



**İş Gayrimenkul Yatırım Ortaklığı
Anonim Şirketi**

Financial Statements
As of and For the Year
Ended 31 December 2016
With Independent Auditors' Report Thereon

*(Convenience Translation of Financial Statements
And Related Disclosures and Footnotes
Originally Issued in Turkish)*

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

27 January 2017

*This report includes 2 pages of Independent
Auditors' Report and 67 pages of financial
statements and notes to the financial statements.*

**İş Gayrimenkul Yatırım Ortaklığı
Anonim Şirketi**

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Convenience Translation of the Independent Auditor's Report Originally Prepared and Issued in Turkish

To the Board of Directors of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi,

Report on Financial Statements

We have audited the accompanying statement of financial position of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi ("the Company") as of 31 December 2016 and the statement of profit or loss, statement of 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 notes.

The Company Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of "material misstatement" of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

- 1) Pursuant to the fourth paragraph of Article 398 of the Turkish Commercial Code ("TCC") no. 6102; Auditors' Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Company on 27 January 2017.
- 2) Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2016 are not in compliance with the TCC and provisions of the Company's articles of association in relation to financial reporting.
- 3) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and requested documents in connection with the audit.

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


Erdal Tıkmak, SMMM
Partner
27 January 2017
İstanbul, Turkey



Additional paragraph for convenience translation to English:

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

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İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Financial Position (Balance Sheet)

As of 31 December 2016

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

		<i>Audited</i>	<i>Audited</i>
	<i>Notes</i>	31 December 2016	31 December 2015
ASSETS			
Current assets		322.950.245	459.875.342
Cash and cash equivalents	5	127.262.064	123.908.125
Trade receivables	8	28.770.301	21.820.775
<i>Trade receivables from related parties</i>	24	322.311	839.105
<i>Other trade receivables</i>		28.447.990	20.981.670
Other receivables	9	1.211.817	3.814.131
<i>Other receivables from non-related parties</i>	9	1.211.817	3.814.131
Inventories	11	91.612.134	174.215.106
Prepaid expenses	16	74.067.158	43.565.100
<i>Prepaid expenses to related parties</i>	24	2.716.668	2.726.125
<i>Prepaid expenses to non-related parties</i>		71.350.490	40.838.975
Other current assets	16	26.205	92.537.294
Derivatives	6	566	14.811
Non-current assets		4.564.069.949	3.665.325.237
Equity accounted investees	3	1.563.593	1.599.475
Inventories	11	715.506.230	344.641.480
Investment properties	10	3.714.668.994	3.291.628.689
Tangible assets	12	28.559.331	27.036.974
Intangible assets	13	473.250	418.619
Other tangible assets	16	103.298.551	--
TOTAL ASSETS		4.887.020.194	4.125.200.579

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Profit or Loss

As of 31 December 2016

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

		<i>Audited</i>	<i>Audited</i>
		31 December 2016	31 December 2015
LIABILITIES			
Short-term liabilities			
		188.453.135	556.007.399
Current portion of long term borrowings	7	121.419.856	313.511.518
<i>Loans and borrowings from related parties</i>	24	<i>103.666.106</i>	<i>107.653.358</i>
<i>Other loans and borrowings</i>		<i>17.753.750</i>	<i>205.858.160</i>
Current portion of long term financial leases	7	10.915.156	11.360.254
<i>Financial leasing from related parties</i>	24	<i>10.915.156</i>	<i>11.360.254</i>
Trade payables	8	34.198.753	60.226.775
<i>Trade payables to related parties</i>	24	<i>5.270.465</i>	<i>2.696.047</i>
<i>Other trade payables</i>	8	<i>28.928.288</i>	<i>57.530.728</i>
Other payables	9	622.898	1.472.069
Deferred income	16	6.198.445	160.060.245
<i>Deferred income to related parties</i>	24	<i>660.831</i>	<i>662.670</i>
<i>Other deferred income</i>		<i>5.537.614</i>	<i>159.397.575</i>
Short-term provisions		12.576.072	286.630
<i>Provision for employee benefits</i>	15	<i>251.586</i>	<i>232.898</i>
<i>Other short-term provisions</i>	14	<i>12.324.486</i>	<i>53.732</i>
Other short-term liabilities	16	2.521.955	9.089.908
Long-term liabilities			
		1.537.221.403	778.558.329
Loans and borrowings	7	921.629.250	375.591.597
<i>Loans and borrowings from related parties</i>	24	<i>513.874.749</i>	<i>375.591.597</i>
<i>Other loans and borrowings</i>		<i>407.754.501</i>	<i>--</i>
Long term financial leases	7	696.326	10.126.764
<i>Financial leasing from related parties</i>	24	<i>696.326</i>	<i>10.126.764</i>
Other payables	9	35.990.000	35.990.000
Deferred revenue	16	577.681.090	355.876.841
Long term provisions	15	1.224.737	973.127
<i>Provision for employee benefits</i>	15	<i>1.224.737</i>	<i>973.127</i>
EQUITY			
		3.161.345.656	2.790.634.851
Share capital	17	850.000.000	746.000.000
Inflation restatement difference on share capital		240.146.090	240.146.090
Share premium		423.981	423.981
Other comprehensive income that will never be reclassified to profit or loss		24.361.973	21.942.570
<i>Revaluation and classification of gains / losses</i>		<i>24.226.634</i>	<i>21.731.787</i>
<i>Other earnings/ losses</i>		<i>135.339</i>	<i>210.783</i>
Legal reserves	17	36.305.282	28.240.772
Prior years' profits	17	1.589.596.928	1.197.948.571
Net profit for the period		420.511.402	555.932.867
TOTAL EQUITY AND LIABILITIES			
		4.887.020.194	4.125.200.579

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Profit or Loss

As of 31 December 2016

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

		<i>Audited</i>	<i>Audited</i>
		1 January- 31 December 2016	1 January- 31 December 2015
Revenue	18	404.532.858	222.012.099
Cost of revenue (-)	18	(209.728.793)	(62.091.478)
Gross profit		194.804.065	159.920.621
General administrative expense (-)	19	(18.413.298)	(15.195.134)
Marketing expenses (-)	19	(18.705.521)	(21.301.752)
Other operating income	21	376.924.081	485.996.801
Other operating expense (-)	21	(40.151.880)	(17.210.075)
Operating profit		494.457.447	592.210.461
Share of profit of equity-accounted investees	3	674.188	(7.839)
Operating Profit Before Finance Expense		495.131.635	592.202.622
Financial income	22	--	3.489.650
Financial expenses (-)	22	(74.620.233)	(39.759.405)
Operating Profit before Tax From Continuing Operations		420.511.402	555.932.867
Tax Expense From Continuing Operations		--	--
- Corporate tax charge		--	--
- Deferred tax benefit		--	--
Net profit for the period		420.511.402	555.932.867
Earnings per share	23	0,0049	0,0065

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Other Comprehensive Income

For the Year Ended 31 December 2016

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

	<i>Audited</i>	<i>Audited</i>
	1 January- 31 December 2016	1 January- 31 December 2015
Net profit for the period	420.511.402	555.932.867
Other comprehensive income		
Other comprehensive income that will never be reclassified to profit or loss	2.419.403	21.763.320
Net change in revaluation of tangible assets	2.494.847	21.731.787
Re-measurements of defined benefit plans	(75.444)	31.533
Other comprehensive income	2.419.403	21.763.320
TOTAL COMPREHENSIVE INCOME	422.930.805	577.696.187

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Changes in Equity

For the Year Ended 31 December 2016

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

					Other comprehensive income that will never be reclassified to profit or loss					
	Notes	Share capital	Inflation restatement difference on share capital	Share premium	Net change in remeasurements of defined benefit liability	Net change in reevaluation of tangible assets	Legal reserves	Prior years' profits	Net profit for the period	Total
Balances at 1 January 2015		680.400.000	240.146.090	423.981	179.250	--	24.677.855	986.306.395	328.433.093	2.260.566.664
Transfers		--	--	--	--	--	3.562.917	324.870.176	(328.433.093)	--
Total comprehensive income		--	--	--	31.533	21.731.787	--	--	555.932.867	577.696.187
Capital Increase (from internal sources)		65.600.000	--	--	--	--	--	(65.600.000)	--	--
Dividends		--	--	--	--	--	--	(47.628.000)	--	(47.628.000)
		--	--	--	--	--	--	--	--	--
Balances at 31 December 2015	17	746.000.000	240.146.090	423.981	210.783	21.731.787	28.240.772	1.197.948.571	555.932.867	2.790.634.851
Balances at 1 January 2016		746.000.000	240.146.090	423.981	210.783	21.731.787	28.240.772	1.197.948.571	555.932.867	2.790.634.851
Transfers		--	--	--	--	--	8.064.510	547.868.357	(555.932.867)	--
Total comprehensive income		--	--	--	(75.444)	2.494.847	--	--	420.511.402	422.930.805
Capital Increase (from internal sources)		104.000.000	--	--	--	--	--	(104.000.000)	--	--
Dividends		--	--	--	--	--	--	(52.220.000)	--	(52.220.000)
		--	--	--	--	--	--	--	--	--
Balances at 31 December 2016	17	850.000.000	240.146.090	423.981	135.339	24.226.634	36.305.282	1.589.596.928	420.511.402	3.161.345.656

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Cash Flows

For the Year Ended 31 December 2016

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

		<i>Audited</i>	<i>Audited</i>
		1 January- 31 December 2016	1 January- 31 December 2015
A. Cash flows from operating activities			
Net profit for the period		420.511.402	555.932.867
Profit adjustments for:			
Adjustments to depreciation and amortization	12,13	1.431.138	706.098
Adjustments to impairment or cancelation		(560.761)	(35.290)
Adjustments to impairment of receivables	8	(560.761)	(35.290)
Adjustments for provisions		194.854	196.845
Adjustments to provision for employee severance indemnity	15	194.854	196.845
Adjustments to provision for loss or gain in fair value		(337.790.763)	(463.748.644)
Change in fair value of investment properties	10	(335.295.916)	(442.016.857)
Other adjustments to provision for loss or gain on fair value	12	(2.494.847)	(21.731.787)
Adjustments for retained earnings of investments valued by equity method	3	(674.188)	7.839
Adjustments for loss or gain on sales of fixed assets		1.995.218	(35.961.319)
Adjustments for loss or gain on sales of investment property	18	1.995.218	(35.961.319)
Gain/(losses) on derivatives	22	14.245	(2.989.650)
Adjustments to interest income and expense		21.798.413	(3.141.832)
Interest income	18	(8.460.750)	(4.861.456)
Interest expense	22	30.259.163	1.719.624
Operating profit from before the changes in working capital		106.919.558	50.966.914
Changes in working capital			
Changes in trade receivables		(6.388.765)	25.231.737
Changes in other receivables		2.602.314	(3.808.940)
Changes in prepaid expenses		(30.502.058)	8.777.276
Changes in other current assets		(10.787.462)	(76.351.623)
Changes in inventories		(288.261.778)	(161.853.047)
Changes in trade payables and other payables		(26.877.193)	55.836.450
Changes in deferred revenue		67.942.449	390.102.759
Changes in other short term liabilities		5.973.099	7.021.741
		(179.379.836)	295.923.267
Cash generated from operating activities			
Interest received		7.966.713	4.861.456
Net cash provided by / (used in) operating activities		(171.413.123)	300.784.723
B. Cash Flows From Investing Activities			
Proceeds from financial assets		--	15.126.664
Purchases of tangible assets and intangible assets	12,13	(543.567)	(764.743)
Purchases of investment property	10	(133.839.389)	(661.476.804)
Proceeds from sale of investment property		43.004.782	82.572.154
Dividends received	22	--	500.000
Equity accounted investees		35.882	--
Net cash used in investing activities		(91.342.292)	(564.042.729)
C. Cash Flows From Financing Activities			
Dividends paid	17	(52.220.000)	(47.628.000)
Borrowings received		600.000.000	371.070.000
Borrowings paid		(250.356.960)	(138.006.752)
Interest paid		(30.259.163)	(1.719.624)
Net cash provided by financing activities		267.163.877	183.715.624
Increase / (decrease) in cash and cash equivalents before effect of changes in foreign currency rates			
		4.408.462	(79.542.382)
Effect of changes in foreign currency rates over cash and cash equivalents			
		(274.823)	196.227
Net increase / (decrease) in cash and cash equivalents		4.133.639	(79.346.155)
Cash and cash equivalents at the beginning of the period		122.634.388	201.980.543
Cash and cash equivalents at the end of the period	5	126.768.027	122.634.388

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

1. Organization and operations of the Company

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi (“the Company”) was established on 6 August 1999 by İş Gayrimenkul Yatırım ve Proje Değerlendirme Anonim Şirketi taking over all assets and liabilities of İş Gayrimenkul Yatırım ve Proje Değerlendirme Anonim Şirketi and Merkez Gayrimenkul Yatırım ve Proje Değerlendirme Anonim Şirketi, both of which operated separately and were established in 1998. The Company is a subsidiary of Türkiye İş Bankası Anonim Şirketi (“İş Bankası”). The Company’s registered address is at İş Kuleleri Kule 2 Kat 10, 11 Levent İstanbul/Turkey.

The main objective and operations of the Company are to engage in activities regulated by the Capital Markets Board of Turkey (“CMB”) related with the Real Estate Investment Corporations such as; properties, property oriented capital market instruments, real estate projects and investing in capital market instruments. Compliance to the CMB’s regulations and related legislation are taken as a basis for the Company’s operations, portfolio investment policies and management limitations.

The Company’s shares have been traded on the Borsa İstanbul Anonim Şirketi (the former legal title “İstanbul Stock Exchange”) (“BİST”) since 1999.

The Company has 80 employees as of 31 December 2016 (31 December 2015: 76).

Kanyon Yönetim İşletim ve Pazarlama Limited Şirketi (“Kanyon”) was established on 6 October 2004 by both 50% equal participations of the Company and Eczacıbaşı Holding Anonim Şirketi (“Eczacıbaşı Holding”) The main objective and operations of the jointly controlled entity are the management of the residences, offices and shops; providing cleaning, maintenance, security, basic environmental set up and similar activities as well as acting as an agent in the introduction and marketing of the projects of the complexes, including property letting and sale. However, Kanyon is converted to Joint Stock Company status as at 5 June 2015.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements

2.1 Basis of presentation

Statement of compliance

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

The financial statements as at 31 December 2016 have been approved for issue by the Board of Directors on 27 January 2017. The General Assembly and the legal authorities have the authority to amend the statutory financial statements and these financial statements.

Additional paragraph for convenience translation into English

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

Preparation of financial statements

The accompanying financial statements have been prepared in accordance with the “Announcement on Financial Statements and Disclosure Formats” of CMB dated 7 June 2013. Additionally the accompanying financial statements have been presented in accordance with the TAS taxonomy of POA dated 2 June 2016 numbered 30.

Functional and presentation currency

The financial position and the results of the Company’s operations have been expressed in Turkish Lira (“TL”) which is the functional currency of the Company and which is the presentation currency of the financial statements.

Basis of measurement

The financial statements are prepared on a historical cost basis except for the financial assets measured at fair value.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements

2.1 Basis of presentation (continued)

Preparation of financial statements in Hyperinflationary Periods

The CMB, with its resolution dated 17 March 2005, declared that companies operating in Turkey which prepare their financial statements in accordance with the CMB Financial Reporting Standards (including those adopted IAS/IFRS), would not be subject to the application of inflation accounting effective from 1 January 2005. Accordingly, IAS 29 “Financial Reporting in Hyperinflationary Economies” was not applied since 1 January 2005.

Financial statements of the jointly controlled entities are prepared in line with the financial statements of the Company in the same accounting period using uniform accounting policies.

Interest in Joint Arrangements

Jointly controlled entities are those entities over whose activities one or more entities has joint control, established by contractual agreement and requiring unanimous consent for economic benefits.

Jointly controlled entity which is constituted as Kanyon is accounted for using the equity method in the accompanying financial statements. Under the equity method, investments in the jointly controlled entities are carried in the statement of financial position at cost plus post acquisition changes in the Company’s share of net assets of the jointly controlled entity and the comprehensive income reflects the share of the results of operations of the jointly controlled entities. Where there has been a change recognised directly in the equity of the jointly controlled entities, the Company recognises its share of any changes and discloses this based on IAS 28 “Investment in Associate and Joint Ventures”, when applicable, in the statement of changes in equity.

The financial statements of jointly controlled entity was prepared by using same accounting policies and periods to confirm with the Company’s financial statements.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.1 Basis of presentation (continued)

Foreign currency transactions

Transactions in foreign currencies are translated to TL at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to TL at the exchange rate at that date. Foreign currency differences arising on retranslation and gains and losses from foreign currency transactions are recognized in profit or loss.

2.2 Changes in accounting policy

The changes in estimates of accounting are about only one period, when the change is made, are about future, prospectively applied by including future periods. There is no change in accounting estimates in the current period. Determined significant accounting estimates errors are applied retrospectively and restated prior financial statements. There is no significant accounting error that was discovered in the current period.

2.3 Standards and interpretations those are not yet effective as of 31 December 2016

2.3.1 Standards and interpretations that are effective in 2016

The Group has applied all of the mandatory standards, amendments and interpretations related to TAS and TFRS.

2.3.2 Standards and interpretations that are not yet effective as of 31 December 2016

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

TFRS 9 - Financial Instruments – Classification and measurement

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

TFRS 15 Revenue from Contracts with customers

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.3 Standards and interpretations those are not yet effective as of 31 December 2016 (continued)

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

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

IFRS 9 Financial Instruments – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39 -IFRS 9 (2013)

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

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The amendments clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

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Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.3 Standards and interpretations those are not yet effective as of 31 December 2016 (continued)

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

The amendments clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

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

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

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

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Company does not expect that these amendments will have significant impact on the financial position or performance of the Company.

IAS 40 – Transfers of Investment Property

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

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Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.3 Standards and interpretations those are not yet effective as of 31 December 2016 (continued)

Improvements to IFRSs

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

Annual Improvements to IFRSs 2014-2016 Cycle

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

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

IFRS 12 “Disclosure of Interests in Other Entities”

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

IAS 28 “Investments in Associates and Joint Ventures”

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

2.4 Summary of significant accounting policies

Significant accounting policies applied for the preparation of the accompanying financial statements are as follows:

2.4.1 Accounting of income and expense

Revenue

Revenue include rent income, revenue from sale of investment properties and income from expenses made for investment properties invoiced to tenants, interests received from banks, income from capital market instruments.

Rent income from investment properties under operating leases

Rent income generated during the period from investment properties is recognized on an accrual basis. Revenue can only be realized if the amount is reliably measured and the inflow of the economic benefits related with the transaction to the Company is probable. Revenue is recognized as the fair value of the consideration amount received or receivable.

Income from expenses made for investment properties invoiced to tenants is recognized in the period when the service is provided by the Company.

Revenue from sale of investment property

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.1 Accounting of income and expense (continued)

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

Interest income and expense

Interest income is recognized through profit or loss on accrual basis by using the effective interest method.

If borrowing costs are totally related with an investment property in progress, these borrowing costs are included in the cost of mentioned investment property. Other borrowing costs are recognized through profit or loss by using the effective interest rate.

Other income and expense

Other income and expense are recognized through profit or loss on accrual basis.

2.4.2 Investment property

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

Terrains and buildings which hired to use for production of goods and services or administrative use or to be sold or rented in the ordinary course of business or in the purpose of appreciation, or for both are classified as investment properties and are evaluated by fair value measurement. Profit or loss that inflicting by a change in the fair value of an investment property, is included to the comprehensive income statement in its consisting time. (Note 21)

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

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

2.4.3 Tangible assets

As of December 31 2004 the Company were reflecting tangible assets purchased before January 1 2005 on cost restated for the effects of inflation. In the following period were reflecting purchase cost, after allocating accumulated depreciation and permanent impairment provisions to the financial statements. Due to the changes in accounting policies since the third quarter of the current year valuation of Real estate in use recorded under tangible fixed assets within the “TAS 16- Tangible Assets” was amended from cost model to the revaluation model. The impact of the amended to the revaluation model has been reflected under equity as TL 24.226.634.

Cost of a tangible asset represents all cash outflows directly attributable to purchase of an asset and includes capitalized borrowing costs if any.

If the components of a tangible asset have different useful lives, these components (essential parts) must be recognized separately.

Gains and losses of sale of a tangible asset is determined by offsetting the carrying value with recovered amount and recognized through profit or loss in the other operating income / loss account.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.3 Tangible assets (continued)

Depreciation

Tangible assets are depreciated principally on a straight-line basis considering estimated useful lives, acquisition and assembly dates. Estimated useful lives are summarized below:

Buildings	50 yıl
Machinery and equipment	4-5 years
Vehicles	4-5 years
Furniture and fixtures	3-5 years

Subsequent costs

Expenditures incurred to replace a component of tangible assets that is accounted for separately, including major inspection and overhaul costs, are capitalized. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

2.4.4 Intangible assets

Intangible assets acquired before 1 January 2005 are carried at restated cost; and subsequent purchases are carried at cost, less accumulated amortization and impairment.

Amortization

Intangible assets are amortized principally on a straight-line basis considering the estimated useful lives. Related intangible assets are amortized when they are ready to use. The expected useful lives of intangible assets are 5 years.

2.4.5 Impairment of non-financial assets

The carrying amounts of the Company’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

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

If an asset’s or cash generating unit’s recoverable amount is less than its carrying value the value of this asset or cash generating unit is discounted to recoverable amount. Impairments are recognized through profit or loss.

2.4.6 Inventories

Inventories are measured at the lower of cost or net realizable value. Inventories comprise of construction costs of housing units (completed and in-progress) and the costs of land used for these housing projects. Cost elements included in inventory are purchase costs, conversion costs and other costs necessary to prepare the asset for its intended use. Unit costs of the inventories are valued at the lower of cost or net realizable value. Housing units which are completed and ready for delivery to customers together with work-in progress costs for housing units which will be completed within a year are classified as short term inventories, and which will not be completed within a year are classified as long term inventories in the financial statements.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.7 Financial instruments

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

i) Non-derivative financial assets

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

Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset that is created or retained by the Company is recognized as a separate asset or liability.

Cash and cash equivalents

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

Financial assets at Fair value through profit or loss (“FVTPL”)

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

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

Held-to-maturity investments

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis. As of 31 December 2016, the Company has no held-to-maturity investments in its portfolio.

Available-for-sale financial assets (“AFS”)

Quoted equity investments and quoted certain debt securities held by the Company that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value.

Available-for-sale financial assets are recognized at the commitment date of purchase. Gains and losses resulted from changes at the fair value of these assets are recognized in equity.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income. As of 31 December 2016, the Company has no available for sale investments in its portfolio.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2.4 Summary of significant accounting policies (continued)

2.4.7 Financial instruments (continued)

i) Non-derivative financial assets (continued)

Reverse repurchase agreements

Marketable securities held as part of resale agreement commitments (“reverse repo”) are accounted for under cash and cash equivalents in the statement of financial position. The difference between purchase and resale prices is accounted for as interest and amortized during the period of the agreement.

Trade receivables

Trade receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event had an impact on the estimated future cash flows of that asset that can be estimated reliably. An impairment loss in respect of trade receivables is the difference between its carrying amount, and the collectable amount. Losses are recognized in profit or loss and reflected in an allowance account against trade receivables. The Company assumes that the carrying values of trade receivables are close to their fair value.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.7 Financial instruments (continued)

ii) Non-derivative financial liabilities

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities

Financial liabilities are recognized with fair values in initial registration date. Financial liabilities are recognized with their acquisition costs including transaction costs and evaluated through amortized costs depending on the method of active interest rate. In case of enforcing, cancelling or abolishing the obligations based on the agreement; the Company deducts aforesaid financial obligations from registrations.

Trade and other payables

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

iii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. In accordance with its treasury policy, the Company engages in swap contracts. If these derivatives do not qualify for hedge accounting and are accounted for as trading instruments, changes in their fair value are accounted in profit or loss.

Derivative financial instruments are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted in profit or loss.

iv) Paid-in capital

Ordinary shares

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

2.4.8 Offsetting

Financial assets and liabilities are offset when the Company has a legally enforceable right to set off, and when the Company has the intention of collecting or paying the net amount of related assets and liabilities or when the Company has the right to offset the assets and liabilities simultaneously.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.9 Effects of foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates on the dates of the transactions. The Company’s financial statements and operation results are presented in TL which is effective currency and presentation currency of the Company.

The Company uses the Central Bank buying rates of exchange that is valid at the transaction date, when converting the transactions made by foreign currency Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognized in profit or loss.

2.4.10 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, such as investment property, are capitalized as part of the cost of that asset.

All other borrowing costs are recorded in the profit or loss in the period in which they are incurred.

2.4.11 Earnings per share

Earnings per share is calculated by dividing profit or loss by the weighted average number of ordinary shares outstanding during the period. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held (Note 23).

In Turkey, companies can raise their share capital by distributing “bonus shares” to shareholders from retained earnings. In computing earnings per share, such “bonus share” distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

2.4.12 Events after the reporting period

Events after the reporting period represent the events that occur against or on behalf of the Company between the reporting date and the date when statement of financial position was authorized for the issue. There are two types of events after the reporting period:

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.13 Provisions, contingent asset and liabilities

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. If the related criteria not met, obligations must be disclosed in the notes to the financial statements.

If there is a probable cash inflow for an economic benefit, contingent asset must be disclosed in the notes to the financial statements. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.4.14 Taxes calculated on the basis of the company’s earnings

The Company

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

According to New Corporate Tax Law Article 15/(3), the income of REITs is subject to 15% withholding tax irrespective of its distribution. The Council of Ministers has the authority to increase the withholding tax rate on REIT income to corporate income tax rate or reduce it to 0% or change it within the limits defined through publication of a Decree based on the Corporate Tax Law Article 15/(34). In accordance with New Corporate Tax Law Article 15/(2), income subject to corporate tax is also exempt from withholding tax.

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

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

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.14 Taxes calculated on the basis of the Company’s earnings (continued)

Current tax liability includes the tax payable on the taxable income for the period and the adjustments made to previous periods’ tax liabilities, using tax rates enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates based on the laws that have enacted by the reporting date.

Deferred tax liabilities and assets are recognized in the financial statements from the enacted or substantially enacted tax rates to the extent that the temporary differences in the subsequent periods will be reversed. Deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2.4.15 Employee benefits / Retirement pay provisions

In accordance with TAS 19 all actuarial gains and losses are recognized in other comprehensive income. The most important change in new TAS 19 is related to the accounting for the defined benefit obligations effective from 31 December 2012.

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

The retirement benefit obligation recognized in the financial statements represents the present value of the defined benefit obligation. All actuarial gains and losses have been recognized in the statement of other comprehensive income.

2.4.16 Share capital and dividends

Common shares are classified as equity. Expenses directly attributable to the issuance of common shares and share options are recognized in equity with net of tax. Dividends on common shares are recognized in equity in the period in which they are approved and announced.

2.4.17 Related parties

For the purpose of the accompanying financial statements, the shareholders, key management personnel and the Board members, and in each case, together with their families and companies controlled by/affiliated with them; and investments are considered and referred to as the related parties. Shareholders and the Company’s management are also included in the related parties. Related party transactions include the transfer of the assets and liabilities between institutions with or without a charge.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements (continued)

2.4 Summary of significant accounting policies (continued)

2.4.18 Leasing

Finance leasing is a leasing method which most of the risks and rewards transferred to lessee. All other leasing activities are classified as operational leasing.

The Company, as lessor in the operational lease transactions

Operational lease income is recognized in the profit or loss on a straight-line basis for the whole lease period in the agreement.

The Company, as lessee in the operational lease transactions

Operational lease expense is recognized in the profit or loss on a straight-line basis for the whole lease period in the agreement. Start-up costs for the realization and optimization of the operational lease agreement are added to the cost of the leased asset and amortized through the leased time on a straight line basis method.

The Company, as lessee in the finance lease transactions

Tangible assets acquired by finance leasing are recognized both as an asset and liability in the statement of financial position of the Company. The value of these assets is determined as lower of fair value or present value of future lease payments. Financial costs arising from leasing transactions are distributed in a fixed rate through the lease agreement period.

2.4.19 Statement of cash flows

The Company presents statement of cash flows as an integral part of other financial statements to inform the users of financial statements about the changes in its net assets, its financial structure and its ability to manage the amount and timing of its cash flows under new conditions. Cash and cash equivalents are comprised of cash, receivables from reverse repos and time deposits with maturity shorter than three months.

2.4.20 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the Company’s other components. All operating segments’ operating results are regularly reviewed by the Company Management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

2.4.21 Restrictions on the investment portfolio of real estate investment trusts

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

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3. Equity accounted investees

The investments that are valued using equity method are shown in the financial statements of the Company by using equity method. Company’s business partnerships that valued according to equity method are listed below:

	Ownership (%)	31 December 2016	Ownership (%)	31 December 2015
Kanyon	50	1.563.593	50	1.599.475
		1.563.593		1.599.475

The summarized financial statements information of the jointly control entities under the equity method are listed below:

Kanyon	31 December 2016	31 December 2015
Current assets	10.424.627	8.583.774
Non-current assets	2.121.848	2.299.608
Short-term liabilities	(7.965.032)	(6.058.374)
Long-term liabilities	(1.454.258)	(1.626.058)
Net assets	3.127.185	3.198.950

Kanyon	1 January- 31 December 2016	1 January- 31 December 2015
Income for the period	42.532.804	24.451.381
Expense for the period (-)	(41.184.428)	(24.467.059)

The Company recognized profit amounting to TL 674.188 resulting from consolidation of Kanyon with equity method for the year ended 31 December 2016 (31 December 2015: Loss TL 7.839) in the accompanying statement of profit and loss.

4. Operating segments

Each segment of the Company is managed by the Company’s management on project basis. Allocation of the resources to the segments is also managed on project basis.

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4. Operating segments (continued)

	Ankara İş Kule Building	Istanbul İş Kuleleri Complex	Maslak Petrol Ofisi Building	Mallmarine Shopping Mall	İş Bankası Ankara Merkez Building	İş Bankası Ankara Kızılay Building	İş Bankası Antalya Merkez Building	Kanyon Shopping Mall	Real Hipermarket	Istanbul Esenyurt (Marmara park)	İş Bankası Güneşli	İş Bankası Sirkeci	Lykia Lodge Kapadokya Hotel	Ofis Lamartine	Tuzla Çınarlıbahçe Residence	Tuzla Operation and Trade Center	Tuzla Karma Proje	İzmir Ege Perla	Other Real Estate	Total	
31 December 2016																					
Sales Revenue																					
Rent income	2.848.896	44.887.617	4.819.590	732.406	4.024.755	3.385.905	1.699.341	34.619.914	6.921.618	--	--	3.847.930	106.660	1.756.443	98.194	61.500.000	5.655.700	6.831	--	176.911.800	
Income from the right of construction	--	--	--	--	--	--	--	--	--	13.496.328	--	--	--	--	--	--	--	--	--	--	13.496.328
Income from the sales of real estate	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	156.964.797	--	--	156.964.797	
Income from the sales of investment property	--	--	--	--	--	--	--	--	--	--	--	45.000.000	--	--	--	--	--	--	--	--	45.000.000
Income Fees and Service	--	565.498	--	--	--	--	--	220.520	--	--	--	--	--	4.240	3.253	44.688	78.376	--	--	--	916.575
Tenant contribution and service income	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Other income	--	26.227	54.192	--	--	--	--	233.083	153.006	--	--	--	--	--	1.288	--	--	--	--	--	467.796
Investment Revenue	2.848.896	45.479.342	4.873.782	732.406	4.024.755	3.385.905	1.699.341	35.073.517	7.074.624	14.933.996	--	48.847.930	106.660	1.760.683	102.735	61.544.688	5.734.076	156.971.628	--	395.194.964	
Insurance expense	60.655	939.743	26.395	27.024	20.603	9.248	6.824	454.277	149.892	--	--	20.082	164.980	50.066	1.223	--	22.746	--	--	--	1.953.757
Administrative expense	413.050	1.937.060	--	--	541	1.090	--	12.867.528	396	--	--	--	5.983	249.485	55.530	--	2.022.633	--	--	--	17.553.295
Tax and duty and other charges	273.002	1.556.038	163.895	22.603	11.060	48.704	28.714	1.658.415	382.105	--	--	68.615	33.222	75.036	4.528	888.695	469.740	--	--	--	5.684.374
Cost of sales of investment property and real estate	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	137.410.941	--	--	137.410.941
Cost of sales of investment property	--	--	--	--	--	--	--	--	--	--	--	46.995.218	--	--	--	--	--	--	--	--	46.995.218
Other	--	30.645	19.020	--	--	19.117	--	--	--	--	--	--	14.419	1.850	--	--	46.157	--	--	--	131.208
Cost of Sales	746.707	4.463.485	209.310	49.627	32.204	78.160	35.538	14.980.220	532.393	--	--	47.083.915	218.603	376.437	61.281	888.695	2.561.276	137.410.941	--	--	209.728.793
Gross Profit	2.102.189	41.015.858	4.664.473	682.779	3.992.552	3.307.746	1.663.804	20.093.295	6.542.231	14.933.996	--	1.764.014	(111.942)	1.384.247	41.452	60.655.993	3.172.799	19.560.687	--	--	185.466.172
Prepared based on IFRS 8 “Operating Segments”																					
Capital investments	--	411.242	32.763	48.174	--	--	--	386.524	--	--	--	--	38.326	--	--	15.539.715	9.031.243	26.807.606	81.543.796	--	133.839.389

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4. Operating segments (continued)

	Ankara İş Kule Building	İstanbul İş Kuleleri Complex	Maslak Petrol Ofisi Building	Mallmarine Shopping Mall	İş Bankası Ankara Merkez Building	İş Bankası Ankara Kızılay Merkez Building	İş Bankası Antalya Merkez Building	Kanyon Shopping Mall	Real Hipermarket İstanbul Esenyurt	İstanbul Esenyurt (Marmara Park)	İş Bankası Güneşli	İş Bankası Sirkeci	Lykia Lodge Kapadokya Hotel	Kemer Hotel Buildings	Taksim Lamartine	Tuzla Çınarlıbahçe Residences	Zeytinburnu Land	Other real estate	Total
31 December 2015																			
<u>Sales Revenue</u>																			
Rent Income	8.568.472	47.204.838	4.556.270	614.564	3.780.000	3.180.000	1.596.000	31.634.035	6.138.010	--	6.965.062	4.059.680	1.128.353	1.923.938	45.852	--	3.808.387	--	125.203.461
Income from the right of construction	--	--	--	--	--	--	--	--	--	13.496.328	--	--	--	--	--	--	--	--	13.496.328
Income from the sales of real estate	--	--	--	--	--	--	--	--	--	--	--	--	--	--	4.731.900	--	--	--	4.731.900
Income from the sales of investment property	--	--	--	--	--	--	--	--	--	--	69.500.000	--	--	--	--	--	--	--	69.500.000
Tenant contribution and service income	--	694.402	--	--	--	--	--	210.108	--	--	--	--	--	4.452	--	--	--	--	908.962
Other income	--	47.005	--	--	--	--	--	36.553	--	--	--	--	--	8.795	--	--	--	--	92.353
Investment Revenue	8.568.472	47.946.245	4.556.270	614.564	3.780.000	3.180.000	1.596.000	31.880.696	6.138.010	13.496.328	76.465.062	4.059.680	1.128.353	1.937.185	4.777.752	--	3.808.387	--	213.933.004
Insurance expense	50.507	1.110.426	33.847	26.599	19.267	8.473	5.962	457.991	181.921	--	23.192	47.990	63.561	32.698	2.622	--	--	--	2.065.056
Administrative expense	67.119	656.205	--	150	--	--	--	13.441.880	--	--	--	--	79.320	233.709	324.640	--	--	--	14.803.023
Tax and duty and other charges	312.913	1.518.781	159.349	21.982	21.521	47.384	27.931	1.597.967	373.024	--	1.643.680	66.405	31.833	52.960	6.346	--	76.953	--	5.959.029
Cost from the sales of fixed asset	--	--	--	--	--	--	--	--	--	--	--	--	--	--	4.349.735	--	--	--	4.349.735
Cost of sales of real estate	--	--	--	--	--	--	--	--	--	--	33.538.681	--	--	--	--	--	--	--	33.538.681
Other	11.671	292.319	561.762	--	129.224	--	--	16.675	--	--	--	210.263	139.257	13.636	1.147	--	--	--	1.375.954
Cost of sales	442.210	3.577.731	754.958	48.731	170.012	55.857	33.893	15.514.513	554.945	--	35.205.553	324.658	313.971	333.003	4.684.489	--	76.953	--	62.091.478
Gross profit	8.126.262	44.368.514	3.801.312	565.833	3.609.988	3.124.143	1.562.107	16.366.183	5.583.065	13.496.328	41.259.509	3.735.022	814.382	1.604.182	93.263	--	3.731.434	--	151.841.526
Prepared based on IFRS 8 “Operating Segments”																			
Capital Investments	--	148.882	82.007	--	--	--	--	666.979	--	--	--	261.331	348.453	--	44.215	--	338.413.053	321.511.884	661.476.804

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4. Operating segments (continued)

Reconciliation of income, assets and liabilities

Sales Revenue	1 January- 31 December 2016	1 January- 31 December 2015
Segment revenue	395.194.964	213.933.004
Undistributed revenue	9.337.894	8.079.095
Total Revenue	404.532.858	222.012.099

Cost of Sales	1 January- 31 December 2016	1 January- 31 December 2015
Segment Costs	209.728.793	62.091.478
Total cost of sales	209.728.793	62.091.478

Assets	31 December 2016	31 December 2015
Segment assets	4.521.787.358	3.810.485.275
Other assets	28.770.301	21.820.775
Non-segment related assets	336.462.535	292.894.529
Total assets	4.887.020.194	4.125.200.579

Liabilities	31 December 2016	31 December 2015
Segment liabilities	1.127.371.296	815.896.816
Other liabilities	598.303.242	518.668.912
Total liabilities	1.725.674.538	1.334.565.728

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5. Cash and cash equivalents

	31 December 2016	31 December 2015
Demand deposits	1.517.124	1.445.587
Time deposits	124.178.302	92.200.051
Mutual funds	1.496.689	29.627.903
Receivables from reverse repos	--	8.309
Other cash equivalents	69.949	626.275
	127.262.064	123.908.125
Interest accrued on cash and cash equivalents	(494.037)	(1.273.737)
Total cash and cash equivalents in the statement of cash flows	126.768.027	122.634.388

<u>Time deposits:</u>			31 December 2016
<u>Currency</u>	<u>Interest rate (%)</u>	<u>Maturity</u>	
US Dollar	%2,35	January-February 2017	51.292.926
TL	%8,20-10,70	January-February 2017	72.885.376
			124.178.302

			31 December 2016
	Cost	Fair Value	
Mutual Funds	1.496.018	1.496.689	
	1.496.018	1.496.689	

<u>Time deposits</u>			31 December 2015
<u>Currency</u>	<u>Interest rate (%)</u>	<u>Maturity</u>	
TL	%0,30-1,90	January 2016	80.196.944
US Dollar	%9,45	January 2016	12.003.107
			92.200.051

			31 December 2015
	Cost	Fair Value	
Mutual Funds	28.398.904	29.627.903	
	28.398.904	29.627.903	

As at 31 December 2016, The Company has no receivables from reverse repo.

<u>Receivables from reverse repos</u>			31 December 2015
<u>Currency</u>	<u>Interest rate (%)</u>	<u>Maturity</u>	
TL	10.05%	January 2015	8.309
			8.309

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6. Financial investments / Derivatives

	31 December 2016	31 December 2015
Derivative instruments		
Derivative assets held for trading	566	14.811
	566	14.811

7. Loans and borrowings

The details of financial borrowings and financial leasing as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Short-term loans and borrowings:		
Short-term portion of long-term borrowings	121.419.856	107.653.358
Bonds issued	--	205.858.160
	121.419.856	313.511.518

	31 December 2016	31 December 2015
Long-term loans and borrowings:		
Long-term bank borrowings	519.552.638	375.591.597
Bonds issued	402.076.612	--
	921.629.250	375.591.597

	31 December 2016	31 December 2015
Leasings		
Short-term portions of long-term leasing	10.915.156	11.360.254
Long-term leasing	696.326	10.126.764
	11.611.482	21.487.018

The details of loans and borrowings as of 31 December 2016 and 31 December 2015 are as follows:

			31 December 2016	
Currency	Interest rate (%)	Original amount	Short-term (TL)	Long-term (TL)
Euro	Euribor+3,50	9.701.886	9.003.505	26.989.523
US Dollar	Libor + 4,25	62.602.965	34.001.765	186.310.590
TL	11,75-14,50	384.667.112	78.414.586	306.252.525
			121.419.856	519.552.638

			31 December 2015	
Currency	Interest rate (%)	Original amount	Short-term (TL)	Long-term (TL)
Euro	Euribor+3,50	12.126.314	7.709.854	30.822.720
US Dollar	Libor + 4,25	71.413.192	28.053.938	179.587.061
TL	11,75-11,90	237.071.382	71.889.566	165.181.816
			107.653.358	375.591.597

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7. Loans and borrowings (continued)

Loans of the Company are used from a related party, İş Bankası (Note 24). The Company received a loan limit amounting to USD 160 million. As of reporting period, the investment properties are pledged in favour of İş Bankası amounting to USD 147 million and TL 685 million within the scope of the allocation of the loan.

The Company borrowed a four-year loan of TL 180.000.000 from İş Bankası in order to finance the purchase of Zeytinburnu Land. As a security to the loan, a first-degree collateral of TL 250.000.000 on the land purchased has been granted to İş Bankası. However, 25% of the Land, whose ownership is shared between the Company and Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi (Timur Gayrimenkul-NEF) in the rates of 75% and 25% respectively, has been sold to Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi on 19 September 2014. Following the sales transaction, the ownership shares of the Company and Timur Gayrimenkul has become 50%-50%. As of 31 December 2016, TL 140.000.000 of the loan borrowed for the Land has been repaid and the balance payable decreased to TL 40.000.000.

As of 31 December 2016 and 31 December 2015 details of issued bonds are as follows:

31 December 2016				
ISIN CODE	Issued Nominal Amount (TL)	Issue Date	Amortization Date	Registered Value
TRSISGYE1915	87,000,000	11 Sep. 2016	10 Oct. 2019	89.076.612
TRSISGY61912	100,000,000	29 June 2016	28 June 2019	100.000.000
TRSISGY31915	213.000.000	5 April 2016	29 March 2019	213.000.000
				402.076.612
31 December 2015				
ISIN CODE	Issued Nominal Amount (TL)	Issue Date	Amortization Date	Registered Value
TRSISGY41617	100.000.000	10 April 2014	7 April 2016	102.979.489
TRSISGY71614	100.000.000	11 June 2014	8 July 2016	102.878.671
				205.858.160

The Company has issued 3-year maturity, variable-rate, 3-month coupon payment bonds amounting to a total of TL 100.000.000 to the qualified investors via İş Yatırım Menkul Değerler Anonim Şirketi on 29 June 2016. The interest rate for the first coupon payment of the bond was determined as 2.75%.

The Company has issued 3-year maturity, variable-rate, 3-month coupon payment bonds amounting to a total of TL 213.000.000 to the qualified investors via İş Yatırım Menkul Değerler Anonim Şirketi on 5 April 2016. The interest rate for the first coupon payment of the bond was determined as 2.81%.

The Company has issued 3-year maturity, variable-rate, 3-month coupon payment bonds amounting to a total of TL 87.000.000 to the qualified investors via İş Yatırım Menkul Değerler Anonim Şirketi on 11 October 2016. The interest rate for the first coupon payment of the bond was determined as 2.73%.

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8. Trade receivables and payables

Short-term trade receivables and payables

	31 December 2016	31 December 2015
<u>Trade receivables</u>		
Notes receivable	489.834	358.462
Rediscount of notes receivables (-)	(132)	(9.323)
Income accruals	21.975.676	15.788.258
Receivables from customers	5.982.612	1.938.445
Doubtful receivables	1.315.908	755.147
Provision for doubtful receivables (-)	(1.315.908)	(755.147)
Due from related parties (Note 24)	322.311	839.105
Other	--	2.905.828
	28.770.301	21.820.775
<u>Trade payables</u>		
Payables to suppliers	28.928.288	57.341.574
Due to related parties (Note 24)	5.270.465	2.885.201
	34.198.753	60.226.775

As of 31 December 2016, provision for doubtful trade receivables is TL 1.315.908 (31 December 2015: TL 755.147). Provision for doubtful receivables is determined based on the historical collection performance.

Movement of provision for doubtful receivables for the year is as follows:

	31 December 2016	31 December 2015
Opening balance, 1 January	(755.147)	(719.857)
Charge for the period	(946.274)	(363.444)
Provisions released	385.513	328.154
Closing balance	(1.315.908)	(755.147)

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9. Other receivables and payables

	31 December 2016	31 December 2015
Other short-term receivables ^(*)	1.211.817	3.814.131
	1.211.817	3.814.131
	31 December 2016	31 December 2015
<u>Other payables – short-term</u>		
Deposits and guarantees given	622.898	1.453.653
Other short-term payables	--	18.416
	622.898	1.472.069
<u>Other payables – long-term</u>		
Other long-term payables ^(**)	35.990.000	35.990.000
	35.990.000	35.990.000

(*) Other short-term receivables are mainly comprised of receivables from Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi amounting to TL 844.210.

(**) The TL 35.990.000 (31 December 2015: TL 35.990.000), is the amount to be paid to Tecim Yapı Elemanları İnşaat Servis ve Yönetim Hizmetleri San. ve Tic. Limited Şirketi in relation to the purchase of the land registered in Kartal District Section 53, block 2274, lots 395, 397, 398, 399 and 408 and block 2846, lot 1 and block 2847 lot 1. The consideration will be paid to Tecim Yapı Elemanları İnşaat Servis ve Yönetim Hizmetleri San. ve Tic. Limited Şirketi via the proceeds on the sale of houses as part of a revenue sharing agreement based on the project development to be performed on the acquired land.

10. Investment property

As of 31 December 2016 and 31 December 2015, the details of investment properties are as follows:

	31 December 2016	31 December 2015
Investment property under operating lease	3.093.679.000	1.775.824.259
Investment property under construction and other	620.989.994	1.515.804.430
Total	3.714.668.994	3.291.628.689

As of 31 December 2016, total insurance amount on investment properties is TL 1.098.165.859 (31 December 2015: TL 982.815.210).

As of 31 December 2016 there are 74.119.268 TL capitalized financing expenses on the Company's investment properties.

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10. Investment property (continued)

	1 January 2016 opening balance	Purchases	Disposals	Fair value difference	31 December 2016 closing balance
Investment property under operating lease					
Ankara İş Tower Building	118.000.000	--	--	10.025.000	128.025.000
Marmarapark	130.000.000	--	--	16.620.000	146.620.000
İstanbul İş Tower Complex	673.838.909	411.242	--	123.644.849	797.895.000
İş Bankası Ankara Kızılay Building	34.930.000	--	--	3.365.000	38.295.000
İş Bankası Ankara Merkez Building	40.260.000	--	--	4.060.000	44.320.000
İş Bankası Antalya Merkez Building	19.585.000	--	--	2.430.000	22.015.000
Kapadokya Lodge Hotel	22.890.000	38.327	--	1.321.673	24.250.000
Mallmarine Shopping Mall	11.263.850	48.174	--	999.976	12.312.000
Maslak Building	94.031.500	32.763	--	7.050.737	101.115.000
Real Hypermarket Building	95.000.000	--	--	15.000.000	110.000.000
Office Lamartine	46.535.000	--	--	2.355.000	48.890.000
Tuzla Çınarlı Bahçe Project	2.490.000	--	--	110.000	2.600.000
Kanyon Shopping Mall	440.000.000	386.524	--	39.578.476	479.965.000
İş Bankası Sirkeci Building (*)	47.000.000	--	(46.095.000)	(905.000)	--
Tuzla Combined Project	270.075.000	9.031.243	--	(4.294.243)	274.812.000
Tuzla Technology and Operation Center Project	760.385.000	15.539.715	--	86.640.285	862.565.000
	2.806.284.259	25.487.988	(46.095.000)	308.001.753	3.093.679.000
Investment property under construction and other					
İzmir Ege Perla	210.393.969	26.807.606	--	42.239.425	279.441.000
İstanbul Finance Center Land	138.145.000	33.294.720	--	(1.839.720)	169.600.000
Kartal Project	102.326.542	47.614.006	--	(21.642.041)	128.298.507
Levent Land	3.998.919	47.431	--	64.138	4.110.487
Üsküdar Land	30.480.000	587.638	--	8.472.362	39.540.000
	485.344.430	108.351.401	--	27.294.163	620.989.994
Total	3.291.628.689	133.839.389	(46.095.000)	335.295.916	3.714.668.994

(*)The Company sold the Sirkeci Building, which was the tenant of T. İş Bankası A.Ş. in December 2016 at a price of TL 45.000.000.

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10. Investment property (continued)

The fair values of the Company’s investment properties at 30 June 2016 have been arrived at on the basis of valuations carried out in November and December 2015 by four independent appraiser firms, and ongoing investments have been arrived at basis of valuations carried out in May 2016 by four independent appraiser firms. Appraisal firms are accredited independent firms licensed by the Capital Markets Board of Turkey, and have appropriate qualifications and recent experience in appraising properties in the relevant locations.

	2016	2015
Investment property under operating lease		
Ankara İş Tower Building	Sales comparison approach	Sales comparison approach
Marmarapark	Sales comparison approach	Sales comparison approach
İstanbul İş Tower Complex	Sales comparison approach	Sales comparison approach
İş Bankası Ankara Kızılay Building	Sales comparison approach	Sales comparison approach
İş Bankası Ankara Merkez Building	Sales comparison approach	Sales comparison approach
İş Bankası Antalya Merkez Building	Sales comparison approach	Sales comparison approach
Kapadokya Lodge Hotel	Sales comparison and cost approach	Sales comparison and cost approach
Mallmarine Shopping Mall	Sales comparison approach	Sales comparison approach
Maslak Building	Sales comparison approach	Sales comparison and cost approach
Real Hipermarket Building	Cost and direct capitilazition approach (harmonized)	Cost formation analysis
Office Lamartine	Sales comparison approach	Sales comparison approach
Tuzla Çınarlı Bahçe Project	Sales comparison approach	Sales comparison approach
Kanyon Shopping Mall	Sales comparison approach	Sales comparison approach
İş Bankası Sirkeci Building(*)	Sales comparison approach	Sales comparison approach
Tuzla Combined Project	Sales comparison approach	Sales comparison approach
Tuzla Technology and Operation Center Project	Sales comparison approach	Cost formation analysis
Investment property under construction		
İzmir Project	Sales comparison and cost approach	Sales comparison and cost approach
İstanbul Finance Center Land	Sales comparison and cost approach	Sales comparison and cost approach
Kartal Project	Sales comparison approach	Sales comparison approach
Levent Land	Fair value based on estate tax	Fair value based on estate tax
Üsküdar Land	Sales comparison approach	Sales comparison approach

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10. Investment property (continued)

	Opening Balance 1 January 2015	Purchases	Disposals	Fair value difference	Depreciation expense	Transfers	Closing Balance 31 December 2015
Investment property under operating lease							
Ankara İş Tower Building	107.300.000	--	--	10.700.000	--	--	118.000.000
Marmarapark	106.600.000	--	--	23.400.000	--	--	130.000.000
İstanbul İş Tower Complex	580.524.579	146.325	(10.835)	93.178.840	--	--	673.838.909
İstanbul İş Tower Complex 10 th and 11 th Floors (***)	4.649.210	2.557	--	--	(84.569)	(4.567.198)	--
İş Bankası Ankara Kızılay Building	29.500.000	--	--	5.430.000	--	--	34.930.000
İş Bankası Ankara Central Building	31.590.000	--	--	8.670.000	--	--	40.260.000
İş Bankası Antalya Central Building	17.200.000	--	--	2.385.000	--	--	19.585.000
İş Bankası Güneşli Building	46.600.000	--	(46.600.000)	--	--	--	--
Kapadokya Lodge Hotel	21.505.000	348.453	--	1.036.547	--	--	22.890.000
Mallmarine Shopping Mall	10.142.650	--	--	1.121.200	--	--	11.263.850
Maslak Building	82.248.600	82.007	--	11.700.893	--	--	94.031.500
Real Hypermarket Building	81.000.000	--	--	14.000.000	--	--	95.000.000
Office Lamartine	44.295.000	--	--	2.240.000	--	--	46.535.000
Tuzla Çınarlı Bahçe Project	2.246.000	44.215	--	199.785	--	--	2.490.000
Kanyon Shopping Mall	390.000.000	666.979	--	49.333.021	--	--	440.000.000
İş Bankası Sirkeci Building	37.200.000	261.332	--	9.538.668	--	--	47.000.000
	1.592.601.039	1.551.868	(46.610.835)	232.933.954	(84.569)	(4.567.198)	1.775.824.259
Investment property under construction and other							
İzmir Ege Perla Project	80.455.340	92.510.407	--	37.428.222	--	--	210.393.969
İstanbul Finance Center Land	122.455.000	5.062.836	--	10.627.164	--	--	138.145.000
Kartal Project (*)	45.504.427	83.930.365	--	--	--	(129.434.792)	--
Kartal Project	51.493.490	34.408.015	--	16.425.037	--	--	102.326.542
Levent Land	3.806.500	46.428	--	145.991	--	--	3.998.919
Tuzla Combined Project	174.500.000	73.463.285	--	22.111.715	--	--	270.075.000
Tuzla Technology and Operation Center Project	304.100.000	338.413.053	--	117.871.947	--	--	760.385.000
Üsküdar Land	25.665.000	342.173	--	4.472.827	--	--	30.480.000
Zeytinburnu Land (**)	183.458.314	31.748.374	--	--	--	(215.206.688)	--
	991.438.071	659.924.936	--	209.082.903	--	(344.641.480)	1.515.804.430
Total	2.584.039.110	661.476.804	(46.610.835)	442.016.857	(84.569)	(349.208.678)	3.291.628.689

(*) The Company has started the project of Kartal Manzara Adalar in December 2014. Within the project sales agreements was signed as of 31 December 2016 for total of 453 real estate. Assets held for sale of the project has been classified in inventory account.

(**) According to the Board of Directors resolution dated 9 October 2013, the Company decided to jointly purchase the plot total 130.024,5 m² area in Istanbul, Zeytinburnu District (former Topkapı Şişecam factory) with Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi (“NEF”) with an amount of TL 320.000.000 excluding VAT, from Türkiye Şişe ve Cam Fabrikaları Anonim Şirketi and Anadolu Cam Sanayi Anonim Şirketi in order to develop a project with NEF. 75% and 25% of the plot would be purchased on behalf of the Company and NEF, respectively. However, on 7 August 2014, the Board of Directors decided to sell a 25% share of the Company’s ownership to NEF, on 19 September 2014 the transfer of land was completed and both the Company and NEF have equal ownership shares of 50%. The fair value of the land has been determined as the fair value as at 19 September 2014. In total, 29,412,642 TL of financing costs of the project were capitalized in 2015.

(***) As of 31 December 2014 The Company has reclassified İstanbul İş Kuleleri Complex 10th and 11th floor as investment properties to tangible assets.

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11. Inventories

<i>Short-term inventories</i>	31 December 2016	31 December 2015
<i>Non-Completed residential units</i>		
İzmir Ege Perla (*)	91.612.134	174.215.106
	91.612.134	174.215.106
<i>Long-term inventories</i>	31 December 2016	31 December 2015
<i>Non-completed residential units</i>		
Kartal project (***)	256.825.664	129.434.792
Topkapı project (****)	287.508.549	215.206.688
Tuzla Land (**)	171.172.017	--
	715.506.230	344.641.480

(*) The Company has started the Ege Perla Izmir project registered in Izmir, Konak District on a plot total 18.392 m2 area in the third quarter of 2012. Initial sales has started at October 2012. As of 31 December 2016 preliminary sales contracts have been signed for total 122 residences and the Company received advances amounting to TL 4.272.002 (31 December 2015: 143.445.186 TL).

(**) The Company has started the Tuzla Land project registered in Istanbul, Tuzla District. The Company has bought a land to in order to develop a project , which cost to 143,500,000 TL.

(***) The Company has started the Manzara Adalar project in Istanbul, Kartal, in December 2014. Sales agreements for 552 residences have been signed and advances have been received amounting to TL 184.311.055 as of 31 December 2016 (31 December 2015: 109.293.653 TL).

(****) The Company has started the In Istanbul Project in İstanbul, Topkapı, in May 2015. As of 31 December 2016 preliminary sales contracts have been signed for total 2.241 residence and the Company received advances amounting to TL389.799.255. The Company explains the given guarantees for loans that uses Zeytinburnu land in Note 14.

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12. Tangible assets

	Buildings (*)	Machinery and equipment	Vehicles	Fixtures	Total
Cost					
Opening balance as of 1 January 2016	26.298.985	85.950	32.447	2.638.109	29.055.491
Purchases	--	--	--	235.600	235.600
Disposals	--	--	--	50.321	50.321
Transfer	--	--	--	--	--
Fair value difference	2.494.847	--	--	--	2.494.847
Closing balance as of 31 December 2016	28.793.832	85.950	32.447	2.823.388	31.735.617
Accumulated Depreciation					
Opening balance as of 1 January 2016	137.894	85.950	30.705	1.763.968	2.018.517
Current year charge	775.938	--	1.742	400.122	1.177.802
Disposals	--	--	--	20.033	20.033
Closing balance as of 31 December 2016	913.832	85.950	32.447	2.144.057	3.176.286
Net book value as of 1 January 2016	--	--	1.742	874.141	27.036.974
Net book value as of 31 December 2016	27.880.000	--	--	679.331	28.559.331
Cost					
Opening balance as of 1 January 2015	--	85.950	269.977	2.329.409	2.685.336
Purchases	--	--	--	308.700	308.700
Disposals	--	--	237.530	--	237.530
Transfer	4.567.198	--	--	--	4.567.198
Fair Value Difference	21.731.787	--	--	--	21.731.787
Closing balance as of 31 December 2015	26.298.985	85.950	32.447	2.638.109	29.055.491
Accumulated Depreciation					
Opening balance as of 1 January 2015	--	85.950	243.715	1.402.274	1.731.939
Current year charge	137.894	--	24.058	361.694	523.646
Disposals	--	--	237.068	--	237.068
Closing balance as of 31 December 2015	137.894	85.950	30.705	1.763.968	2.018.517
Net book value as of 1 January 2015	--	--	26.262	927.135	953.397
Net book value as of 31 December 2015	26.161.091	--	1.742	874.141	27.036.974

(*)As at 31 December 2016, İş Kuleleri Kule:2 10th and 11th floor offices are the most important tangible assets item of the Company which are currently used for registered address with amounting to TL 27.880.000. These areas get share from the mortgages amounting to USD 136 million and TL 185 million established in İş Kuleleri and Kule Çarşı (31 December 2015: 136 milyon USD ve 185 milyon TL).

As at 31 December 2016, Company has tangible assets which is fully depreciated amounting to TL 1.256.135.

As at 31 December 2016 and 31 December 2015, there is not any pledge on tangible assets.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

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13. Intangible assets

	Computer Programs	Total
Cost		
Opening balance as of 1 January 2016	2.360.560	2.360.560
Purchases	307.967	307.967
Closing balance as of 31 December 2016	2.668.527	2.668.527
Accumulated Depreciation		
Opening balance as of 1 January 2016	1.941.941	1.941.941
Current year charge	253.336	253.336
Closing balance as of 31 December 2016	2.195.277	2.195.277
Net book value as of 1 January 2016	418.619	418.619
Net book value as of 31 December 2016	473.250	473.250
	Computer Programs	Total
Cost		
Opening balance as of 1 January 2015	1.904.517	1.904.517
Purchases	456.043	456.043
Closing balance as of 31 December 2015	2.360.560	2.360.560
Accumulated Depreciation		
Opening balance as of 1 January 2015	1.759.489	1.759.489
Current year charge	182.452	182.452
Closing balance as of 31 December 2015	1.941.941	1.941.941
Net book value as of 1 January 2015	145.028	145.028
Net book value as of 31 December 2015	418.619	418.619

As at 31 December 2016 and 31 December 2015, Company has no intangible assets which is capitalized in the business area.

As at 31 December 2016, Company has intangible assets which is fully depreciated amounting to TL 1.756.761.

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14. Provisions, contingent assets and liabilities

	31 December 2016	31 December 2015
Debt provisions ^(*)	12.324.486	53.732
Total	12.324.486	53.732

	31 December 2016	31 December 2015
Letters of guarantee received ^(**)	324.504.913	264.143.109
Total	324.504.913	264.143.109

^(*) Debt provisions consists of company’s provisions as of 31 December 2016 and profit sharing to be paid to T. İş Bankası A.Ş. related with Ege Perla project home and office sales.

^(**) Letters of guarantee consist of the letters received from tenants and suppliers of the Company.

Details of collaterals, pledges and mortgages (“CPM”) given by the Company as of 31 December 2016, 31 December 2015 are as follows:

	31 December 2016	31 December 2015
A. CPM given for companies own legal personality ^(*)	1.217.026.199	920.677.358
B. CPM given in behalf of fully consolidated companies	--	--
C. CPM given for continuation of its economic activities on behalf of third parties ^(**)	201.793.100	19.347.069
D. Total amount of other CPM’s	--	--
- Total amount of CPM’s given on behalf of majority shareholder	--	--
- Total amount of CPM’s given on behalf of other Group companies which are not in scope of B and C	--	--
- Total amount of CPM’s given on behalf of third parties which are not in scope of C	--	--
Total	1.418.819.299	940.024.427

^(*) CPM given for the Company’s own legal personality consists of letters of guarantee amounting to TL 14.703.799 and pledge amounting to USD 147.000.000 and TL 685.000.000. As of 31 December 2016, the investment properties are pledged in favour of İş Bankası amounting to USD 147.000.000 and TL 500.000.000 and 2nd degree 185.000.000 TL. As of 31 December 2016, the Company has 1st degree mortgage on its investment properties held amounting to USD 160.000.000 in favour of Türkiye İş Bankası. The Company received a counter guarantee amounting to USD 160 million from Türkiye İş Bankası to constitute financing guaranty provided. In this context, 1st degree mortgage was constituted in favour of İş Bankası from investment properties portfolio of the Company, İş Bankası Ankara Kızılay Building amounting to USD 11.000.000, İş Bankası Sirkeci Building amounting to USD 14.500.000, Kule-2 and Kule Çarşısı amounting to USD 136.000.000 as 1st degree mortgage, Kule-2 and Kule Çarşısı amounting to TL 185.000.000 as 2nd degree mortgage.

The Company borrowed a four-year loan of TL 180.000.000 from İş Bankası in order to finance the purchase of Zeytinburnu Land. As a security to the loan, a first-degree collateral of TL 250.000.000 on the land purchased has been granted to İş Bankası.

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14. Provisions, contingent assets and liabilities (continued)

However, 25% of the Land, whose ownership is shared between the Company and Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi (Timur Gayrimenkul-NEF) in the rates of 75% and 25% respectively, has been sold to Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi on 19 September 2014. Following the sales transaction, the ownership shares of the Company and Timur Gayrimenkul has become 50%-50%. As of 31 December 2016, TL 140.000.000 of the loan borrowed for the Land has been repaid and the balance payable decreased to TL 40.000.000.

(**) Represents the cost of guarantors given to the related banks in return for the loan amount in case the buyers of the Company's ongoing residential and office projects use mortgage/business loan from contracted banks. In this respect, as of 31 December 2015, the ratio of CPM given by the Company to the Company's shareholders' equity is 0,69% (31 December 2014: 0,84 % and 31 December 2013: 0,96 %).

1st degree mortgage was constituted in favour of İş Bankası in order to finance Tuzla Land of the Company, amounting to TL 250.000.000.

Operating leases

The Company, as the lessor in the operating lease transactions

The Company signed operating lease agreements as lessor for the investment properties in its portfolio with tenants which are shopping mall tenants, hotel operators and other third parties. The future minimum lease receivables as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Less than 1 year	187.470.467	194.764.874
Between 1-5 years	577.702.293	517.139.988
More than 5 years	2.083.205.191	2.060.174.946
Total	2.848.377.951	2.772.079.808

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15. Provision for employee benefits

	31 December 2016	31 December 2015
Unused vacation provisions	251.586	232.898
Total	251.586	232.898

	31 December 2016	31 December 2015
Severance pay indemnity	1.224.737	973.127
Total	1.224.737	973.127

Under Turkish Labor Law, the Company is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their retirement pay who retired by gaining right to receive according to current 506 numbered Social Insurance Law's 6 March 1981 dated, 2422 numbered and 25 August 1999 dated, 4447 numbered with 60th article that has been changed. Some transitional provisions related to the pre-retirement service term were excluded from the law since the related law was changed as of 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of TL 4.297 for each period of service as of 31 December 2016 (31 December 2015: TL 3.828).

TAS 19- Employee Benefits requires the development of actuarial methods for the determination of the retirement pay liability. For the year ended 31 December 2016, the Company recognizes all of its actuarial gains and losses under actuarial gains or losses in defined benefit plans which is under other comprehensive income non-reclassifiable in the profit or loss which is under equity. Actuarial assumptions used to calculate the total liability is given below:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as of 31 December 2016, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective reporting dates have been calculated assuming an annual inflation rate of 6,15% and a discount rate of 10,80%, resulting in a real discount rate of approximately 4,38%. The anticipated rate of for features is considered. As the maximum liability is revised semi-annually, the maximum amount of TL 3.297 effective from 31 December 2016 has been taken into consideration in calculation of provision from employment termination benefits.

	1 January- 31 December 2016	1 January- 31 December 2015
Opening balance at 1 January	973.127	831.795
Service cost	90.074	66.545
Interest cost	86.092	106.320
Payments	75.444	(31.533)
Actuarial difference	1.224.737	973.127

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16. Prepaid expenses, other assets, deferred revenue and other liabilities

<i>Other current assets</i>	31 December 2016	31 December 2015
Job advances (*)	71.297.635	40.838.289
Prepaid expenses (**)	2.769.523	2.726.811
	74.067.158	43.565.100

(*)As of 31 December 2016, job advances paid to Sera Yapı Endüstri ve Tic. A.Ş. under the agreement terms are TL 11.431.622 for Topkapı İnİstanbul Project.(31 December 2015: TL 3.890.833)

The Company signed an agreement with Ant Yapı A.Ş. for the construction work of Manzara Adalar project located in Kartal, İstanbul. As of 31 December 2016, job advances paid to Ant Yapı A.Ş. under the agreement terms are TL 9.356.766. The Company also paid job advances to Tecim Yapı Elemanları A.Ş which is old owner of land under the revenue sharing agreement terms are TL 49.411.572 TL. (31 December 2015: TL 13.826.226).

(**) As of 31 December 2016, prepaid expenses mainly consist of prepaid insurance expenses with related parties amounting TL 2.716.668 (31 December 2015: TL 2.726.125).

<i>Other current assets</i>	31 December 2016	31 December 2015
Deferred VAT		92.522.546
Prepaid taxes and dues payable	26.205	14.748
	26.205	92.537.294

<i>Other short-term liabilities</i>	31 December 2016	31 December 2015
Taxes and funds payable	2.131.536	8.945.543
Payable Social Security cuts	390.419	144.365
	2.521.955	9.089.908

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16. Prepaid expenses, other assets, deferred revenue and other liabilities (continued)

Deferred revenue (Short-term)	31 December 2016	31 December 2015
Advances received (*)	4.272.002	143.445.186
Deferred revenue (**)	1.265.612	15.952.389
Short-term deferred revenue to related (Note 24)	660.831	662.670
	6.198.445	160.060.245

Deferred revenue (Long-term)	31 December 2016	31 December 2015
Deferred revenue (**)	574.110.310	352.500.640
Advances received (***)	3.570.780	3.376.201
	577.681.090	355.876.841

(*) Advances received consist of advances for sales related with Ege Perla Project. (Note 11).

(**) TL 388.799.255 part of the balance is comprises of the advances received from the sales of Topkapı Project and TL 184.311.055 from Kartal Manzara Adalar Project. (Note 11)

(***) All of the balance is comprises of the rent payments collected from Real Hipermarketler Zinciri A.Ş as contribution to project.

17. Shareholders' equity

Share capital

The composition of the paid-in share capital as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
İş Gayrimenkul Yat. Ort. A.Ş.	(%)		(%)	
Türkiye İş Bankası A.Ş.	44,08	374.659.401	42,23	315.073.304
Anadolu Hayat Emeklilik A.Ş.	7,11	60.421.337	7,11	53.028.605
Other	48,81	414.919.262	50,66	377.898.091
Historic share capital	100	850.000.000	100	746.000.000

At the Annual General Meeting on 24 March 2016 the Company's capital of TL 850.000.000 has been decided to be removed by increasing the total amount to be covered from the profit of TL104.000.000 in 2015. Related capital increase decision, approved by the Capital Markets Board on 25 May 2016, has been registered by Istanbul Trade Registry Office.

The total number of ordinary shares consists of 850.000.000 (31 December 2015 TL :746.000.000) shares with a par value of TL 1 per share. All of the shares are issued to name and TL 1.214.286 (31 December 2015: TL 1.065.714) of the total amount is Group A and TL 848.785.714 (31 December 2015: TL 744.934.286) of the total amount is Group B shares. Group A shareholders have the privilege to nominate candidates during the Board of Directors member elections. One member of Board of Directors is selected among the candidates nominated by Group B shareholders while the rest is selected among the candidates nominated by Group A shareholders. There is no other privilege given to the Group A shares.

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17. Shareholders' equity (continued)

Adjustment to share capital

Adjustment to share capital amount is TL 240.146.090 as of 31 December 2016. Adjustment to share capital represents the restatement effect of the cash contributions to share capital equivalent to purchasing power of TL.

Share premium

As of 31 December 2016, share premiums amounting TL 423.981 represent excess amount of selling price and nominal value for each share during initial public offering of the Company's shares (31 December 2015:TL 423.981).

Restricted reserves

	31 December 2016	31 December 2015
Legal reserves	36.305.282	28.240.772
Total	36.305.282	28.240.772

Legal reserves consist of first and second legal reserves. The first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the paid-in share capital. The second legal reserve is calculated as the 10% of dividend distributions, in excess of %5 of paid-in capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed %50 of paid-in capital.

Prior years' profits

	31 December 2016	31 December 2015
Prior years' profits	1.589.596.928	1.197.948.571
Total	1.589.596.928	1.197.948.571

Dividend distribution

The Annual General Meeting that held on 24 March 2016, the amounting TL 131.452.191 from net profit has been committed to be distributed on a cash basis. It is been decided that as a first legal reserve TL 6.572.510 and second legal reserve TL 1.492.000 will be reserved. Amounting to TL 52.220.000 cash profit share was paid TL 35.000.000 of this amount was financed by extraordinary reserves and TL 17,220,000 of it financed by profit of 2015.

In the Ordinary General Shareholders' Meeting held on 24 March 2016, the distribution of 2015 net profit was determined as follows:

	Amount
First legal reserve (TCC 466/1) 5%	6.572.510
Dividend ^(*)	17.220.000
Second legal reserve (TCC 466/2)	1.492.000
Capital increase through bonus issues	104.000.000
Transferred to prior years' profits	391.648.357
Dividend ^(*)	35.000.000
Total	555.932.867

^(*)Amounting to TL 52.220.000 cash profit share was paid TL 35.000.000 of this amount was financed by extraordinary reserves and TL 17,220,000 of it financed by profit of 2015.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

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*(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)***18. Revenue and cost of revenue**

	1 January- 31 December 2016	1 January- 31 December 2015
Rent income	176.911.800	125.203.461
Income from sales of real estate	156.964.797	4.731.900
Income from sales of investment property	45.000.000	69.500.000
Income from right of construction	14.933.996	13.496.328
Tenant contribution and service income	916.575	908.962
Other revenue	467.796	92.353
Total real estate revenues	395.194.964	213.933.004
Interest income on bank deposits	8.449.466	3.577.398
Gain on buy/sell of marketable securities	877.144	3.217.639
Interest income from reverse repos	11.284	38.263
Interest income from government bonds, treasury bills and private sector bonds	--	1.245.795
Total debt instruments revenue	9.337.894	8.079.095
Total revenue	404.532.858	222.012.099

	1 January- 31 December 2016	1 January- 31 December 2015
Cost of sales of real estate	(137.410.941)	(4.349.735)
Cost of sales of investment property	(46.995.218)	(33.538.681)
Cost of administrative expenses	(17.553.295)	(14.803.023)
Taxes and dues	(5.684.374)	(5.959.029)
Insurance expenses	(1.953.757)	(2.065.056)
Other	(131.208)	(1.375.954)
Total	(209.728.793)	(62.091.478)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

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For the Year Ended 31 December 2016

*(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)***19. Marketing, sales and distribution expenses/Administrative expenses**

	1 January- 31 December 2016	1 January- 31 December 2015
General administrative expenses		
Personnel expenses	9.120.562	7.734.162
Outsourced service expenses	5.650.574	5.441.325
Depreciation and amortization	1.431.138	706.098
Taxes and dues	177.997	1.092.984
Other	2.033.027	220.565
Total	18.413.298	15.195.134

	1 January- 31 December 2016	1 January- 31 December 2015
Marketing, sales and distribution expenses		
Advertising expenses	13.352.986	18.863.415
Consultancy expenses	2.304.508	1.005.897
Office expenses	1.555.692	452.850
Other	1.492.335	979.590
Total	18.705.521	21.301.752

20. Expenses by nature

	1 January- 31 December 2016	1 January- 31 December 2015
Personnel expenses		
General administrative expenses	9.120.562	7.734.162
Total	9.120.562	7.734.162
Depreciation and amortization		
General administrative expenses	1.431.138	706.098
Total	1.431.138	706.098

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21. Other operating income / expense

	1 January- 31 December 2016	1 January- 31 December 2015
Other Operating Income		
Revaluation income of investment property	363.976.922	442.016.857
Foreign exchange gains	12.281.546	42.514.729
Other	665.613	1.465.215
Total	376.924.081	485.996.801

	1 January- 31 December 2016	1 January- 31 December 2015
Other Operating Expense		
Foreign exchange losses	(11.470.876)	(17.210.075)
Revaluation expense of investment property	(28.681.004)	--
Total	(40.151.880)	(17.210.075)

22. Finance income / expense

	1 January- 31 December 2016	1 January- 31 December 2015
Finance expenses		
Foreign exchange losses	(44.346.825)	(38.039.781)
Interest expense on loans and borrowings	(30.259.031)	(1.710.293)
Other interest expense	(132)	(9.331)
Derivative losses	(14.245)	--
Total	(74.620.233)	(39.759.405)

	1 January- 31 December 2016	1 January- 31 December 2015
Finance income		
Dividend income	--	500.000
Derivative gains	--	2.989.650
Total	--	3.489.650

23. Earnings per share

	1 January- 31 December 2016	1 January- 31 December 2015
Number of shares in circulation during the period	74.600.000.000	68.040.000.000
Bonus shares	10.400.000.000	6.560.000.000
Number of shares in circulation as of 31 December	85.000.000.000	74.600.000.000
Weighted average number of shares in circulation (*)	85.000.000.000	85.000.000.000
Net profit for the period	420.511.402	555.932.867
Earnings per share	0,0049	0,0065
Diluted earnings per share	0,0049	0,0065

(*) Capital increase is realized from internal sources and increase in number of share is used for computation of prior period earnings per share.

As of 31 December 2016 capital of the Company consists of 85.000.000.000 shares that are valued 1 cent for each one.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

24. Related party disclosures

Related parties of the Company are direct or indirect subsidiaries of İş Bankası and the executives and personnel of the Company.

Receivables from related parties are mainly due to sales transactions and the average payment term is one month. By nature no interest is calculated on these receivables and no guarantees have been received.

Payables due to related parties are mainly due to purchase transactions and the average credit payment term is one month. No interest is calculated on these payables.

Details of related party balances are as follows:

Balances at İş Bankası	31 December 2016	31 December 2015
Demand deposits	1.517.124	1.445.587
Time deposits	124.178.302	92.200.051
Receivables from reverse repo transactions	--	8.309
Other current assets	69.949	--
Total	125.765.375	93.653.947

The Company has letters of guarantee amounting TL 14.703.799 (31 December 2015: TL 14.956.957) from İş Bankası. In addition, 1st degree mortgage is instituted by the Company in favour İş Bankası amounting to TL 685.000.000 and USD 147.000.000 on some investment properties.

As of 31 December 2016 and 2015, the Company has mutual funds, established by, İş Bankası and İş Portföy Yönetimi A.Ş.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

24. Related party disclosures (continued)

	31 December 2016			
	Short Term Trade Receivable	Short Term Prepaid Expenses	Short Term Trade Payable	Deferred Income
Balances with related parties				
Anadolu Anonim Türk Sigorta A.Ş.	--	2.716.668	1.499.640	--
Anadolu Cam Sanayii A.Ş.	29.047	--	--	18.462
Anadolu Cam Eskişehir Sanayi AŞ	1.574	--	--	--
Anadolu Hayat Emeklilik A.Ş.	1.064	--	--	41.389
Cam Elyaf Sanayii AŞ	1.048	--	--	--
Camiş Madencilik A.Ş.	10.220	--	--	6.830
Çayırova Cam Sanayii A Ş	525	--	--	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	--	--	3.356
İş Merkezleri Yönetim ve İşletim A.Ş.	--	--	1.701.858	11.787
İş Net Elektronik Hizmetler A.Ş.	--	--	4.759	--
İş Yatırım Menkul Değerler A.Ş.	--	--	--	33.898
İş Finansal Kiralama A.Ş.	--	--	7.709	--
Kanyon Yönetim İşl. Paz. Ltd. Şti.	--	--	1.836.509	323.519
Madencilik Sanayii ve Ticaret AŞ	525	--	--	--
Mepa Merkezi Pazarlama AŞ	525	--	--	--
Paşabahçe Cam San. Ve Tic. A.Ş.	76.964	--	--	48.918
Paşabahçe Mağazaları A.Ş.	8.458	--	716	12.242
Soda Sanayii A.Ş.	--	--	--	15.312
Softtech Yazılım Teknolojileri A.Ş.	--	--	8.165	--
Şişecam Çevre Sistemleri A.Ş.	--	--	--	732
Şişecam Dış Ticaret A.Ş.	--	--	31.946	2.982
Şişecam Enerji A.Ş.	14.071	--	24.853	2.318
Şişecam Otomotiv A.Ş.	7.583	--	--	4.820
Şişecam Sigorta Hizmetleri A.Ş.	--	--	--	1.476
T İş Bankası A.Ş.	--	--	--	4.520
Trakya Cam Sanayii A.Ş.	--	--	--	29.154
Türkiye Şişe ve Cam Fabrikaları A.Ş.	170.707	--	--	99.116
Payables to shareholders (dividend)	--	--	476	--
Other	--	--	153.834	--
	322.311	2.716.668	5.270.465	660.831

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

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*(Amounts expressed in Turkish Lira ("TL") unless otherwise stated.)***24. Related party disclosures (continued)**

31 December 2016		
Loans and borrowings		
<i>Balances with related parties</i>	Short Term	Long Term
T. İş Bankası A.Ş.	103.666.106	513.874.749
<i>Transactions with related parties</i>	Interest expense on loans	Capitalized interest expense
T. İş Bankası A.Ş.	30.257.122	30.676.844
31 December 2016		
Financial leasing		
<i>Balances with related parties</i>	Short Term	Long Term
İş Finansal Kiralama A.Ş.	10.915.156	696.326

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

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

24. Related party disclosures (continued)

	31 December 2015			
	Short Term Trade Receivables	Short Term Prepaid Expenses	Short Term Trade payables	Deferred Income
Balances with related parties				
Anadolu Anonim Türk Sigorta A.Ş.	415	2.726.125	1.292.465	--
Anadolu Cam Sanayii A.Ş.	--	--	--	28.142
Anadolu Hayat Emeklilik A.Ş.	--	--	--	44.811
Avea İletişim Hizmetleri A.Ş.	49.345	--	45.638	59.330
Camiş Madencilik A.Ş.	--	--	--	9.389
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	--	--	3.634
İş Merkezleri Yönetim ve İşletim A.Ş.	32.237	--	54.005	10.055
İş Net Elektronik Hizmetler A.Ş.	--	--	2.862	--
İş Portföy Yönetimi A.Ş.	--	--	44.291	--
İş Yatırım Menkul Değerler A.Ş.	--	--	--	36.701
İş Finansal Kiralama A.Ş.	--	--	--	--
Kanyon Yönetim İşl. Paz. Ltd. Şti.	510.873	--	1.069.954	228.595
Paşabahçe Cam San. Ve Tic. A.Ş.	--	--	--	67.621
Paşabahçe Mağazaları A.Ş.	--	--	--	2.126
Soda Sanayii A.Ş.	--	--	--	22.049
Şişecam Dış Ticaret A.Ş.	--	--	--	4.963
Şişecam Enerji A.Ş.	12.003	--	7.424	1.398
Şişecam Sigorta Hizmetleri A.Ş.	--	--	--	2.585
T İş Bankası A.Ş.	22.188	--	--	--
Trakya Cam Sanayii A.Ş.	48.827	--	--	37.531
Türkiye Şişe ve Cam Fabrikaları A.Ş.	163.217	--	--	103.740
Payables to shareholders (dividend)	--	--	391	--
Other	--	--	179.017	--
	839.105	2.726.125	2.696.047	662.670

31 December 2015		
Loans and borrowings		
Balances with related parties	Short Term	Long Term
T. İş Bankası A.Ş.	107.653.358	375.591.597
Transactions with related parties		
	Interest expense on loans	Capitalized interest expense
T. İş Bankası A.Ş.	1.705.595	40.087.872

31 December 2015		
Financial leasing		
Balances with related parties	Short Term	Long Term
İş Finansal Kiralama A.Ş.	11.360.254	10.126.764

As of 31 December 2016, the Company entered into an interest option derivative transaction with İş Bankası and TL 566 (31 December 2015: TL 14.811) accrual of this derivative transaction is recognized in the Company's statement of financial position and also TL 14.245 derivative trading loss (31 December 2015: TL 2.989.650 derivative trading gains) is recognized in the Company's profit or loss for this transaction.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

24. Related party disclosures (continued)

	1 January-31 December 2016				
	Purchases (*)	Interest received	Rent income	Other income	Other expense
Balances with related					
Anadolu Anonim Türk Sigorta	4.587.613	--	--	--	--
Anadolu Cam Sanayi A.Ş.	--	--	1.912.439	34.296	--
Anadolu Cam Eskişehir Sanayi	--	--	1.334	--	--
Anadolu Cam Yenişehir Sanayi	--	--	1.334	--	--
Anadolu Hayat Emeklilik A.Ş.	180.481	--	4.150.839	58.607	--
Avea İletişim Hizmetleri A.Ş.	--	--	--	--	--
Cam Elyaf Sanayii AŞ	--	--	1.334	--	--
Camiş Madencilik A.Ş.	--	--	647.911	11.666	--
Camiş Elektrik Üretim AŞ	--	--	1.334	--	--
Çayırova Cam Sanayii A Ş	--	--	1.334	--	--
İş Finansal Kiralama A.Ş.	2.239.263	--	20.990	--	--
İş Girişim Sermayesi Yatırım	--	--	445.885	4.752	--
İş Merkezleri Yönetim ve	4.463.109	--	1.728.646	151.735	--
İş Net Elektronik Hizmetler A.Ş.	12.245	--	17.915	--	96.466
İş Portföy Yönetimi A.Ş.	--	--	49.347	--	3.592
İş Yatırım Menkul Değerler	--	--	4.517.238	48.000	--
Madencilik Sanayii ve Ticaret	--	--	1.334	--	--
Mepa Merkezi Pazarlama AŞ	--	--	1.334	--	--
Paşabahçe Cam San. Ve Tic.	--	--	4.672.275	83.927	--
Paşabahçe Mağazacılık A.Ş.	7.540	--	931.669	6.206	48.560
Soda Sanayi A.Ş.	--	--	1.511.197	27.153	--
Softtech Yazılım Teknolojileri	--	--	4.009.800	--	31.991
Şişecam Çevre Sistemleri A.Ş.	--	--	11.291	244	--
Şişecam Dış Ticaret A.Ş.	27.073	--	428.024	5.957	--
Şişecam Enerji A.Ş.	102.409	--	117.151	2.171	--
Şişecam Otomotiv A.Ş.	--	--	74.376	1.607	--
Şişecam Sigorta Hizmetleri A.Ş.	--	--	199.690	3.078	--
T.Şişe ve Cam Fabrikaları A.Ş.	--	--	8.964.039	136.779	--
Trakya Cam Sanayi A.Ş.	--	--	2.619.952	47.249	--
Trakya Polatlı Cam Sanayii AS	--	--	1.334	--	--
Trakya Yenişehir Cam Sanayii	--	--	1.334	--	--
Türkiye İş Bankası A.Ş.	--	8.460.750	72.698.324	3.509	14.033
	11.619.733	8.460.750	109.741.004	626.936	194.642

(*) The amount of purchases with Anadolu Anonim Türk Sigorta Anonim Şirketi is related to the insurance of the Company's real estates. The amount of purchases from the Business Centers Management and Operation Company is related to the operation of the Company's investment properties Business Land and Mallmarine Shopping Center.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

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

24. Related party disclosures (continued)

Transactions with related parties	1 January – 31 December 2015				
	Purchases (*)	Interest received	Rent income	Other income	Other expense
Anadolu Anonim Türk Sigorta A.Ş.	2.266.427	--	--	--	--
Anadolu Cam Sanayi A.Ş.	--	--	2.007.254	42.769	--
Anadolu Hayat Emeklilik A.Ş.	192.890	--	3.890.118	62.794	--
Avea İletişim Hizmetleri A.Ş.	77.926	--	95.369	--	--
Camış Madencilik A.Ş.	--	--	699.020	13.370	--
İş Finansal Kiralama A.Ş.	--	--	14.838	--	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	--	411.274	5.091	--
İş Merkezleri Yönetim ve İşletim A.Ş.	1.899.893	--	2.463.216	14.091	--
İş Net Elektronik Hizmetler A.Ş.	223.379	--	14.388	--	81.260
İş Portföy Yönetimi A.Ş.	--	--	43.071	--	97.105
İş Yatırım Menkul Değerler A.Ş.	--	302.390	4.254.532	44.665	3.741
Paşabahçe Cam San. Ve Tic. A.Ş.	--	--	4.648.234	86.838	--
Paşabahçe Mağazacılık A.Ş.	552	--	679.724	2.979	5.740
Soda Sanayi A.Ş.	--	--	1.722.701	33.351	--
Softtech Yazılım Teknolojileri A.Ş.	--	--	334.150	--	66.624
Şişecam Dış Ticaret A.Ş.	--	--	481.836	6.954	--
Şişecam Enerji A.Ş.	82.624	--	40.844	311	--
Şişecam Sigorta Hizmetleri A.Ş.	--	--	251.027	3.623	--
T. Şişe ve Cam Fabrikaları A.Ş.	--	--	8.444.909	149.826	--
Trakya Cam Sanayi A.Ş.	--	--	2.714.320	51.553	--
Türkiye İş Bankası A.Ş.	--	3.615.661	25.447.833	4.452	12.076
	4.743.691	3.918.051	58.658.658	522.667	266.546

(*) Anadolu Anonim Türk Sigorta A.Ş. balance is related to the insurance of investment properties. İş Merkezleri Yönetim ve İşletim A.Ş. balances are related to operational charges related to İş Kule Building and Mallmarine Shopping Centre, which are the Company's investment properties.

As of 31 December 2016, TL 27.211.000 part of TRSISGY31915 ISIN coded bond which is issued in par value TL 213.000.000 and TL 6.000.000 TRSISGY61912 ISIN coded bond which is issued in par value TL 100.000.000 are in related parties and breakdowns are below:

Transactions with related parties	1 January-31 December 2016	
	TRSISGY31915	TRSISGY61912
Anadolu Anonim Türk Sigorta A.Ş.	15.000.000	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	5.000.000	2.500.000
İş Yatırım Menkul Değerler A.Ş.	2.711.000	--
İş Yatırım Ortaklığı A.Ş.	4.500.000	3.500.000
	27.211.000	6.000.000

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

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24. Related party disclosures (continued)

<i>Transactions with related parties</i>	1 January-31 December 2015	
	TRISISGY41617	TRISISGY71614
Anadolu Anonim Türk Sigorta A.Ş.	6.549.496	8.230.294
Türkiye Sınai Kalkınma Bankası A.Ş.	3.274.748	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	2.615.679	--
İş Portföy Yönetimi A.Ş.	2.152.271	5.370.267
İş Yatırım Menkul Değerler A.Ş.	30.264	105.965
İş Yatırım Ortaklığı A.Ş.	1.431.415	3.250.966
T.İş Bankası A.Ş.	65.588	79.536
	16.119.461	17.037.028

Benefits provided to key management personnel:

Benefits provided to board of directors, general manager, senior group presidents and group presidents are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Salaries and other short term benefits	4.705.887	3.668.954
Employee termination benefits	454.561	439.951
	5.160.448	4.108.905

25. Nature and level of risks arising from financial instruments

a) Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders and corporate shareholders and at the same time, provide consistent application of the most efficient capital structure to minimize the cost of capital.

The Company's capital and funding structure consists of cash and cash equivalents, share capital and retained earnings.

The Company management evaluates the cost of capital and the risk associated with each class of equity.

b) Financial risk factors

The risks of the Company, resulting from operations, include market risk (including currency risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management program generally seeks to minimize the effects of uncertainty in financial markets on the financial performance of the Company.

Risk management is implemented according to the policies approved by the Board of Directors. According to the policy, once a risk is identified, it has been evaluated by each operating unit which is responsible to coordinate the work to minimize the exposure to that risk. The Board of Directors is in charge of forming written procedures in order to manage the foreign currency risk, interest risk, credit risk, and use of derivative and non-derivative financial instruments and the assessment of excess liquidity.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

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25. Nature and level of risks arising from financial instruments (continued)

b.1) Credit risk management

Exposure to maximum credit risk as of reporting date	Receivables						Other ^(***)
	Trade receivables		Other Receivables				
	Related parties	Other parties	Related parties	Bank deposits	Derivative instruments		
31 December 2016							
Maximum net credit risk as of the reporting date (A+B+C+D) ^(*)	322.311	28.447.990	--	1.211.817	125.695.426	566	1.566.638
- The part of maximum risk under guarantee with collateral etc. ^(**)	--	749.404	--	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	322.311	23.151.179	--	1.211.817	125.695.426	566	1.566.638
B. Net book value of financial assets which are overdue but not impaired	--	5.296.811	--	--	--	--	--
C. Net book value of impaired assets	--	--	--	--	--	--	--
- Past due (gross carrying amount)	--	1.315.908	--	--	--	--	--
- Impairment (-)	--	(1.315.908)	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--
- Not past due (gross carrying amount)	--	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--
D. Off-balance sheet items with credit risk	--	--	--	--	--	--	--

^(*) Items such as guarantees received which increase the credibility are not included in the determination of the balance.

^(**) Collaterals consist of notes, cheques and mortgages.

^(***) Investment funds which are shown in cash and cash equivalent, 3 months government bonds reverse repo agreements and other liquid assets are shown in other.

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

25. Nature and level of risks arising from financial instruments (continued)

b.1) Credit risk management (continued)

Exposure to maximum credit risk as of reporting date	Receivables							
	Trade receivables		Other Receivables			Bank deposits	Derivative instruments	Other ^(***)
	Related parties	Other parties	Related parties	Other parties				
31 December 2015								
Maximum net credit risk as of the reporting date (A+B+C+D) ^(*)	839.105	20.981.670	--	3.814.131	93.645.638	14.811	30.262.487	
- The part of maximum risk under guarantee with collateral etc. ^(**)	--	907.471	--	--	--	--	--	
A. Net book value of financial assets that are neither past due nor impaired	839.105	20.981.670	--	3.814.131	93.645.638	14.811	30.262.487	
B. Net book value of financial assets which are overdue but not impaired	--	807.167	--	--	--	--	--	
C. Net book value of impaired assets	--	--	--	--	--	--	--	
- Past due (gross carrying amount)	--	755.147	--	--	--	--	--	
- Impairment (-)	--	(755.147)	--	--	--	--	--	
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--	
- Not past due (gross carrying amount)	--	--	--	--	--	--	--	
- Impairment (-)	--	--	--	--	--	--	--	
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--	
D. Off-balance sheet items with credit risk	--	--	--	--	--	--	--	

^(*) Items such as guarantees received which increase the credibility are not included in the determination of the balance.

^(**) Collaterals consist of notes, cheques and mortgages.

^(***) Investment funds which are shown in cash and cash equivalent, 3 months government bonds reverse repo agreements and other liquid assets are shown in other.

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25. Nature and level of risks arising from financial instruments (continued)

b.1) Credit risk management (continued)

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company’s exposure to credit risks is monitored on a continuous basis.

The aging of the overdue but not impaired receivables are as follows:

Receivables			
31 December 2016	Trade Receivables	Other Receivables	Total
Past due 1-30 days	2.711.580	--	2.711.580
Past due 1-3 months	1.309.686	--	1.309.686
Past due 3-12 months	1.251.428	--	1.251.428
Past due 1-5 years	24.117	--	24.117
Total overdue receivables	5.296.811	--	5.296.811
Total collateralized portion	4.209.872	--	4.209.872

Receivables			
31 December 2015	Trade Receivables	Other Receivables	Total
Past due 1-30 days	448.448	--	448.448
Past due 1-3 months	161.140	--	161.140
Past due 3-12 months	183.213	--	183.213
Past due 1-5 years	14.366	--	14.366
Total overdue receivables	807.167	--	807.167
Total collateralized portion	807.167	--	807.167

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For the Year Ended 31 December 2016

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

25. Nature and level of risks arising from financial instruments (continued)

b.1) Credit risk management (continued)

Collaterals held for trade receivables that are past due but not impaired as of the reporting date are as follows:

	31 December 2016		31 December 2015	
	Nominal Value	Fair Value	Nominal Value	Fair Value
Right to guarantee	2.239.730	2.239.730	--	--
Letters of guarantee	1.784.706	1.784.706	730.099	730.099
Cash collaterals	184.766	184.766	77.068	77.068
Note payable	580	580	--	--
Letters of blockage	90	90	--	--
	4.209.872	4.209.872	807.167	807.167

b.2) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company’s short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Company’s remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows. On the other hand, derivative financial liabilities are presented based on their gross cash inflows and outflows which have not been discounted. Derivative instruments are settled and realized on a net basis based on their respective gross cash inflows and outflows which have not been discounted. When the receivables and payables are not fixed, the amount disclosed is calculated via an interest rate derived from yield curves as of the reporting date.

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25. Nature and level of risks arising from financial instruments (continued)

b.2) Liquidity risk management (continued)

31 December 2016						
<u>Contractual maturities</u>	<u>Carrying Value</u>	<u>Total cash outflows according to contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non derivative financial liabilities						
Loans and borrowings	1.054.660.588	1.207.004.581	11.735.938	152.475.698	976.155.033	66.637.912
Trade payables	34.198.753	34.198.753	34.198.753	--	--	--
Other payables	36.612.898	36.612.898	--	622.898	35.990.000	--
Total liabilities	1.125.472.239	1.277.816.232	45.934.691	153.098.596	1.012.145.033	66.637.912

<u>Contractual maturities</u>	<u>Carrying Value</u>	<u>Total cash outflows according to contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Derivative financial liabilities						
Derivatives cash inflow	566	--	--	--	--	--

31 December 2015						
<u>Contractual maturities</u>	<u>Carrying Value</u>	<u>Total cash outflows according to contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Non derivative financial liabilities						
Loans and borrowings	689.103.115	858.864.084	--	347.593.360	366.369.248	144.901.476
Trade payables	60.226.775	60.226.775	60.226.775	--	--	--
Other payables	37.462.069	37.462.069	--	1.472.069	35.990.000	--
Total liabilities	786.791.959	956.552.928	60.226.775	349.065.429	402.359.248	144.901.476

<u>Contractual maturities</u>	<u>Carrying Value</u>	<u>Total cash outflows according to contract (I+II+III+IV)</u>	<u>Less than 3 months (I)</u>	<u>3-12 months (II)</u>	<u>1-5 years (III)</u>	<u>More than 5 years (IV)</u>
Derivative financial liabilities						
Derivatives cash inflow	14.811	14.811	--	--	--	14.811

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

25. Nature and level of risks arising from financial instruments (continued)

b.3) Market risk management

b.3.1) Foreign Currency Risk Management

The Company’s activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures of the Company are measured using sensitivity analysis and stress scenarios.

There has been no change to the Company’s exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency transactions lead to currency risks.

The exchange rates applied as of 31 December 2016 and 31 December 2015 are as follows:

	USD Dollar	Euro	GBP
31 December 2016	3,5192	3,7099	4,3189
31 December 2015	2,3189	2,8207	3,5961

The foreign currency denominated monetary and non-monetary assets and liabilities of the Company as of the reporting date are as follows:

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25. Nature and level of risks arising from financial instruments (continued)

b.3) Market risk management (continued)

b.3.1) Foreign currency risk management (continued)

31 December 2016			
	TL Equivalent (Functional currency)	US Dollar	Euro
1. Trade Receivables	--	--	--
2a. Monetary Financial Assets	51.421.550	14.608.217	3.319
2b. Non-Monetary Financial Assets	285.492	81.124	--
3. Other	--	--	--
4. CURRENT ASSETS	51.707.042	14.689.341	3.319
5. Trade Receivables	--	--	--
6a. Monetary Financial Assets	--	--	--
6b. Non-Monetary Financial Assets	--	--	--
7. Other	--	--	--
8. NON CURRENT ASSETS	--	--	--
9. TOTAL ASSET	51.707.042	14.689.341	3.319
10. Trade Payables	23.820	6.769	--
11. Financial Liabilities	43.005.271	9.661.788	2.426.886
12a. Other Monetary Liabilities	--	--	--
12b. Other Non-Monetary Liabilities	759.837	110.493	100.000
13. SHORT TERM LIABILITIES	43.788.928	9.779.050	2.526.886
14. Trade Payables	--	--	--
15. Financial Liabilities	213.300.111	52.941.177	7.275.000
16a. Other Monetary Liabilities	--	--	--
16b. Other Non-Monetary Liabilities	6.573.624	853.275	962.500
17. LONG TERM LIABILITIES	219.873.735	53.794.452	8.237.500
18. TOTAL LIABILITIES	263.662.663	63.573.502	10.764.386
19. Net asset/liability position of Off balance sheet derivatives (19a-19b)	--	--	--
19.a Off-balance sheet foreign currency derivative assets	--	--	--
19b. Off-balance sheet foreign currency derivative liabilities	--	--	--
20. Net foreign currency asset / liability position	(211.955.623)	(48.884.161)	(10.761.067)
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(204.907.654)	(48.001.517)	(9.698.567)
22. Fair Value of foreign currency hedged Financial asset	--	--	--
23. Hedged foreign currency assets	--	--	--
24. Hedged foreign currency liabilities	--	--	--

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25. Nature and level of risks arising from financial instruments (continued)

b.3) Market risk management (continued)

b.3.1) Foreign currency risk management (continued)

31 December 2015				
	TL Equivalent (Functional currency)	US Dollar	Euro	GBP
1. Trade Receivables	--	--	--	--
2a. Monetary Financial Assets	80.206.386	27.582.540	1.149	870
2b. Non-Monetary Financial Assets	--	--	--	--
3. Other	--	--	--	--
4. CURRENT ASSETS	80.206.386	27.582.540	1.149	870
5. Trade Receivables	--	--	--	--
6a. Monetary Financial Assets	--	--	--	--
6b. Non-Monetary Financial Assets	--	--	--	--
7. Other	--	--	--	--
8. NON CURRENT ASSETS	--	--	--	--
9. TOTAL ASSET	80.206.386	27.582.540	1.149	870
10. Trade Payables	609.924	209.769	--	--
11. Financial Liabilities	35.763.790	9.648.485	2.426.314	--
12a. Other Monetary Liabilities	--	--	--	--
12b. Other Non-Monetary Liabilities	761.003	152.443	100.000	--
13. SHORT TERM LIABILITIES	37.134.717	10.010.697	2.526.314	--
14. Trade Payables	--	--	--	--
15. Financial Liabilities	210.409.782	61.764.707	9.700.000	--
16a. Other Monetary Liabilities	--	--	--	--
16b. Other Non-Monetary Liabilities	145.471.432	48.870.282	1.062.500	--
17. LONG TERM LIABILITIES	355.881.214	110.634.989	10.762.500	--
18. TOTAL LIABILITIES	393.015.931	120.645.686	13.288.814	--
19. Net asset/liability position of Off balance sheet derivatives (19a-19b)	--	--	--	--
19.a Off-balance sheet foreign currency derivative assets	--	--	--	--
19.b. Off-balance sheet foreign currency derivative liabilities	--	--	--	--
20. Net foreign currency asset / liability position	(312.809.545)	(93.063.146)	(13.287.665)	870
21. Net foreign currency asset / liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(166.577.110)	(44.040.421)	(12.125.165)	870
22. Fair Value of foreign currency hedged Financial assets	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--

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Notes to the Financial Statements

For the Year Ended 31 December 2016

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25. Nature and level of risks arising from financial instruments (continued)

b.3) Market risk management (continued)

b.3.1) Foreign currency risk management (continued)

Foreign currency sensitivity

The Company is mainly exposed to foreign currency risk on Euro and US Dollar.

The following table details the Company’s sensitivity to 10% increase in the currency of Euro and US Dollar. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The positive amount indicates the increase in profit/loss and equity.

31 December 2016		
	Appreciation of foreign currency	Devaluation of foreign currency
<u>If US Dollar changes against TL by 10%</u>		
US Dollar net asset / liability	(16.892.694)	16.892.694
Portion hedged against US Dollar risk (-)	--	--
US Dollar net effect	(16.892.694)	16.892.694
<u>If Euro changes against TL by 10%</u>		
Euro net asset / liability	(3.598.071)	3.598.071
Portion hedged against Euro risk (-)	--	--
Euro net effect	(3.598.071)	3.598.071
31 December 2015		
	Appreciation of foreign currency	Devaluation of foreign currency
<u>If US Dollar changes against TL by 10%</u>		
US Dollar net asset / liability	(12.805.193)	12.805.193
Portion hedged against US Dollar risk (-)	--	--
US Dollar net effect	(12.805.193)	12.805.193
<u>If Euro changes against TL by 10%</u>		
Euro net asset/liability	(3.852.892)	3.852.892
Portion hedged against Euro risk (-)	--	--
Euro net effect	(3.852.892)	3.852.892

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For the Year Ended 31 December 2016

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25. Nature and level of risks arising from financial instruments (continued)

b.3) Market risk management (continued)

b.3.2) Interest rate risk management

Interest rate risk represents the risk of fair value decrease in the Company’s interest rate sensitive assets due to market fluctuations.

As of 31 December 2016, the maturity of the Company’s assets and liabilities for refinancing is in line with the maturity analysis provided in the liquidity risk management section stated above. Therefore, the notes to the financial statements do not include a separate interest rate risk table.

The government bonds classified as financial asset at fair value through profit or loss in the accompanying financial statements is subject to interest rate risk. The sensitivity analyses have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period at 1%. If interest rates increase or decrease by 1% as of 31 December 2016, the net profit would decrease or increase by TL 692.063 (31 December 2015: TL 501.704 decrease or increase).

		31 December 2016	31 December 2015
Fixed Rate Financial Instruments			
	Financial assets classified at fair value through profit or loss		
Financial assets	Time deposits at banks	124.178.302	92,200,051
	Receivables from reverse repo transactions	--	8.309
Financial Liabilities		396.278.593	258.558.400
Floating Interest Rate Financial Instruments			
Investment Funds		1.496.689	29.627.903
Financial Liabilities		658.381.995	452.031.734

b.3.3) Equity price risk

As of 31 December 2016 , company has no equity in their portfolio. Therefore, there is no equity price risk.(31 December 2015: None)

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Notes to the Financial Statements

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26. Fair value of financial instruments

Financial assets

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

Financial liabilities

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

Financial liabilities are recognized with their acquisition costs including transaction costs and evaluated through amortized costs depending on the method of active interest rate.

The Company assumes that the carrying values of the floating interest rate banks loans are close to their fair value, since floating interest rate banks loans are re-priced recently. The Company assumes that the carrying values of the fixed interest rate banks loans are close to their fair value, since the opening date of the bank loan is close to the reporting period and there is no significant change in the market interest rates. The estimated fair value of fixed rate financial liabilities is calculated by using discounted cash flows using current market interest rates. As of 31 December 2016, net book value of fixed rate loan is TL 384.677.111 and fair value of those loans are TL 392.299.950.

31 December 2016	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial liabilities at amortized cost	Carrying value	Note
<i>Financial Assets</i>					
Cash and cash equivalents	125.765.375	1.496.689	--	127.262.064	5
Trade receivables	28.447.990	--	--	28.447.990	8
Due from related parties	322.311	--	--	322.311	24
Other financial assets	1.211.817	--	--	1.211.817	9
<i>Financial Liabilities</i>					
Loans and borrowings	--	--	425.508.251	425.508.251	7
Loans and borrowings from related parties	--	--	629.152.337	629.152.337	7
Trade payables	--	--	28.928.288	28.928.288	8
Trade payables to related parties	--	--	5.270.465	5.270.465	24
Other payables	--	--	36.612.898	36.612.898	9
--	--	--	--	--	--
31 December 2015					
<i>Financial Assets</i>					
Cash and cash equivalents	93.645.638	30.262.487	--	123.908.125	5
Trade receivables	20.981.670	--	--	20.981.670	8
Due from related parties	839.105	--	--	839.105	24
Other financial assets	3.814.131	--	--	3.814.131	9
<i>Financial Liabilities</i>					
Loans and borrowings	--	--	504.731.973	504.731.973	7
Loans and borrowings from related parties	--	--	205.858.160	205.858.160	7
Trade payables	--	--	57.530.728	57.530.728	8
Trade payables to related parties	--	--	2.696.047	2.696.047	24
Other payables	--	--	37.462.069	37.462.069	9

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

26. Fair value of financial instruments (continued)

Fair Value of Financial Instruments

The fair value of financial assets and liabilities are determined as below:

Level I: Financial assets and liabilities are carried at quoted prices in an active market which are used for similar financial assets and liabilities.

Level II: Other than quoted prices specified in Level I, financial assets and liabilities are carried at inputs used to determine direct or indirect observable market prices.

Level III: Financial assets and liabilities are carried at inputs which are used in determining fair value of financial assets and liabilities but not based on any observable market data.

The levels of the financial assets and liabilities presented in fair values are as follows:

Fair Value Hierarchy as at Reporting Date				
	31 December	Level 1	Level 2	Level 3
Financial assets	2016			
Investment properties	3.714.668.994	--	3.714.668.994	--
Tangible Assets	28.559.331	--	28.559.331	--
Financial assets held for trading	1.496.689	1.496.689	--	--
Derivatives held for trading	566	--	566	--
	3.744.725.580	1.496.689	3.743.228.891	--
	31 December	Level 1	Level 2	Level 3
Financial assets	2015			
Investment properties	3.291.628.689	--	3.291.628.689	--
Tangible Assets	27.036.974	--	--	--
Financial assets held for trading	29.627.903	29.627.903	--	--
Derivatives held for trading	14.811	--	14.811	--
	3.348.308.377	29.627.903	3.318.680.474	--

27. Events after the reporting period

On January 19, 2017, the Company used a cash loan amounting to TL 120,000,000 from Türkiye İş Bankası A.Ş., which is a related party to be used in the financing of projects, with a maturity of 4 years and paying quarterly interest and an annual cost of 13.62%.

28. Other Issues Affecting the Financial Statements Significantly or Disclosed in Explanations As to the Financial Statements Open, Interpretable and Understandable

In the direction of investment strategy within the scope of portfolio diversification and increase in current rent income of the Company and considering the synergy to be created as a result of the merger, initiating the negotiations of merger with TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. has been decided within the framework of other relevant legislation provisions within the framework of Capital Markets Law numbered 6362, Communiqué on Capital Markets Board's Significant Qualitative Operations and Disclosure Notice numbered II-23.1, Communiqué on Merger and Division of Capital Markets Board numbered. II-23.2, Turkish Commercial Code numbered 6102, Corporate Income Tax Law numbered 5520 and other relevant legislative provisions. As of the date of the report, merger negotiations with TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. are continuing.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

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Additional Note: Control of compliance with restrictions on the investment portfolio

The main accounts of separate financial statements	Related regulation	31 December 2016	31 December 2015
A Capital and money market instruments	III-48.1. Article 24 / (b)	156.032.365	123.908.125
B Real estates, rights supported by real estates and real estate projects	III-48.1. Article 24 / (a)	4.521.787.358	3.810.485.275
C Affiliates	III-48.1. Article 24 / (b)	1.563.593	1.599.475
Due from related parties (other receivables)	III-48.1. Article 23 / (f)	--	--
Other assets		207.636.878	189.207.704
D Total assets	III-48.1. Md. 3 / (k)	4.887.020.194	4.125.200.579
E Loans and borrowings	III-48.1. Article 31	1.043.049.106	689.103.115
F Other financial liabilities	III-48.1. Article 31	12.324.486	53.732
G Financial lease obligations	III-48.1. Article 31	11.611.482	21.487.018
H Due to related parties (other payables)	III-48.1. Article 23 / (f)	--	--
I Equity	III-48.1. Article 31	3.161.345.656	2.790.634.851
Other liabilities		658.689.464	623.921.863
D Total liabilities and equity	III-48.1. Article. 3 / (k)	4.887.020.194	4.125.200.579
Other separate financial information	Related regulation	31 December 2016	31 December 2015
A1 Capital and money market instruments amount held for 3-year real estate payments	III-48.1. Article 24 / (b)	--	--
A2 Time balances / demand balances TL / foreign currency	III-48.1. Article 24 / (b)	125.695.426	93.645.638
A3 Foreign capital market instruments	III-48.1. Article 24 / (d)	--	--
B1 Foreign real estates, rights supported by real estates and real estate projects	III-48.1. Article 24 / (d)	--	--
B2 Inactive land	III-48.1. Article 24 / (c)	43.650.487	34.478.919
C1 Foreign affiliates	III-48.1. Article 24 / (d)	--	--
C2 Participating to operating company	III-48.1. Article 28	1.563.593	1.599.475
J Non-cash loans	III-48.1. Article 31	14.703.799	34.304.026
K Mortgage amounts of the mortgaged lands that the project will be developed on without ownership	III-48.1. Article 22 / (e)	--	--
L The sum of investments in money and capital market instruments in a single company	Series:VI No:11, Article.22/(I)	--	--

(*) From the associates disclosed in Note 3, Kanyon is in the scope of the Company under the scope of Article 28 paragraph 1 of the "Communiqué on Principles Regarding Real Estate Investment Trusts" No: 48.1 of the CMB, III. The Company accounts for this associate according to the equity method in the accompanying financial statements. As of December 31, 2016, the Company's participation in Kanyon is TL 500.000 and does not exceed 10% of the total assets.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements

For the Year Ended 31 December 2016

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

Additional Note: Control of compliance with restrictions on the investment portfolio

Portfolio restrictions	Related regulation	31 December 2016	31 December 2015	Min/Max ratio
1 Mortgage amounts of the mortgaged lands that the project will be developed on without ownership	III-48.1. Article 22 / (e)	0%	0%	Azami %10
2 Real estates, rights supported by real estates and real estate projects	III-48.1. Article 24 / (a) , (b)	93%	92%	Asgari %51
3 Capital and money market instruments and subsidiaries	III-48.1. Article 24 / (b)	3%	3%	Azami %49
4 Foreign real estates, rights supported by real estates and real estate projects, affiliates and capital market instruments	III-48.1. Article 24 / (d)	0%	0%	Azami %49
5 Inactive land	III-48.1. Article 24 / (c)	1%	1%	Azami %20
6 Participating to operating company	III-48.1. Article 28	0%	0%	Azami %10
7 Borrowings limits	III-48.1. Article 31	34%	27%	Azami %500
8 Time balances / demand balances TL / foreign currency	III-48.1. Article 22 / (e)	3%	2%	Azami %10
9 The sum of investments in money and capital market instruments in a single company	Series: VI No:11, Article.22/(I)	0%	0%	Azami %10