share				
Receivable from Treasury	391,001	6	(257)	390,750
Special purpose government Bond (Note 4)	13,767	-	(500)	13,267
Cash generated from government bond redemption	462	1,232	(1,632)	62
Total consideration received or receivable from Treasury	405,230			404,079
Payable to HAS beneficiaries	(405,230)			(404,079)

NOTE 8 -INVENTORIES

	31 December 2016	31 December 2015
Land	4,293,728	3,262,076
<i>Cost</i>	4,305,099	3,273,192
<i>Impairment</i>	(11,370)	(11,116)
Planned land by LSRSA	5,664,474	5,409,099
Planned land by turnkey project	1,841,251	1,647,307
Residential and commercial units ready for sale	285,741	11,921
<i>Cost</i>	293,179	12,179
<i>Impairment</i>	(7,438)	(258)
	12,085,195	10,330,403

As of 31 December 2016, independent valuation reports prepared by Atak Gayrimenkul Değerleme A.Ş. ve Yetkin Gayrimenkul Değerleme A.Ş. are taken into consideration in order to calculate the fair value and impairment loss, if any, on land units and commercial units ready for sale.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016 AND 2015

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NOTE 8 - INVENTORIES (Continued)

The movement of the impairment on land and residential unit inventories is as follows:

	2016	2015
Balance at 1 January	11,374	12,293
Impairment charge for the period	10,206	6,805
Reversal of impairment	(2,772)	(7,798)
The impairment of stocks that transferred from investment property	-	74
Balance at 31 December	18,808	11,374

The details of land and residential stocks of the company are shown below as of 31 December 2016 and 31 December 2015:

Lands	31 December 2016	31 December 2015
İstanbul Küçükçekmece Lands	1,822,839	-
İstanbul Şişli Lands	455,122	-
İstanbul Başakşehir Lands	299,141	433,905
İstanbul Zeytinburnu Lands	400,045	400,006
İstanbul Arnavutköy Lands	317,309	317,309
Ankara Yeni Mahalle Lands	272,783	273,036
İstanbul Tuzla Lands	225,933	225,933
Yalova Lands	178,340	178,340
İstanbul Kartal Lands	132,283	132,283
İstanbul Ataşehir Lands	41,979	41,979
İstanbul Esenyurt Lands	36,181	141,282
Bursa Osmangazi Lands	27,336	27,336
Maltepe Kucukyali Lands	2,753	-
Ankara Çankaya Lands	15,358	11,849
İstanbul Şile Lands	10,213	10,210
İzmir Urla Lands	10,166	19,537
Tekirdağ Kapaklı Lands	8,248	8,248
Tekirdağ Çorlu Lands	6,153	16,578
Kocaeli Tütünçiftliği Lands	3,417	3,267
Kocaeli Gebze Lands	2,999	45,174
İstanbul Zekeriyaköy Lands	677	677
Niğde Lands	-	20,304
İstanbul Maltepe Lands	-	665,557
İstanbul Avcılar Lands	-	106,085
İstanbul Bakırköy Lands	-	30,005
Balıkesir Merkez Lands	-	44,000
İstanbul Eyüp Lands	-	30,091
Nevşehir Lands	-	70,042
Other	24,453	9,043
	4,293,728	3,262,076

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NOTE 8 - INVENTORIES (Continued)

Planned lands by LSRSA	31 December 2016	31 December 2015
Sarıyer İstinye Project	1,006,171	1,006,171
Maltepe-Küçükyalı Project	677,675	-
Kazlıçeşme Project	656,808	656,408
Ankara Yenimahalle İstasyon Project	634,574	634,550
Maslak 1453 Project	230,386	549,415
Köy Project	225,241	224,276
İstanbul Kartal Project	186,635	186,778
Metropol İstanbul Project	182,046	246,166
Hoşdere 3. Etap Projesi	159,150	72,016
Fatih Yedikule Projesi	121,491	65,646
İstanbul Kağıthane Seyrantepe Project	118,273	115,953
Kayabaşı 5. Etap Project	117,552	117,552
Park Maveria Project	116,866	115,859
Kayabaşı 6. Etap Project	113,982	115,227
İstanbul Üsküdar Project	108,107	85,006
Kartal Yakacık Project	106,405	91,905
Hoşdere 4. Etap Project	104,977	104,935
Konya Meram Yenice Project	86,704	86,704
Avcılar Kapadık Project	79,722	79,343
Denizli Merkez Efendi Project	76,268	74,761
Kocaeli Derince Project	70,001	70,001
Yenibosna Project	68,063	68,334
Isparta Kule 5.Etap Project	58,105	-
Hoşdere 2. Etap Project	47,628	55,878
Ankara Etimesgut Project	37,299	37,288
Yeni Yapı Project	30,130	-
Ataşehir Finans Merkezi Project	17,587	14,951
Bulvar İstanbul Project	-	14,136
Evora İstanbul - 2 Project	-	88,794
Ankara Çankaya Mühye Project	-	316,662
Other	226,628	114,384
	5,664,474	5,409,099

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NOTE 8 - INVENTORIES (Continued)

Planned lands by turnkey project	31 December 2016	31 December 2015
İstanbul Esenler Kentsel Dönüşüm Project	472,911	348,366
Ankara Muhye Project	336,250	-
Ayazma Emlak Konutları Project	224,918	133,791
Ispartakule 1. Etap 1. Kısım Project	156,515	95,535
Nidapark Basakşehir Project	143,298	-
Ispartakule 1. Etap 2. Kısım Project	130,396	83,358
Nevşehir Emlak Konutları Project	97,816	-
Körfezkent 4. Etap Project	73,926	39,199
Gebze Project	68,682	-
Emlak Konut Başakşehir Evleri 2. Kısım Project	66,922	35,432
Başakşehir Ayazma 2. Etap Project	44,112	-
Nigde Project	24,419	-
Kocaeli Gebze Kirazpınar Kentsel Dönüşüm Project	662	662
Bursa Kentsel Dönüşüm Project	424	424
Kayabaşı 1. Etap 1. Kısım Project	-	221,819
Hoşdere 1. Kısım 2. Etap Project	-	145,460
Kayabaşı 1. Etap 4. Kısım Project	-	125,384
Kayabaşı 1. Etap 3. Kısım Project	-	129,013
Hoşdere 1. Kısım 1. Etap Project	-	119,608
Kayabaşı 1. Etap 2. Kısım Project	-	107,553
Hoşdere 1. Kısım 3. Etap Project	-	61,703
	1,841,251	1,647,307
Completed units	31 December 2016	31 December 2015
Batışehir Project	136,932	-
Unikonut Project	31,572	-
Sarphan Finanspark Project	28,440	-
Hoşdere Emlak Konutları	28,330	-
Nidakule Ataşehir Project	26,210	-
Dumankaya MİKS Project	16,911	-
Başakşehir Emlak Konutları	5,287	-
Bulvar İstanbul Evleri	3,138	-
Spradon Vadi Evleri	2,195	1,086
Park Yaşam Mavişehir Evleri	1,486	1,739
Kayabaşı Emlak Konutları	1,654	-
Kocaeli Körfez Kent Emlak Konutları	1,238	1,238
Evora 2. Etap Project	303	979
My Towerland	-	3,752
Burgazkent Çarşı Project	-	950
Other	2,045	2,177
	285,741	11,921

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NOTE 9 - INVESTMENT PROPERTIES

Investment properties are for rent and sales comparison approach and income methods by discounted cash flows are used as fair value in these valuations and impairment calculations.

The movement of investment property at 31 December 2016 and 2015 are as follows:

	1 January 2016	(Impairment charge)/ reversal of impairment	Additions	Disposals	Transfer	31 December 2016
İstanbul Dursunköy land	16,000	-	-	-	-	16,000
Atasehir General Management Office A Block	-	-	-	-	22,199	22,199
	16,000	-	-	-	22,199	38,199

	1 January 2015	(Impairment charge)/ reversal of impairment	Additions	Disposals	Transfer	31 December 2015
Avcılar land	847	-	-	-	(847)	-
İstanbul Dursunköy land	-	-	-	-	16,000	16,000
	847	-	-	-	15,153	16,000

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NOTE 9 - INVESTMENT PROPERTIES (Continued)

Regarding the measurement of fair values of investment properties at 31 December 2016, the valuation reports are taken from independent valuation firms Yetkin Gayrimenkul Değerleme ve Danışmanlık A.Ş. (31 December 2015: Peritus Gayrimenkul Değerleme A.Ş.). The fair values of the investment property determined by independent valuation experts are as follows:

	31 December 2016	31 December 2015
Avcılar land	34,942	18,047
Atasehir General Management Office A Block	82,032	-
	116,974	18,047

Details of the Group’s freehold land and buildings and information about the fair value hierarchy as at 31 December 2016 and 2015 are as follows:

	31 December 2016	Fair value as at 31 December 2016		
		Level 1 TL	Level 2 TL	Level 3 TL
Istanbul Dursunkoy land	34,942	-	34,942	-
Atasehir General Management Office A Block	82,032	-	82,032	-

	31 December 2015	Fair value as at 31 December 2015		
		Level 1 TL	Level 2 TL	Level 3 TL
Istanbul Dursunkoy land	18,047	-	18,047	-

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016 AND 2015

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31 December 2016	Buildings	Motor vehicles	Furniture, equipment and fix assets	Construction in progress	Total
Net book value as of 1 January 2016	9,584	737	4,650	63,750	78,721
Additions	9,730	886	6,712	29	17,357
Disposal, (net) (-)	-	-	(44)	-	(44)
Transfers from constructions in progress,	63,750	-	-	(63,750)	-
Transfers from investment	(22,199)	-	-	-	(22,199)
Depreciation expense(-)	(2,113)	(397)	(2,719)	-	(5,229)
Reversal of impairment	575	-	-	-	575
Net book value 31 December 2016	59,327	1,226	8,599	29	69,181
Cost	61,251	2,436	16,023	29	79,739
Accumulated depreciation (-)	(1,924)	(1,210)	(7,424)	-	(10,558)
Net book value 31 December 2016	59,327	1,226	8,599	29	69,181

31 December 2015	Buildings	Motor vehicles	Furniture, equipment and fix assets	Construction in progress	Total
Net book value as of 1 January 2015	9,302	545	2,152	23,898	35,897
Additions	440	461	3,979	39,852	44,732
Depreciation expense(-)	(225)	(269)	(1,481)	-	(1,975)
Impairment (-)	67	-	-	-	67
Net book value 31 December 2015	9,584	737	4,650	63,750	78,721
Cost	11,338	1,551	9,355	63,750	85,994
Accumulated depreciation (-)	(1,179)	(814)	(4,705)	-	(6,698)
Impairment (-)	(575)	-	-	-	(575)
Net book value 31 December 2015	9,584	737	4,650	63,750	78,721

All depreciation expenses are included to general and administrative expenses.

NOTE 11 – INTANGIBLE ASSETS

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016 AND 2015

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31 December 2016	Licenses	Computer software	Total
Net book value, 1 January 2016	740	1,134	1,874
Additions	2,474	114	2,588
Depreciation expense (-)	(1,133)	(724)	(1,857)
Net book value 31 December 2016	2,081	524	2,605
Cost	4,773	2,692	7,465
Accumulated Depreciation (-)	(2,692)	(2,168)	(4,860)
Net book value 31 December 2016	2,081	524	2,605

31 December 2015	Licenses	Computer software	Total
Net book value, 1 January 2016	976	1,011	1,987
Additions	417	581	998
Depreciation expense (-)	(653)	(458)	(1,111)
Net book value 31 December 2015	740	1,134	1,874
Cost	2,300	2,577	4,877
Accumulated Depreciation (-)	(1,560)	(1,443)	(3,003)
Net book value 31 December 2015	740	1,134	1,874

All depreciation expenses are included to general and administrative expenses.

NOTE 12 – OTHER SHORT TERM PROVISIONS

	31 December 2016	31 December 2015
Provisions		
Provision for lawsuits (*)	73,238	78,088
Provision for cost accruals	54,846	87,944
	128,084	166,032

(*)As of 31 December 2016, a total of TL 183,995 lawsuits have been filed against the Company. For those cases in which there is a high probability of potential outflow of potential resources from these cases, a provision amounting to TL 73,238 has been set by taking the opinion of the lawyers. According to the legal judgment of the lawyers, there is no risk of any source outflow for company in the released provision lawsuits.

NOTE 12 – OTHER SHORT TERM PROVISIONS (Continued)

The movements of provision for lawsuits as of 31 December 2016 and 2015 are as follows:

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	2016	2015
Balance at 1 January	78,088	69,699
Provision charged for the period	2,613	28,839
Provision released within the current period (Note:20)	(6,277)	(11,233)
Provision used in the period	(1,186)	(9,217)
Balance at 31 December	73,238	78,088

NOTE 13 - EMPLOYEE BENEFITS

	31 December 2016	31 December 2015
Short-term provisions		
Unused vacation provision	6,190	4,626
	6,190	4,626
Long-term provisions		
Provision for employment termination benefit	5,508	3,986
	5,508	3,986

TAS 19 foresees that actuarial valuation method should be in use in order to estimate the certain liabilities for defined benefit obligations of the Company. Accordingly, in the calculation of these liabilities, the following actuarial assumptions are used:

	31 December 2016	31 December 2015
Discount Rate (%)	3.26	3.6
Turnover rate to estimate probability of retirement(%)	1.15	1.06

The basic assumption is that the determined value for every working year increases proportional to inflation. Using this assumption, the existing discount ratio shows the real ratio, unaffected by inflation.

If the discount rate would have been 1% lower, provision for employee termination benefits would increase by TL 552.

If the anticipated turnover rate would have been 1% higher while all other variables were held constant, provision for employee termination benefits would increase by TL 198.

Movement of the provision for employment termination benefits as of 31 December 2016 and 2015 are as follows:

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016 AND 2015

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NOTE 13 - EMPLOYEE BENEFITS (Continued)

	2016	2015
Balance at 1 January	3,986	3,048
Service cost	1,118	461
Interest cost	131	365
Payment within the period	(137)	(172)
Actuarial loss	410	284
Balance at 31 December	5,508	3,986

NOTE 14 - OTHER ASSETS AND LIABILITIES

	31 December 2016	31 December 2015
Other current assets		
Progress payments given to contractors	118,700	79,286
Accrued income	122,946	43,842
Receivables from tax office (*)	34,066	33,144
Deferred VAT	8,500	10,000
Other	263	-
	284,475	166,272

(*) Receivables from tax office consist of bank stoppages paid on interest income, which have been requested from the tax office to be paid back.

	31 December 2016	31 December 2015
Other non-current assets		
Deferred VAT	47,593	58,241
	47,593	58,241

NOTE 15 - DEFERRED INCOME AND PREPAID EXPENSES

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016 AND 2015

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	31 December 2016	31 December 2015
Short-term deferred income		
Deferred income from LSRSA projects (*)	1,727,759	2,147,597
Advances taken from turnkey project sales	371,128	1,000,469
Advances taken from LSRSA contractors (**)	976,954	776,750
Deferred income from sales of completed units	75,248	-
Advances taken from related parties (Note 25)	64,732	64,732
	3,215,821	3,989,548

(*) The balance is comprised of deferred income of future land sales regarding the related LSRSA projects residential unit’s sales.

(**) In certain LSRSA projects, the Company collects a certain portion of the total Company revenue from the project before signing the agreement with the contractor

	31 December 2016	31 December 2015
Long-term deferred income		
Other advances taken	2,963	2,448
	2,963	2,448

	31 December 2016	31 December 2015
Prepaid expenses		
Advances given for inventory (*)	542,674	32,414
Prepaid expenses	1,137	1,548
	543,811	33,962

(*) A protocol has been signed between the Company and the Tariş Cooperative Associations to develop revenue sharing project on a total of 143,366-m2 land, which is belonging to the Tariş Cooperative Unions, located within the boundaries of Kurukay / Umurbey, Konak district of İzmir. The Company has provided an advance of stock amounting to TL 367,315.

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NOTE 16 - SHAREHOLDERS' EQUITY

The Company's authorized capital amount is TL 3,800,000 (31 December 2015: TL 3,800,000) and consists of 380,000,000,000 (31 December 2015: 380,000,000,000) authorized number of shares with a nominal value of TL 0,01 each.

The Company's shareholders and their shareholding percentages as of 31 December 2016 and 31 December 2015 is as follows:

Shareholders	31 December 2016		31 December 2015	
	Share (%)	TL	Share (%)	TL
Public offering portion	50.66	1,925,111	50.66	1,925,111
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı ("TOKİ")	49.34	1,874,831	49.34	1,874,831
HAS beneficiaries	0.00	56	0.00	56
Other	0.00	2	0.00	2
Total paid in capital	100	3,800,000	100	3,800,000

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve balance reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

In accordance with the Communiqué Serial: II, No: 14,1 which became effective as of 13 June 2013 and according to the CMB's announcements clarifying the said Communiqué, "Share Capital", "Restricted Reserves Allocated from Profit" and "Share Premiums" need to be recognized over the amounts contained in the legal records. The valuation differences (such as inflation adjustment differences) shall be disclosed as follows:

- if the difference is arising from the valuation of "Paid-in Capital" and not yet been transferred to capital should be classified under the "Inflation Adjustment to Share Capital";
- "if the difference is arising from valuation of "Restricted Reserves" and "Share Premium" and the amount has not been subject to dividend distribution or capital increase, it shall be classified under "Retained Earnings". Other equity line should be revaluated in accordance with the CMB standards.

There is no any use of the adjustment to share capital except adding it to the share capital.

Between 1 January 2015 and 24 August 2015, The Company has repurchased 9,183,544 numbers of shares with nominal value between TL 2.39 and TL 2.46 and total amounting to TL 22,169,753.53 full TL). Shares average purchase price is TL 2.42 and as a result of the purchases, the share of the total shares to the total share lot is 3.16%

The Company paid dividend to its shareholders amounting to TL 367,690 according to the decision in general assembly meeting on 14 April 2016. The dividend amounting to TL 11,618 which correspond to its treasury shares has been accounted in share premium account in equity.

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NOTE 17 - REVENUE AND COST OF SALES

	1 January- 31 December 2016	1 January- 31 December 2015
Sales income		
Land sales	1,808,322	1,511,915
<i>Income from sale of land and plots by way of LSRSA</i>	<i>1,743,896</i>	<i>1,511,915</i>
<i>Land sales income</i>	<i>64,426</i>	-
Residential and commercial units sales	1,651,644	275,840
Rent Income	808	677
	3,460,774	1,788,432
Sales returns	(4,210)	(887)
Sales discounts	(672)	(757)
Net sales income	3,455,892	1,786,788
Cost of sales		
Cost of land sales	(407,456)	(673,725)
<i>Cost of land and plots sold by way of LSRSA</i>	<i>(395,711)</i>	<i>(673,725)</i>
<i>Cost of land sales</i>	<i>(11,745)</i>	-
Cost of residential and commercial units sales	(1,212,222)	(225,063)
	(1,619,678)	(898,788)
Gross profit	1,836,214	888,000

NOTE 18 - GENERAL ADMINISTRATIVE EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES

	1 January- 31 December 2016	1 January- 31 December 2015
General administrative expenses		
Personnel expenses	(53,418)	(41,433)
Taxes, duties and fees	(24,296)	(11,986)
Donations	(15,217)	(14,227)
Consultancy expenses	(9,956)	(5,220)
Subcontracting service expenses	(8,885)	(3,117)
Depreciation and amortisation (Note: 10-11)	(7,086)	(3,086)
Lawsuit and notary expenses	(4,039)	(2,012)
Due and contribution expenses	(2,929)	(2,892)
Travel expenses	(2,996)	(2,366)
Maintenance	(773)	(505)
Communication	(609)	(435)
Insurance expenses	(597)	(2,179)
Other	(6,682)	(5,193)
	(137,483)	(94,651)

NOTE 18 - GENERAL ADMINISTRATIVE EXPENSES, MARKETING, SALES AND DISTRIBUTION EXPENSES (Continued)

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016 AND 2015

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

	1 January- 31 December 2016	1 January- 31 December 2015
Marketing, sales and distribution expenses		
Advertising expenses	(49,790)	(21,326)
Personnel expenses	(4,863)	(4,901)
Notary expenses	(135)	(884)
Office expenses	(270)	(226)
Other	(1,026)	(1,233)
	(56,084)	(28,570)

NOTE 19 - EXPENSES BY NATURE

	1 January - 31 December 2016	1 January - 31 December 2015
Cost of land sales	1,212,222	225,063
Cost of residential units and commercial unit sales	407,456	673,725
Staff costs	58,281	46,334
Advertisement	49,790	21,326
Taxes,duties and fees	24,296	11,986
Donations	15,217	14,227
Consultancy expenses	9,956	5,220
Subcontracting service expenses	8,885	3,117
Depreciation and amortisation	7,086	3,086
Legal and notary	4,174	2,238
Membership fees	2,929	2,892
Insurance	597	2,179
Communication	609	435
Other	11,747	10,181
	1,813,245	1,022,009

NOTE 20 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

	1 January- 31 December 2016	1 January- 31 December 2015
Other income		
Finance income from credit sales	173,250	92,377
Delay penalty interest from project contractors	52,495	38,863
Recirculate commission income	26,256	3,567
Not realized finance income	10,953	8,387
Released lawsuit provisions (Note 12)	6,277	11,233
Impairment provision reversals (Note 8-10)	3,348	7,865
Fee returns from land offices	1,696	1,004
Income from tender contract sales	611	1,078
Income from guarantees	220	1,507
Insurance income	21	3,313
Delay penalty and compensation income from project contractors	-	3,395
Other	13,860	11,074
	288,987	183,663

NOTE 20-OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES (Continued)

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016 AND 2015

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	1 January- 31 December 2016	1 January- 31 December 2015
Other expenses		
Impairment provision expenses (Note 8)	(10,206)	(6,805)
Reversal of due date differences	(1,905)	(328)
Lawsuit provision charge for the period (Note 12)	(2,613)	(28,839)
Lawsuit expenses	-	(7,000)
Other	(9,396)	(1,130)
	(24,120)	(44,102)

NOTE 21 - INCOME FROM INVESTING ACTIVITIES

	1 January- 31 December 2016	1 January- 31 December 2015
Interest income from bonds	13,810	14,570
	13,810	14,570

NOTE 22 - FINANCIAL INCOME / EXPENSES

	1 January- 31 December 2016	1 January- 31 December 2015
Financial income		
Interest income from time deposits	94,238	84,378
Foreign exchange income	74	126
	94,312	84,504
Financial expenses		
Interest expense on payable to TOKI (***)	(127,362)	-
Interest discount on pay off debt (*)	(95,211)	-
Interest expense on Turkish Treasury borrowings (**)	(31,184)	(49,771)
Foreign exchange loss	(603)	(715)
Commission expenses	-	(323)
	(254,360)	(50,809)

(*) This amount is related to the application of 20% deduction over the current loan balance of borrowers who continue their installment payments in the projects held by the Company, in case of clearing their debt amount.

(**) Interest expense of borrowing for HAS beneficiaries payments from Turkish Treasury amounting to TL 214,000 calculated in accordance with Domestic Government Debt Securities issuance compound interest rate announced at the time of payment periods.

(***) This amount consists of the interest expense accrued as of 31 December 2016 for the debts arising from payments of land received from the Toplu Konut İdaresi.

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NOTE 23 - TAX ASSETS AND LIABILITIES

“Corporate Tax Law” No. 5520 was taken into effect after being published in the Official Gazette No. 26205, dated 21 June 2006. Many clauses of the “New Tax Law” are effective from 1 January 2006. According to Tax Law, No. 5520, the corporate tax rate in Turkey is payable at the rate of 20% as of 1 January 2006. The corporate tax rate is calculated on the total income of the Company after adjusting for certain disallowable expenses, exempt income and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey or to resident corporations, are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and no withholding tax incurs in such a case.

The Company is exempt from corporate income tax in accordance with paragraph 4-d of Article 8 of the Corporate Income Tax Law after the Real Estate Investment Company (“REIC”) conversion on 22 June 2002 and in accordance with paragraph 6-a of Article 94 of the Income Tax Law, the earnings of the REICs are subject to withholding taxes. According to the Council of Ministers Decision, No: 93/5148, the withholding tax rate is determined as "0".

NOTE 24 – EARNINGS PER SHARE

In Turkey, companies can increase their share capital by making a pro rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings and revaluation surplus. The issue of such shares is treated as the issuance of ordinary shares in the calculation of earnings per share. Accordingly, previous effects of related share distributions taking into consideration on weighted average number of shares used in calculation. Earnings per share is calculated by considering the total number of new shares when there is an increase in issued shares because of distribution of bonus shares after the balance sheet date but before the preparation of financial statements.

The earnings per share stated in income statement are calculated by dividing net income for the period by the weighted average number of the Company’s shares for the period.

	2016	2015
Net income attributable to equity holders of the parent in full TL	1,761,276	952,605
Weighted average number of ordinary shares	3,685,803,920	3,685,803,920
Earnings per share in full TL	0.0048	0.0026

NOTE 25 - RELATED PARTY DISCLOSURES

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

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The main shareholder of the Company is T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”). TOKİ is a state institution under control of Republic of Turkey Prime Ministry. Related parties of the Company are as listed below:

1. T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”)
2. Emlak Planlama, İnşaat, Proje Yönetimi ve Ticaret A.Ş. (an affiliate of TOKİ)
3. GEDAŞ (Gayrimenkul Değerleme A.Ş.) (an affiliate of TOKİ)
4. TOBAŞ (Toplu Konut - Büyükşehir Bel. İnş. Emlak ve Proje A.Ş.) (an affiliate of TOKİ)
5. Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (an affiliate of TOKİ)
6. Vakıf İnşaat Restorasyon ve Ticaret A.Ş. (an affiliate of TOKİ)
7. Emlak-Toplu Konut İdaresi Spor Kulübü
8. Emlak Planlama İnş. Prj. Yön. A.Ş. – Fideltus İnş. – Öztaş İnş. Ortak Girişimi
9. Ege Yapı - Emlak Planlama, İnşaat, Proje Yönetimi ve Ticaret A.Ş.
10. Emlak Planlama İnşaat. Proje. Yönetimi ve Ticaret. A.Ş. – Cathay Ortak Girişimi

According to the revised TAS 24 – “Related Parties Transactions Standard”, exemptions have been brought to the disclosure requirements of balances. The Company has transactions with state banks (T.C.Ziraat Bankası A.Ş., Türkiye Vakıflar Bankası T.A.O., Türkiye Halk Bankası A.Ş.) and Turkish Treasury.

- Balances and transactions with respect to Turkish Treasury are detailed in Note 4, 5 and 7.
- The Company mostly deposits its cash in State Banks in compliance with its related statute. The bank balances with state banks amounted to TL 2,178,178 as of 31 December 2016 (31 December 2015: TL 2,725,418) Regarding these bank balances, the Company also generated interest income from the related State banks amounted to TL 226,889 in as of 31 December 2016 (31 December 2015: TL 84,378). Average effective interest rates of time deposits of the Company as of 31 December 2016 are explained in Note 3.

The transactions made between the Company and TOKİ and its affiliates and other related parties are presented below:

	31 December 2016	31 December 2015
Trade receivables from related parties		
Emlak Planl. İnş. Prj. Yön. A.Ş. - Ege Yapı Ltd. Şti.	14,178	197,277
Emlak Planl. İnş. Prj. Yön. A.Ş. - Fideltus İnş-Öztaş İnş O.G.	5,567	5,567
Emlak Planl. İnş. Prj. Yön. A.Ş. - Cathay Ortak Girişimi	1,342	1,328
	21,087	204,172
Trade payables to related parties		
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”) (*)	3,509,541	1,881,778
Ege Yapı Ltd. Şti.-Emlak Pazarlama O.G.	1,324	-
	3,510,865	1,881,778

(*) The Company has purchased various lands from its ultimate parent company (TOKİ) in 2016 and 2015. The remaining payable from this purchases to TOKİ is amounting to TL 3,080,088 (31 December 2015: TL 1,711,926) and accrued interest is TL 429,453 (31 December 2015: TL 169,852).

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NOTE 25 - RELATED PARTY DISCLOSURES (Continued)

	31 December 2016	31 December 2015
Advances received from related parties		
Emlak Planl. İnş. Prj. Yön. A.Ş. - Fideltus İnş. - Öztaş İnş. O.G. (*)	64,732	64,732
	64,732	64,732

(*) Represents the initial collections made from LSRSA projects, where the Company collects a predetermined portion of the total sales amount in line with the agreements.

	1 January- 31 December 2016	1 January- 31 December 2015
Purchases from related parties		
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”)	2,314,030	1,293,514
Emlak Planl. İnş. Prj. Yön. A.Ş. - Ege Yapı Ltd. Şt	152,191	-
Emlak Planlama İnş. Prj. Yön. A.Ş. - Emlak Basın Yayın A.Ş.	864	786
	2,467,085	1,294,300

	31 December 2016	31 December 2016
Finance expense from related parties		
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”)	(127,362)	-
	(127,362)	-

According to the protocols signed with TOKİ regarding to land purchases, the cost of lands purchased from TOKİ is kept in time deposit accounts of Emlak Konut in the name of TOKİ, until the payment date determined by TOKİ. Interest income from time deposit of Emlak Konut in the name of TOKİ are net off from Interest income from time deposits in the financial statements. All of this accumulated interest income on time deposits will be paid to TOKİ.

	1 January- 31 December 2016	1 January- 31 December 2015
Sales to related parties		
T.C. Başbakanlık Toplu Konut İdaresi Başkanlığı (“TOKİ”)	66,626	306,851
Emlak Paz.-Cathay Ortak Girişimi	58	-
	66,684	306,851

In the Company, the president of the Board of Directors, members of Board of Directors, Audit Committee members, General Manager, Assistant General Managers and General Manager consultant and other decision makers who are in charge to manage the operations are assumed as Key management. Short-term benefits given to Key management are stated below:

	1 January- 31 December 2016	1 January- 31 December 2015
Remuneration of key management		
Salaries and other short-term employee benefits	3,096	2,027
	3,096	1,557

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NOTE 26 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Company’s activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Company’s management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

Liquidity Risk

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

The Company manages its liquidity risk by using special analyses regarding its ability to meet the Company’s financial and trade liabilities using the expected undiscounted cash out-flows.

Regarding the liquidity risk arising from the financial liability for HAS beneficiaries, which is a demand-liability, the Company uses the funds made available by the Treasury to meet the payment obligations for this liability. For other financial liabilities, the majority of which comprise of trade liabilities, the Company mainly uses its cash balances and proceeds from sales and advances received.

The Company aims to maintain flexibility in funding by maintaining the availability of committed credit lines. The Company has no derivative financial instruments. The tables have been prepared based on the contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

The maturity distribution of financial liabilities of the Company as of 31 December 2016 is as follows:

31 December 2016	Carrying value	Contractual cash flows	Up to 3 months	3 months to 1 year	1 year- to 5 years
Short-term financial liabilities					
(Non-Derivative):					
Financial liabilities	219,490	220,169	61,160	159,009	-
Trade payables	3,824,119	3,967,801	1,267,894	2,699,907	-
Other liabilities	560,576	560,576	68,377	492,199	-
	4,604,185	4,748,546	1,397,431	3,351,115	-
Long-term financial liabilities					
(Non-Derivative):					
Trade payables	71	71	-	-	71
Other liabilities	9,352	9,352	-	-	9,352
	9,423	9,423	-	-	9,423

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NOTE 26 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Liquidity Risk (Continued)

31 December 2015	Carrying value	Contractual cash flows	Up to 3 months	3 months to 1 year	1 year- to 5 years
Short-term financial liabilities (Non-Derivative):					
Financial liabilities	230,657	308,444	53,536	254,908	-
Trade payables	2,231,297	2,231,297	2,231,297	-	-
Other liabilities	517,994	517,994	25,163	492,831	-
	2,979,948	3,057,735	2,309,996	747,739	-
Long-term financial liabilities (Non-Derivative):					
Financial liabilities	214,000	229,009	-	-	229,009
Trade payables	36,192	36,192	-	-	36,192
Other liabilities	13,814	13,814	-	-	13,814
	264,006	279,015	-	-	279,015

Interest rate risk

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing assets and liabilities. These exposures are managed by offsetting interest rate sensitive assets and liabilities. In this context, matching of not only maturities of receivables and payables but also contractual reprising dates is crucial.

The Company is exposed to interest rate risk as the Company borrow funds from Republic of Turkey Prime Ministry Undersecretariat of Treasury at floating interest rates.

Average effective annual interest rates of balance sheet items as of 31 December 2016 and 2015 are as follows:

	31 December 2016 (%)	31 December 2015 (%)
Current assets		
Cash and cash equivalents	7.94%	8.90%
Trade receivables	7.00%	7.00%
Current liabilities		
Financial liabilities	9.75%	10.14%
Non-current liabilities		
Financial liabilities	-	10.14%

NOTE 26 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

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(Continued)

Interest rate risk (Continued)

The Company’s financial instruments that are sensitive to interest rates are as follows:

	31 December 2016	31 December 2015
Financial instruments with fixed interest rate		
Time deposits	2,367,483	2,939,499
Financial instruments with floating interest rate		
Financial liabilities	219,490	444,657

The profit before tax of the Company will increase / decrease by TL 2,194 as of 31 December 2016 (31 December 2015: TL 4,447) and in case of a 1% decrease/increase in TL market interest rates with all other factors remaining constant as of 31 December 2015.

Credit risk

The Company is subject to credit risk arising from trade receivables related to credit sales and deposits at banks.

The Company manages credit risk of bank deposits by working mainly with state banks established in Turkey and having long standing relations with the Company. Majority of bank deposits in this regard are with the state owned retail banks.

Credit risk of receivables from third parties is managed by securing receivables with collaterals covering receivables at the highest possible proportion. Methods used are as follows:

- Bank guarantees (letter of guarantee, etc.),
- Mortgage on real estate
- Retain the legal title to the goods solely to protect the collectability of the amount due.

In credit risk control, the credit quality of each customer is assessed; taking into account its financial position, past experience and other factors, individual risk limits are set in accordance and the utilisation of credit limits is regularly monitored.

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NOTE 26 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

Credit risk of financial instruments as of 31 December 2016 is as follows:

31 December 2016	Trade receivables		Other receivables		Deposits in Cash and Banks
	Related party	Other party	Related party	Other party	
Maximum exposed credit risk as of reporting date	21,087	2,128,635	-	839,558	2,501,231
Secured portion of the maximum credit risk by guarantees,etc,	21,087	2,127,657	-	839,558	2,501,231
A. Net book value of financial assets either not due or not impaired	21,087	2,127,657	-	839,558	2,501,231
Secured portion by guarantees,etc,	21,087	2,127,657	-	839,558	2,501,231
B. Financial assets with renegotiated condition Secured portion by guarantees,etc,	-	-	-	-	-
C. Net book value of the expired but not impaired financial assets	-	978	-	-	-
Secured portion by guarantees,etc,	-	-	-	-	-
D. Net book value of the impaired assets	-	-	-	-	-
Overdue(Gross book value)	-	1,866	-	-	-
Impairment(-)	-	(1,866)	-	-	-
Secured portion of the net value by guarantees,etc,	-	-	-	-	-

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NOTE 26 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

Credit risk of financial instruments as of 31 December 2015 is as follows:

31 December 2015	Trade receivables		Other receivables		Deposits in Cash and Banks
	Related party	Other party	Related party	Other party	
Maximum exposed credit risk as of reporting date	204,172	2,197,577	-	499,949	3,005,003
Secured portion of the maximum credit risk by guarantees,etc,	204,172	2,775,237	-	499,942	3,005,003
A. Net book value of financial assets either not due or not impaired	204,172	2,775,237	-	499,942	3,005,003
Secured portion by guarantees,etc,	204,172	2,775,237	-	499,942	3,005,003
B. Financial assets with renegotiated condition Secured portion by guarantees,etc,	-	-	-	-	-
C. Net book value of the expired but not impaired financial assets	-	693	-	7	-
Secured portion by guarantees,etc,	-	-	-	7	-
D. Net book value of the impaired assets	-	-	-	-	-
Overdue(Gross book value)	-	1,965	-	-	-
Impairment(-)	-	(1,965)	-	-	-
Secured portion of the net value by guarantees,etc,	-	-	-	-	-

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NOTE 26 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

Amounts showing the maximum credit risk exposed as of balance sheet date by excluding guarantees in hand and other factors that increase the credit quality. There is no any impairment on the Company’s asset that subject to credit risk of financial activities. In addition, there is no any overdue receivables off-balance sheet item.

Foreign exchange risk

The Company is subject to the foreign currency risk due to the foreign currency deposits in the bank deposit account. The Company does not use foreign currency in its main operations; the foreign currency risk is only originated from deposits of the Company.

Foreign currency position

Foreign currency denominated assets, liabilities and off-balance sheet accounts give rise to foreign exchange exposure.

The Company has no any financial instruments for the foreign exchange position of the assets and liabilities as of 31 December 2016.

The table below summarizes the Company's foreign currency position of the Company as of 31 December 2016 and 2015. TL equivalent of foreign exchange denominated financial assets and liabilities as follows;

	31 December 2016	
	TL Amount (Functional Currency)	US Dollar
1a. Monetary Financial Assets	538	153
2.CURRENT ASSETS	538	153
3. TOTAL ASSETS	538	153
4a. Monetary Other Liabilities	3,016	857
5. CURRENT LIABILITIES	3,016	857
6.TOTAL LIABILITIES	3,016	857
7.Net Foreign Currency Assets/Liabilities Position	(2,478)	(704)
8.Monetary Items Net Foreign Currency Assets / Liabilities (1a-4a)	(2,478)	(704)

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NOTE 26 - NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

Foreign exchange risk (Continued)

	31 December 2015	
	TL Amount (Functional Currency)	US Dollar
1a. Monetary Financial Assets	15	5
2.CURRENT ASSETS	15	5
3. TOTAL ASSETS	15	5
4a. Monetary Other Liabilities	2,492	857
5. CURRENT LIABILITIES	2,492	857
6.TOTAL LIABILITIES	2,492	857
7.Net Foreign Currency Assets/Liabilities Position	(2,477)	(852)
8.Monetary Items Net Foreign Currency Assets / Liabilities (1a-4a)	(2,477)	(852)

Capital risk management

The Company attempts to manage its capital by minimizing the investment risk with portfolio diversification. The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Gearing ratios as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Total liabilities	219,490	444,657
Less:Cash and cash equivalents	2,501,233	3,005,003
Net asset	(2,281,743)	(2,560,346)
Total shareholder's equity	10,730,193	9,325,399
Invested Capital	3,800,000	3,800,000
Gearing ratio	(60%)	(67%)

NOTE 27 - FINANCIAL INSTRUMENTS

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

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NOTE 27 - FINANCIAL INSTRUMENTS (Continued)

Accordingly, the estimates presented herein may differ from the amounts the Company could realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

Financial assets:

The fair values of cash and due from banks are considered to approximate their respective carrying values due to their short-term nature.

The carrying values of trade receivables, which are measured at amortized cost, along with the related allowances for uncollectability are assumed to approximate their fair values.

The fair values of balances denominated in foreign currencies, which are translated at year-end official exchange rates announced by the Central Bank of Turkey, are considered to approximate their carrying value.

The special issue long term government bond has been issued by the Treasury and given to the Company for payment of HAS payables, is non-negotiable on the secondary market and does not bear interest. It is puttable on demand by the Company at par back to the Treasury, and is also accounted at par representing its fair value.

Financial liabilities:

The Company’s borrowing from the Turkish Treasury for financing its HAS payment liability has a floating interest rate defined as the weighted average of the compound rate of discounted Government bonds issued by Turkish Treasury before each payment period. Therefore it is considered that fair values of the borrowing’s fair value are approximate carrying value which is amortized cost.

Short term trade payables and other liabilities with no stated interest rate are measured at original invoice amount and are payables on demand therefore they are measured at their demand values and classified as short-term. They are considered to approximate their respective carrying values due to their short-term nature.

It is anticipated that there is no significant difference between the cost values and fair values of the borrowings with floating interest rates including its accruals for the regarding period.

Fair Value of Financial Instruments

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

- Level 1: Financial assets and financial liabilities with standard terms and conditions are valued with quoted market prices which are determined on active liquid markets.
- Level 2: Financial assets and financial liabilities are valued by directly or indirectly observable market prices rather than the quoted market prices mentioned in first level of the regarding assets or liabilities.

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NOTES TO THE FINANCIAL STATEMENTS

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

NOTE 27 - FINANCIAL INSTRUMENTS (Continued)

- Level 3: Financial assets and financial liabilities are valued by the inputs where there is no observable market data of the fair value of the regarding assets and liabilities

Classifications of the assets and liabilities which are measured by fair values are as follows:

Financial assets	31 December 2016		
	Fair value levels		
	1. Level	2. Level	3. Level
	TL	TL	TL
Bond	128,278	-	-
Special issue government bonds	12,517	-	-

Financial assets	31 December 2015		
	Fair value levels		
	1. Level	2. Level	3. Level
	TL	TL	TL
Bond	130,552	-	-
Special issue government bonds	13,267	-	-

NOTE 28 - CONTINGENT ASSETS AND LIABILITIES

1. The LSRSA Project Agreement dated 21 December 2005 regarding 750 units in İzmir Mavisehir Upper North Area 2. Phase has been abolished on 21 December 2009 since the contractor did not meet the requirements of the provisions in the agreement. Following the cancellation of the agreement, the project has been transferred to the Company and the remaining part of the project has been completed by another construction company which was assigned in accordance with public tender law. The related units have been completed and are sold by the Company as in Turnkey projects .

The prior contractor filed a lawsuit against the Company claiming that the completion percentage of the project was significantly high and that the agreement between the parties was based on construction right in return for flat. The Company and the contractor filed counter lawsuits in the following period and an additional report was decided to be issued. The additional report is about the final receivables and payables of the parties considering all the claims. The additional report is completed. The court decided to apply secondary expert report as a result of additional report examination on 11 June 2014. Nevertheless next trial date has not been appointed yet. In addition, the file was conferred to the committee since the Commercial Court converted to Committee Judgeship.

In the expert report dated 19 January 2016, it has been made a decision of whether related cancellation is unfair, and there alternative calculations has been realized over the possibility of whether the cancellation is right and over the effects on forward and backward. The expert report has been contested and it has been requested from the court that the expert report is declared “null and void” and that to receive a report that contains the objections of parties by creating a new committee. The court has given trial day on 4 March 2017.

According to comments received from the Company’s lawyer, it is not expected to arise any liability that put the Company under obligation as a result of related case.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 28 - CONTINGENT ASSETS AND LIABILITIES

2. The LSRSA project agreement regarding İzmir Mavişehir Upper North Area 3. Phase has been signed on 19 December 2005 and following almost all the contractual obligations have been performed by the parties, the Contractor filed a lawsuit against the Company claiming that the agreement conditions should be revised considering the changing conditions. The Contractor wants all the agreement provisions to be cancelled except for the provisions where the Company's revenue portion is TL 67,515 plus VAT calculated as TL 175,000 plus VAT total project revenue times 38.58% Company's revenue portion. The Contractor wants all the properties and related land portion to be valued by an independent valuation company as of the date of the lawsuit and that 38.58% of the total value to be appropriated to the Company and the remaining 61.42% of the total value to be appropriated to the Contractor (Note 12).

An expert report has been issued on the subject, which stated that the relation between the parties was in the form of ordinary partnership. The Company objected the expert report putting forward the existence of counter opinions in the doctrine and submitted the sources of such opinions. The expert report also opined that the mortgage crisis in the global markets required the revision of the agreement in accordance with "the changing conditions".

The court has been decided to examine the file for the evaluation of the request that receiving report from the new expert committee and to adjournment of hearing on 5 March 2015.

The court rejected the case on 5 March 2015. The claimant has filed an appeal. The result of appeal is being waited.

According to comments received from the Company's lawyer, it is not expected to arise any liability that put the Company under obligation as a result of related case.

- 3- Albayrak Turizm Sey. İnş. Tic. A.Ş. filed a lawsuit against the Company claiming that the agreement of The LSRSA project regarding İzmir Mavişehir Upper North Area 3. Phase should be revised considering the changing conditions. The court rejected the case. The result of appeal is being waited. According to comments received from the Company's lawyer, it is not expected to arise any liability that put the Company under obligation as a result of related case.
- 4- Contractor of İzmir Mavişehir Upper North Area 2. Phase LSRSA Project, Bozoğlu İnş. San. Tic. Ltd. Şti, was filed a lawsuit for assignment that the claimant has given. The case is proceeding and According to comments received from the Company's lawyer, it is not expected to arise any liability that put the Company under obligation as a result of related case.
- 5- Contractor of İzmir Mavişehir Upper North Area 2. Phase LSRSA Project filed a lawsuit against the Company regarding term inaction of the contract. The Company filed a lawsuit as well for collecting amount of TL 100,000 without prejudice to further claims. The case is proceeding and According to comments received from the Company's lawyer, it is not expected to arise any liability that put the Company under obligation as a result of related case.

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016 AND 2015

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

NOTE 28 - CONTINGENT ASSETS AND LIABILITIES (Continued)

6. Mortgage and guarantees received are;

	31 December 2016	31 December 2015
Guarantees received (*)	3,027,085	3,256,850
Mortgages received (**)	45,878	126,221
	3,072,964	3,383,071

(*) Guarantees received consist of accurate and temporary guarantees given by contractors for construction projects during the tendering process.

(**) Mortgages taken consist of mortgaged independent sections and land which sold but not yet collected.

7. Collaterals, pledges, mortgages (“CPM”):

	31 December 2016	31 December 2015
A. CPM given on behalf of the Company's legal personality	65,511	58,040
B. CPM given on behalf of fully consolidated subsidiaries	-	-
C. CPM given for continuation of its economic activities on behalf of third parties	-	-
D. Total amount of other CPM	-	-
i) Total amount of CPM given on behalf of majority shareholder	-	-
ii) Total amount of CPM given on behalf of other companies which are not in scope of B and C	-	-
iii) Total amount of CPM given on behalf of third parties which are not in scope of C	-	-
	65,511	58,040

NOTE 29 - EVENTS AFTER THE REPORTING PERIOD

1- As of January 2017, the Company has launched a residence sales campaign with a 5 percent down payment for 30 different projects with a construction status of 0.79% for 20 years, 0.45% for 10 years and 0% for 5 years.

2- The Company has borrowed TRY 620,000 credit from Vakıfbank with an annual interest rate of 12.46%. Credit terms used: No principal payment for the first year, interest payment every 3 months; after the grace period, the principal + interest must be paid every 3 months for 3 years

ADDITIONAL NOTE - CONTROL OF COMPLIANCE WITH THE PORTFOLIO

EMLAK KONUT GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016 AND 2015

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LIMITATIONS

	Non-Consolidated (Individual) Financial Statements Main Account Items	Related Regulation	Current Period 31 December 2016 (TL)	Prior Period 31 December 2015 (TL)
A	Money and Capital Market Instruments	Series:III-No:48, Art,24/(b)	2,405,012	3,142,936
B	Properties, Projects based on Properties and Rights based on Properties	Series:III-No:48, Art,24/(a)	12,204,919	10,346,403
C	Affiliates	Series:III-No:48, Art,24/(b)	-	-
	Due from related parties (Non Commercial)	Series:III-No:48, Art,23/(f)	-	-
	Other Assets		4,092,436	3,246,654
D	Total Assets	Series:III-No:48, Art,3/(k)	18,702,367	16,735,993
E	Financial Liabilities	Series:III-No:48, Art,31	219,561	486,735
F	Other Financial Liabilities	Series:III-No:48, Art,31	-	-
G	Due from Financial Leases	Series:III-No:48, Art,31	-	-
H	Due to Related Parties (Non Commercial)	Series:III-No:48, Art,23/(f)	-	-
I	Shareholders' equity	Series:III-No:48, Art,31	10,730,193	9,325,399
	Other Resources		7,752,613	6,923,859
D	Total Resources	Series:III-No:48, Art,3/(k)	18,702,367	16,735,993
	Non-Consolidated (Individual) Financial Statements Other Account Items	Related Regulation	Current Period 31 December 2016 (TL)	Prior Period 31 December 2015 (TL)
A1	The portion of Money and Capital Market Instruments held for Payables of Properties for the following 3 Years	Series:III-No:48, Art,24/(b)	956,203	938,774
A2	Term/ Demand/ Currency	Series:III-No:48, Art,24/(b)	956,203	759,489
A3	Foreign Capital Market Instruments	Series:III-No:48, Art,24/(d)	-	-
B1	Foreign Properties, Projects based on properties and Rights based on Properties	Series:III-No:48, Art,24/(d)	-	-
B2	Idle Lands	Series:III-No:48, Art,24/(c)	425,220	543,047
C1	Foreign Affiliates	Series:III-No:48, Art,24/(d)	-	-
C2	Affiliates for Operating Company	Series:III-No:48, Art,28	-	-
J	Non-cash Loans	Series:III-No:48, Art,31	65,511	58,103
K	Mortgage amount of Servient Lands Which Will Be Developed And Not Owned	Series:III-No:48, Art,22/(e)	-	-

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ADDITIONAL NOTE - CONTROL OF COMPLIANCE WITH THE PORTFOLIO LIMITATIONS (Continued)

	Portfolio restrictions	Related regulation	31 December 2016 (%)	31 December 2015 (%)	Minimum/ Maximum Rate
1	Mortgage amount of Servient Lands Which Will Be Developed And Not Owned	Series:III-No:48, Art,22/(e)	-	-	<10%
2	Properties, Projects based on Properties and Rights based on Properties	Series:III-No:48, Art,24/(a)(b)	70	67	>50%
3	Money and Capital Market Instruments and Affiliates	Series:III-No:48, Art,24/(b)	8	13	<50%
4	Foreign Properties, Projects based on Properties, Rights based on Properties, Affiliates, Capital Market Instruments	Series:III-No:48, Art,24/(d)	-	-	<49%
5	Idle Lands	Series:III-No:48, Art,24/(c)	2	3	<20%
6	Affiliates to the Operating Company	Series:III-No:48, Art,28	-	-	<10%
7	Borrowing Limit	Series:III-No:48, Art,31	3	6	<500%
8	TL and Foreign Currency Time and Demand Deposits	Series:III-No:48, Art,22/(e)	-	-	<10%

The information in the table of control of compliance with the portfolio limitations', in accordance with Capital Markets Board's Communiqué Serial: II, No: 14.1 "Financial Reporting in Capital Markets" Amendment No: 16 comprised condensed information and prepared in accordance with Capital Markets Board's Communiqué Serial: III, No: 48.1 "Real Estate Investment Company" published in official gazette no 28660 on 28 May 2013.

The Company restated the portfolio limitations amounts as of 31 December 2015 is disclosed above.

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