

AVİVASA EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2020
AND INDEPENDENT AUDITOR'S REVIEW REPORT



REPORT ON REVIEW OF INTERIM CONSOLIDATED FINANCIAL INFORMATION

To the General Assembly of AvivaSA Emeklilik ve Hayat A.Ş.

Introduction

1. We have reviewed the accompanying consolidated balance sheet of AvivaSA Emeklilik ve Hayat A.Ş. (The “Company”) and its subsidiary (“collectively referred as the “Group”) as at 30 June 2020 and the related consolidated statements of income, consolidated other comprehensive income, consolidated changes in equity and consolidated cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The management of the Group is responsible for the preparation and fair presentation of these interim consolidated financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim consolidated financial information based on our review.

Scope of review

2. We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity”. A review of interim consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and the objective of which is to express an opinion on the consolidated financial statements. Consequently, a review on the interim consolidated financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information does not present fairly, in all material respects, the financial position of the Group as at 30 June 2020, and its financial performance and its cash flows for the six- month period then ended in accordance with International Accounting Standard 34 “Interim Financial Reporting”.



Emphasis of matter

- 4- Prior period financial statements have been restated as explained in Note 1.1 to the accompanying interim financial information. Our conclusion is not qualified in respect of this matter.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Adnan Akan, SMMM
Partner

Istanbul, 4 August 2020

AVIVASA EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

**THE CONSOLIDATED FINANCIAL REPORT
FOR THE PERIOD ENDED 30 JUNE 2020**

We assure you that our consolidated financial report and the related disclosures and notes prepared in accordance are in compliance with International Financial Reporting Standards are permitted to be published.

İstanbul, 4 Aug 2020



M. Fırat Kuruca
Member of the Board of
Directors, General Manager



Erkan Şahinler
Assistant General Manager
Finance



Zeliha Ersen Altınok
Group Manager
Accounting&Finance



Nevin Mermer
Actuary

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

TABLE OF CONTENTS	PAGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	1
CONSOLIDATED STATEMENT OF INCOME.....	2
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	3
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	4
CONSOLIDATED STATEMENT OF CASH FLOWS	5
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	6 - 66

AVIVASA EMEKLİLİK VE HAYAT A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL POSITION
FOR THE PERIOD ENDED JUNE 30, 2020**

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

Assets	Note	Restated (Note 1.1)	
		June 30, 2020	December 31, 2019
Cash and cash equivalents	5	580,532,611	398,527,876
Financial assets	6	2,012,133,104	1,771,746,764
Premium and other insurance receivables	8	48,179,167	37,011,109
Reinsurance share of insurance liabilities	7,21	14,182,597	15,815,927
Deferred expenses	19	479,642,205	478,231,925
Other financial assets	13	868,012	868,012
Pension business receivables	9	231,048,135	212,976,185
Right of use assets	11	29,577,173	32,890,742
Property and equipment, net	11	27,233,933	27,435,735
Intangible assets, net	12	71,276,943	58,535,130
Other assets	10	74,139,074	9,720,417
Total assets		3,568,812,954	3,043,759,822
Liabilities			
Lease liabilities	14	33,733,679	35,733,545
Due to insurance and reinsurance companies	15	34,340,594	43,940,869
Pension business payables	9	524,399,723	486,090,486
Insurance contract liabilities	21	1,882,825,897	1,443,817,209
Provision for employment termination benefits	18	19,106,392	15,971,826
Deferred tax liabilities	17	62,648,293	71,023,837
Current tax liabilities	17	32,019,759	11,437,773
Other payables and liabilities	20	128,148,290	46,051,457
Other provisions	16	39,120,557	37,758,216
Total liabilities		2,756,343,184	2,191,825,218
Share capital	22	180,000,000	180,000,000
Items that may be reclassified to profit or loss			
Fair value reserves from available for sale assets	22	(9,182,058)	(294,093)
Other capital reserves	22	837,095	837,095
Profit reserves	22	184,865,332	135,728,079
Retained earnings	22	324,941,215	278,131,574
Profit for the period	23	131,008,186	257,531,949
Equity attributable to the owners of the Group		812,469,770	851,934,604
Total equity and liabilities		3,568,812,954	3,043,759,822

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**CONSOLIDATED STATEMENT OF INCOME
FOR THE PERIOD ENDED JUNE 30, 2020**

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

				Restated (Note 1.1)	Restated (Note 1.1)
	Note	January 1 - June 30, 2020	April 1 - June 30, 2020	January 1 - June 30, 2019	April 1 - June 30, 2019
Income:					
Gross written premiums	24	657,173,739	329,232,343	368,710,187	191,284,112
Premium ceded to reinsurers	24	(9,760,807)	(4,671,541)	(12,881,852)	(6,227,979)
Premium written net of reinsurance	24	647,412,932	324,560,802	355,828,335	185,056,133
Net change in provision for unearned premiums reserves		6,659,766	4,485,784	(12,090,233)	5,836,283
Net premiums earned		654,072,698	329,046,586	343,738,102	190,892,416
Net change in mathematical reserves		(264,840,749)	(128,917,343)	(111,744,194)	(71,333,908)
Income generated from pension business	25	216,545,429	113,363,201	180,981,867	84,467,269
Investment and other income	28	63,993,507	37,565,576	61,908,061	43,144,576
Commission income	27	5,544,439	4,030,552	5,343,236	3,836,666
Foreign exchange gains/(losses), net	26	6,032,950	1,208,172	17,863,096	3,583,750
Total income		681,348,274	356,296,744	498,090,168	254,590,769
Expenses:					
Claims paid and change in outstanding claims provisions	21	(111,975,609)	(53,932,284)	(47,276,245)	(21,559,158)
General and administrative expenses	30	(207,378,009)	(98,784,442)	(175,086,122)	(86,352,667)
Pension expenses including commission	29	(83,571,029)	(50,178,303)	(58,363,073)	(27,557,404)
Commission expense	27	(106,370,882)	(49,439,924)	(57,982,940)	(31,996,884)
Other (expense)/income, net	31	(2,729,032)	(2,998,060)	(1,134,727)	(470,347)
Total expenses		(512,024,561)	(255,333,013)	(339,843,107)	(167,936,460)
Profit before taxes		169,323,713	100,963,731	158,247,061	86,654,309
Income tax expense (-)	17	(38,315,527)	(22,968,877)	(34,876,663)	(18,018,729)
Profit for the period		131,008,186	77,994,854	123,370,398	68,635,580
Earnings per share (TL 0.01 nominal value per share)	23	0.0073	0.0043	0.0069	0.0038

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED JUNE 30, 2020**

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

			Restated (Note 1.1)	Restated (Note 1.1)	
	Note	January 1 - June 30, 2020	April 1 - June 30, 2020	January 1 - June 30, 2019	April 1 - June 30, 2019
Profit for the year		131,008,186	77,994,855	123,370,398	68,635,580
Other comprehensive income:					
Items that may be reclassified subsequently to profit or (loss):					
Net gain/(loss) on available-for-sale assets		(11,394,827)	66,332,293	6,531,633	24,899,800
Deferred tax relating to components of other comprehensive income		2,506,862	(14,593,104)	(1,436,959)	(5,477,956)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent years		(8,887,965)	51,739,189	5,094,674	19,421,844
Items that will not be reclassified subsequently to profit or loss:					
Actuarial gain/ (loss) on employee termination benefits		(2,032,122)	(2,436,636)	(3,123,624)	(1,408,078)
Deferred tax relating to actuarial gain/ (loss)		447,067	536,060	687,197	309,777
Net other comprehensive gain/ (loss) not being reclassified to profit or loss in subsequent years		(1,585,055)	(1,900,576)	(2,436,427)	(1,098,301)
Other comprehensive income / (loss), net of tax		(10,473,020)	49,838,613	2,658,247	18,323,543
Total comprehensive income, net of tax		120,535,166	127,833,468	126,028,645	86,959,123

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED JUNE 30, 2020

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

	Note	January 1 - June 30, 2020	(Restated Note 1.1) January 1 - June 30, 2019
Cash flows from operating activities:			
Profit for the period		131,008,186	123,370,398
Income taxes	17	38,315,527	34,876,663
Depreciation and amortization	30	18,665,837	14,456,191
Interest income		(61,400,741)	(43,753,565)
Unrealized exchange rates (gains) / losses from cash and cash equivalents		17,323,178	(18,730,556)
Unrealized Exchange rates (gains) / losses from financial assets	6	79,284,536	(69,448,005)
Fair value changes in marketable securities	6	(28,496,919)	12,985,132
Change in claims provision	21	112,165,613	47,588,997
Change in life mathematical reserves	21	444,641,312	194,722,858
Change in provision for unearned premiums reserves	21	(7,635,042)	14,630,227
Change in provision for employment termination benefits	18	1,883,544	1,603,762
Change in blockage	5	(17,652,225)	39,426,847
Operating profit before changes in operating assets / liabilities		728,102,806	351,728,949
Changes in operating assets and liabilities:			
Change in premium and other insurance receivables	8	(9,534,728)	(4,004,369)
Change in other assets	10	(64,418,656)	6,985,406
Change in deferred expenses	19	(1,410,280)	(27,786,723)
Change in pension business receivables	9	(18,071,950)	(41,582,251)
Change in pension business payables	9	38,309,237	38,208,948
Change in lease liabilities		584,341	2,014,183
Corporate taxes paid		(24,113,966)	(27,073,278)
Cash paid for claims settled during the year, net	21	(107,103,092)	(47,514,187)
Employment termination benefits paid	18	(781,099)	(2,608,581)
Change in other liabilities		14,781,040	-
Net cash provided from / (used in) operating activities		556,343,653	248,368,097
Cash flows from investing activities:			
Acquisition of property and equipment	11	(3,827,362)	(3,927,284)
Acquisition of intangible assets	12	(22,132,021)	(13,724,706)
Proceeds from sale of property and equipment	11	16,632	-
Purchases of financial assets	6	(3,745,267,954)	(1,147,146,479)
Proceeds from sale of financial assets	6	3,439,675,735	1,002,452,450
Interest received	28	66,028,730	43,753,565
Net cash provided by investing activities		(265,506,240)	(118,592,454)
Dividend payment		(100,000,000)	(54,748,939)
Paid rent for lease liabilities	14	(8,128,932)	(6,859,283)
Net cash provided by/(used in) financing activities		(108,128,932)	(61,608,222)
Effect of exchange rates on cash and cash equivalents		(17,323,178)	18,730,556
Net increase in cash and cash equivalents		165,385,303	86,897,977
Cash and cash equivalents at the beginning of the year		280,374,522	386,292,747
Cash and cash equivalents at the end of the period		445,759,825	473,190,724

The accompanying notes form an integral part of these consolidated financial statement.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

1. GENERAL INFORMATION

1.1 Restatement to Prior Year Financial Statements

The Group reviewed its accounting policy regarding deferred acquisition costs for Return of Premium products (“ROP”) and concluded on a change with effect from 1 January 2019. Up until 31 December 2018, the Group did not include the up-front commissions for ROP products produced by all channels in its deferred acquisition costs. Starting from 2019, it is agreed that these up-front commissions are also within the scope of “IFRS 4 Insurance Contracts”. However, due to the limitation of sufficient data relevant for previous periods related to agency and sales personnel commissions, the Company decided to defer the bank channel commissions only as of 31 March 2019. Such decision resulted in a change in accounting policy. As such comparative consolidated financial statements needed to be restated. However, on the grounds of materiality, the retrospective treatment of the change in accounting policy for bank channel commissions was reflected to the opening balances at 1 January 2019 only.

As of 31 March 2020, the Group added agency and sales personnel commissions in its deferred acquisition cost base for purposes of fairer presentation of the financial statements. The effect of this change was recognized retrospectively in the consolidated financial statements. As such comparative interim consolidated financial statements have been restated.

Restated balances for balance sheet and profit/loss statement is stated below :

1 January 2019	Previously Reported	Effect of Restatement	Restated
Deferred expenses	391,886,318	38,733,951	430,620,269
Deferred tax liabilities	38,640,075	8,521,469	47,161,544
Total Assets	2,192,416,957	38,733,951	2,231,150,908
Total Liabilities	1,571,295,743	8,521,469	1,579,817,212
Net Profit (Loss) for the Period	200,564,104	12,872,739	213,436,843
Retained Earnings	242,623,147	17,339,743	259,962,890
Shareholders' Equity	629,381,377	30,212,482	659,593,859

31 December 2019	Previously Reported	Effect of Restatement	Restated
Deferred expenses	417,709,514	60,522,411	478,231,925
Deferred tax liabilities	57,708,907	13,314,930	71,023,837
Total Assets	2,983,237,411	60,522,411	3,043,759,822
Total Liabilities	2,178,510,288	13,314,930	2,191,825,218
Net Profit (Loss) for the Period	240,536,950	16,994,999	257,531,949
Retained Earnings	247,919,093	30,212,482	278,131,574
Shareholders' Equity	804,727,123	47,207,481	851,934,604

1 January – 30 June 2019	Previously Reported	Effect of Restatement	Restated
General and administrative expenses	(179,145,656)	4,059,534	(175,086,122)
Commission expense	(63,369,563)	5,386,623	(57,982,940)
Income tax expense (-)	(32,798,508)	(2,078,155)	(34,876,663)
Profit before taxes	148,800,904	9,446,157	158,247,061
Profit for the period	116,002,396	7,368,002	123,370,398
Earnings / (Loss) per Share	0.0064	0.0004	0.0068

1 April – 30 June 2019	Previously Reported	Effect of Restatement	Restated
General and administrative expenses	(88,581,116)	2,228,449	(86,352,667)
Commission expense	(34,817,015)	2,820,131	(31,996,884)
Income tax expense (-)	(16,908,042)	(1,110,687)	(18,018,729)
Profit before taxes	81,605,729	5,048,580	86,654,309
Profit for the period	64,697,687	3,937,893	68,635,580
Earnings / (Loss) per Share	0.0036	0.0002	0.0038

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

1. GENERAL INFORMATION (Continued)

1.2 Corporate Information

AvivaSA Emeklilik ve Hayat Anonim Şirketi ("the Company") was established on October 31, 2007 by the merger of Ak Emeklilik Anonim Şirketi ("Ak Emeklilik") with Aviva Hayat ve Emeklilik Anonim Şirketi (Aviva Emeklilik).

Following the frame agreed upon the merger contract dated July 27, 2007 and pursuant to Turkish Commercial Code Article 451 and Corporate Tax Law Article 19-20, Ak Emeklilik has acquired Aviva Emeklilik together with all assets and liabilities as a whole through dissolution without liquidation. Ak Emeklilik has become the successor of Aviva Emeklilik. Merger transaction has been realized pursuant to valuations of expert committee assigned by Decision No. 2007/876 D. of Kadıköy Commercial Court of First Instance No. 3 dated July 11, 2007 with the expert report dated July 16, 2007 based on balance sheets of Ak Emeklilik and Aviva Emeklilik as of May 31, 2007 together with other information. This merger has been published on Trade Registry Gazette No. 6930 dated on November 6, 2007 and new title of the Company was announced as "AvivaSA Emeklilik ve Hayat Anonim Şirketi".

After the merger, shareholders of the Company are Aviva International Holdings Limited ("Aviva International") (49.83% share ratio) and Aksigorta Anonim Şirketi ("Aksigorta") (49.83% share ratio).

Aksigorta Anonim Şirketi transferred its shares of AvivaSA Emeklilik ve Hayat A.Ş. to Hacı Ömer Sabancı Holding A.Ş. within the scope of clause "b" of Paragraph 3 of Article 3 of Corporate Tax Law numbered 5520 and under the provisions of "Partial Division of Corporations and Limited Liability Companies Procedures and Operations Joint Communiqué on Principles of Editing" published in the Official Gazette No. 25230 dated September 16, 2003. The transfer was registered and announced on January 12, 2010 and published in the Trade Registry Gazette No. 7481 dated January 18, 2010.

Aviva International Holdings Limited transferred its shares of AvivaSA Emeklilik ve Hayat A.Ş. to Aviva Europe SE on October 28, 2011.

The main shareholders of the Company are Aviva Europe SE and Hacı Ömer Sabancı Holding A.Ş. The Company operates as a joint venture. Aviva Europe SE and Hacı Ömer Sabancı Holding A.Ş.; each held 49.83% of the shares before offering 19.67% of the shares of the Company to public on November 13, 2014. As a result of the initial public offering, the shares of the Company have been listed on Borsa İstanbul A.Ş. ("BIST") as of November 13, 2014. After the price stabilization activities, the Company's main shareholders' share in partnership were 41.28% each and the percentage of shares which are publicly traded were 17.28%.

Aviva Europe SE has transferred 1,477,063,650 shares each worth TL 0.01 with a nominal value of TL 14,770,636.50 to Aviva International Holdings Limited on July 15, 2015.

Hacı Ömer Sabancı Holding A.Ş. sold its shares with the nominal value of TL 458,956 in BIST on August 5, 2015 and after this disposal, its share in AvivaSA Emeklilik ve Hayat A.Ş. decreased to 40%.

Aviva International Holdings Ltd. sold its share with the nominal value of TL 458,956 in BIST on August 5, 2015 and after this sale its share in AvivaSA Emeklilik ve Hayat A.Ş. decreased to 40%.

On July 28, 2015, The Board of Directors of AvivaSA Emeklilik ve Hayat A.Ş. has unanimously resolved to increase the Company's issued capital from TL 51,971,980 to TL 118,000,000 by transferring TL 66,028,020 from other capital reserves to share capital.

With the Board of Directors' decision dated October 26, 2018, it has been decided to get permission from the Prime Ministry Capital Markets Board, Treasury and Finance Ministry and Ministry of Commerce to increase the paid-in capital of the Company by 52.54% and increase from TL 118,000,000 to TL 180,000,000 and to provide the entire increase of TL 62,000,000 from Extraordinary Reserves and to give 52,54% of the shares to each share held by the shareholders. As of June 30, 2020 19.91% of the Company's share have been listed on the Borsa İstanbul ("BIST").

The Company is engaged in pension business and life insurance. The Company also issues insurance policy for personal accident.

The Company's management analysed their relationship with the pension investment funds under IFRS 10, 11 and 12 and concluded that the Company has no control over the pension investment funds.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

1. GENERAL INFORMATION (Continued)

1.2 Corporate Information (Continued)

The registered office of the Company is Saray Mahallesi Dr. Adnan Büyükdeniz Caddesi No: 12, 34768 Ümraniye, Istanbul - Turkey.

The consolidated financial statements of the Company as at and for the period ended June 30, 2020 comprises the Company and its subsidiary (together referred to as the “Group” and individually as “Group Entities”).

The subsidiary; AvivaSA Sigorta ve Aracılığı A.Ş. has been approved in AvivaSA Hayat ve Emeklilik A.Ş. board of directors meeting dated December 13,2018 and the new subsidiary has officially registered on December 20,2018.

The address of the registered office of the subsidiary is as follows;

Küçükbakkalköy Mah. Kayışdağı Cad. Sevda Sokak No:1 (Seven Towers) Kat: 2 Daire: 2 Ataşehir/İstanbul

AvivaSA Sigorta ve Aracılığı A.Ş.acts as an agent for non-life insurance policies including health and pension contracts The Company also can deal with any other type of business on behalf of and in favour of the Group by the approval of General Assembly

The average personnel number of the Group is 1,334 employees for the period ended June 30, 2020 (1 January - December 31, 2019: 1,429).

The accompanying consolidated financial statements of the Group for the year ended June 30, 2020 were authorised for issue in accordance with a resolution of the directors on August 4, 2020.

As of June 30, 2020, there are 35 pension investment funds established by the Group (December 31, 2019: 35 pension funds). The pension investment funds established by the Group are as follows:

Name of Pension Fund	Date of Establishment
AvivaSA Emeklilik Ve Hayat A.Ş. Karma Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Agresif Değişken Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Dış Borçlanma Araçları Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Uzun Vadeli Borçlanma Araçları Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. İkinci Para Piyasası Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. İkinci Değişken Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Uzun Vadeli Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	08.11.2005
AvivaSA Emeklilik Ve Hayat A.Ş. Temettü Ödeyen Şirketler Hisse Senedi Emeklilik Yatırım Fonu	28.12.2006
AvivaSA Emeklilik Ve Hayat A.Ş. Birinci Para Piyasası Emeklilik Yatırım Fonu	20.08.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Borçlanma Araçları Emeklilik Yatırım Fonu	20.08.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Dinamik Değişken Emeklilik Yatırım Fonu	20.08.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Birinci Değişken Emeklilik Yatırım Fonu	20.08.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Hisse Senedi Emeklilik Yatırım Fonu	20.08.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Borçlanma Araçları Grup Emeklilik Yatırım Fonu	05.01.2005
AvivaSA Emeklilik Ve Hayat A.Ş. Muhafazakar Değişken Emeklilik Yatırım Fonu	05.01.2005
AvivaSA Emeklilik Ve Hayat A.Ş. Hisse Senedi Grup Emeklilik Yatırım Fonu	05.01.2005
AvivaSA Emeklilik Ve Hayat A.Ş. Karma Grup Emeklilik Yatırım Fonu	17.08.2010
AvivaSA Emeklilik Ve Hayat A.Ş. Dengeli Değişken Emeklilik Yatırım Fonu	20.12.2011
AvivaSA Emeklilik Ve Hayat A.Ş. Katkı Emeklilik Yatırım Fonu	02.05.2013
AvivaSA Emeklilik Ve Hayat A.Ş. Standart Emeklilik Yatırım Fonu	02.05.2013
AvivaSA Emeklilik Ve Hayat A.Ş. Altın Emeklilik Yatırım Fonu	20.06.2013
AvivaSA Emeklilik Ve Hayat A.Ş. B.R.I.C Ülkeleri Yabancı Değişken Emeklilik Yatırım Fonu	10.05.2013
AvivaSA Emeklilik Ve Hayat A.Ş. Özel Sektör Borçlanma Araçları Emeklilik Yatırım Fonu	25.10.2013
AvivaSA Emeklilik Ve Hayat A.Ş. Başlangıç Emeklilik Yatırım Fonu	12.01.2017
AvivaSA Emeklilik Ve Hayat A.Ş. Başlangıç Katılım Emeklilik Yatırım Fonu	12.01.2017
AvivaSA Emeklilik Ve Hayat A.Ş. Katılım Standart EYF	26.05.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dinamik Katılım Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Katılım Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Muhafazakar Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dengeli Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dinamik Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Katkı Emeklilik Yatırım Fonu	26.05.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Standart Emeklilik Yatırım Fonu	02.01.2018
AvivaSA Emeklilik ve Hayat A.Ş. OKS Katılım Standart Emeklilik Yatırım Fonu	02.01.2018

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

1. GENERAL INFORMATION (Continued)

1.2 Corporate Information (Continued)

As at June 30, 2020 and December 31, 2019 units and amounts of share certificates in circulation are as follows:

	June 30, 2020		December 31, 2019	
	Number of Share Certificates	Net Asset Value (TL)	Number of Share Certificates	Net Asset Value (TL)
Share certificates in circulation				
AvivaSA Emeklilik ve Hayat A.Ş.Karma Emeklilik Yatırım Fonu	857,820,106	58,868,763	919,780,373	61,893,861
AvivaSA Emeklilik ve Hayat A.Ş.Agresif Değişken Emeklilik Yatırım Fonu	1,160,491,739	81,930,717	1,224,191,665	83,885,285
AvivaSA Emeklilik ve Hayat A.Ş. Dış Borçlanma Araçları Emeklilik Yatırım Fonu	24,426,262,952	2,231,900,925	25,574,352,579	2,088,810,821
AvivaSA Emeklilik ve Hayat A.Ş..Uzun Vadeli Borçlanma Araçları Emeklilik Yatırım Fonu	2,394,549,570	178,504,092	2,570,204,158	178,092,016
AvivaSA Emeklilik ve Hayat A.Ş..İkinci Para Piyasası Emeklilik Yatırım Fonu	1,982,879,658	125,994,156	2,269,124,573	137,792,590
AvivaSA Emeklilik ve Hayat A.Ş..İkinci Değişken Emeklilik Yatırım Fonu	3,849,125,354	196,001,312	2,996,048,181	131,853,084
AvivaSA Emeklilik ve Hayat A.Ş..Uzun Vadeli Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	22,570,967,485	1,921,037,614	22,319,183,776	1,689,874,680
AvivaSA Emeklilik ve Hayat A.Ş.Temettü Ödeyen Şirketler Hisse Senedi Emeklilik Yatırım Fonu	1,596,096,509	67,830,909	1,545,678,790	61,496,376
AvivaSA Emeklilik ve Hayat A.Ş.Birinci Para Piyasası Emeklilik Yatırım Fonu	42,619,858,604	2,879,482,887	44,560,624,084	2,877,858,785
AvivaSA Emeklilik ve Hayat A.Ş..Borçlanma Araçları Emeklilik Yatırım Fonu	43,619,302,046	3,183,772,856	44,963,909,999	3,042,977,573
AvivaSA Emeklilik ve Hayat A.Ş..Dinamik Değişken Emeklilik Yatırım Fonu	29,809,790,756	2,259,701,378	31,197,177,070	2,257,864,493
AvivaSA Emeklilik ve Hayat A.Ş..Birinci Değişken Emeklilik Yatırım Fonu	18,091,906,024	1,132,734,236	18,890,575,604	1,089,476,167
AvivaSA Emeklilik ve Hayat A.Ş.Hisse Senedi Emeklilik Yatırım Fonu	16,263,477,985	1,322,480,976	14,276,379,004	1,137,113,588
AvivaSA Emeklilik ve Hayat A.Ş..Borçlanma Araçları Grup Emeklilik Yatırım Fonu	5,861,372,216	361,007,776	6,000,565,928	341,798,236
AvivaSA Emeklilik ve Hayat A.Ş..Muhafazakar Değişken Emeklilik Yatırım Fonu	2,468,088,715	163,306,026	2,671,654,722	167,186,809
AvivaSA Emeklilik ve Hayat A.Ş..Hisse Senedi Grup Emeklilik Yatırım Fonu	1,499,397,755	121,725,608	1,487,617,507	117,555,998
AvivaSA Emeklilik ve Hayat A.Ş.Karma Grup Emeklilik Yatırım Fonu	1,154,686,714	30,566,867	1,223,066,798	31,599,154
AvivaSA Emeklilik ve Hayat A.Ş..Dengeli Değişken Emeklilik Yatırım Fonu	337,616,143	8,032,901	298,504,533	6,733,964
AvivaSA Emeklilik ve Hayat A.Ş..Katılı Emeklilik Yatırım Fonu	178,577,224,722	3,398,860,318	171,874,805,093	3,031,184,063
AvivaSA Emeklilik ve Hayat A.Ş..Standart Emeklilik Yatırım Fonu	13,723,216,508	246,057,272	12,758,499,674	215,848,297
AvivaSA Emeklilik ve Hayat A.Ş..Altın Emeklilik Yatırım Fonu	131,236,513,294	5,538,574,571	109,028,024,914	3,389,790,323
AvivaSA Emeklilik ve Hayat A.Ş.B.R.I.C Ülkeleri Yabancı Değişken Emeklilik Yatırım Fonu	4,066,880,004	131,775,046	4,325,544,077	157,653,105
AvivaSA Emeklilik ve Hayat A.Ş.Özel Sektör Borçlanma Araçları Emeklilik Yatırım Fonu	2,779,851,563	62,782,948	2,180,121,926	46,868,261
AvivaSA Emeklilik ve Hayat A.Ş..Başlangıç Emeklilik Yatırım Fonu	4,635,945,108	76,590,449	5,474,213,980	86,186,025
AvivaSA Emeklilik ve Hayat A.Ş..Başlangıç Katılım Emeklilik Yatırım Fonu	3,796,822,876	59,617,713	4,407,819,172	66,231,891
AvivaSA Emeklilik ve Hayat A.Ş..OKS Dinamik Katılım Değişken EYF	331,878,670	5,607,754	231,060,160	3,384,338
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Katılım Değişken EYF	430,359,160	7,660,823	196,605,779	2,911,338
AvivaSA Emeklilik ve Hayat A.Ş..OKS Muhafazakar Değişken EYF	659,478,175	9,676,523	404,753,636	5,617,576
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dengeli Değişken EYF	549,415,025	7,794,002	363,266,002	4,865,585
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dinamik Değişken EYF	561,468,922	7,787,574	361,063,887	4,776,153
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Değişken EYF	698,829,819	9,033,074	424,502,584	5,314,348
AvivaSA Emeklilik ve Hayat A.Ş. OKS Standart Emeklilik Yatırım Fonu	34,041,084,233	474,294,427	30,041,107,993	394,349,625
AvivaSA Emeklilik ve Hayat A.Ş. OKS Katılım Standart Emeklilik Yatırım Fonu	16,793,244,878	250,471,247	14,557,251,183	201,268,555
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Katkı Emeklilik Yatırım Fonu	325,951,775	4,633,079	1,732,990	21,969
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Standart Emeklilik Yatırım Fonu	302,372	5,223	392,847	5,994
	613,772,157,435	26,616,102,042	581,619,405,241	23,120,140,926

	June 30, 2020		December 31, 2019	
	Number of Share Certificates	Net Asset Value (TL)	Number of Share Certificates	Net Asset Value (TL)
Participation certificates at the Group				
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Standart EYF	38,967,049	673,155	38,988,726	594,851
	38,967,049	673,155	38,988,726	594,851

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2.2 Basis of consolidation

The accompanying consolidated financial statements comprise of the consolidated financial statements of the parent company (“AvivaSA Emeklilik ve Hayat Anonim Şirketi”) and its subsidiary (“AvivaSA Sigorta Aracılığı A.Ş.”, wholly owned by the Company) prepared on the basis set out in sections below. The consolidated financial statements of the entities included in the consolidation have been prepared as at the date of these consolidated financial statements.

Subsidiary

Subsidiary is the entity controlled by the Group. The consolidated financial statements of the subsidiary is included in the consolidated financial statements from the date that control commences.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

2.3 Summary of significant accounting policies

Written premiums

Written premiums represent the policies on cancellations from prior years and premiums ceded to reinsurers and after tax deduction in addition to the policies written in the current year. Annual, long term and saving policies are accounted according to the accrual basis. For unit-linked life savings policies, premiums are recognized on a collection basis.

Premiums ceded to reinsurers

Premiums ceded to reinsurers consist of the premiums that are attributable to reinsurers in accordance with the provisions of the respective reinsurance contracts.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Net change in provision for unearned premium reserves

The portion of written premiums attributable to subsequent periods (gross of commission payable to intermediaries) is deferred as a provision for unearned premiums. The change in this provision is recognized as revenue in the statement of profit or loss over the period of risk.

Unit-linked life savings policies (except for a small amount of mortality deductions relating to the life savings business) and long-term life insurance policies are not subject to unearned premium reserves.

Net change in mathematical reserves

Life insurance mathematical reserves are calculated according to actuarial principles on a prudent basis in order to ensure liabilities are fully met for policies longer than one year. Mathematical reserves are calculated on a prospective basis as the difference between the present value of liabilities and future premiums to be paid by the policyholders. The change in this provision is recognized as revenue in the statement of profit or loss over the period of risk.

Income generated from pension business

Fees received from the pension business consist of (i) fund management fees, (ii) management fees from contributions, (iii) premium holiday charges, (iv) entry and deferred entry fees and (v) account management fees and deferred income reserves. Revenues arising from fund management and other related services offered by the Group are recognized in the accounting period during which the service is rendered.

Fund management fees, which are calculated with reference to assets under management, are attributable to the hardware, software, personnel and accounting services provided to pension funds. Management fees from contributions are attributable to the operational costs of the services rendered to customers by the Group and can be deducted from the participants' contributions. Premium holiday charges may be received when the participant does not pay his or her regular premium within three months of being due. Entry fees are fees received from the participant when he or she first enters the pension system and from any participants who have already entered into the system but create a new account in another pension company. Deferred entry fees may be charged to the participant and recorded as income in the event that he or she exits, merges or transfers accounts within the context of conditions defined in the contract as of the effective date of contract. Account management fees and deferred account management fees, which is effective with the BES 3.0 legislation, entered into force on January 1, 2016, and the reduction from contracts established in 2016. Effective from January 1, 2018 IAS 18 revenue recognition principle was replaced by IFRS 15 Revenue from contracts and it also requires the deferral of upfront fees over the life time of contracts. Management fees starting from 2016 are capped to 5 years according to new legislation, total of management fees are subject to deferral regarding IFRS 15. Also the entry fees recognized as revenue between the years 2013-2015 are deferred under IFRS 15. The Group applied 7 years for the average duration of the portfolio in line with the 7 years DAC amortization period estimate (31 December 2019: 8 years).

Pension fees are subject to limitations and caps in the form of maximum fees collectible from pension customers set out in the local regulation on pension system.

In the payment amounts and collection process were made regulation pursuant to “Amendment Regulation of Regulation on Individual Retirement System” came into force dated January 1, 2016. Deductions were able to receive from the accumulation of the participant with this regulation during five years within the scope of limits and rules.

For agreements which came into force dated before January 1, 2016, there will be no deduction from the agreements which filled 5 years as of the effective date even defined.

For the agreements which did not fill 5 years as of the effective date, if there is deduction over the annual limit, there will be no deduction until the anniversary, if there is deduction over 5 years limit, there is not any deduction as of this date. There can be entrance fee and administrative expense deduction in the first five years, exit without mandatory reasons, in case of leaving provided that defined to the product within the limits as of the effective date of agreement.

For the agreements which came into force dated after January 1, 2016; “Deferred Entrance Fee“ can be deducted from the saving of the participant in the first five years for the policies which exits without mandatory reasons provided that it is defined to the product within the limits of regulation and rules.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Investment and other income (expense), net

Net investment and other income (expense) comprises interest income, net profit and loss on realization, dividend income, other income and expenses and investment management expenses.

Interest income is recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Interest income presented in the statement of comprehensive income includes:

- interest on financial assets at amortized cost on an effective interest rate basis,
- interest on available-for-sale financial assets on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

Net profit and loss on realization includes gains and losses arising from disposals of financial assets at fair value through profit or loss and available-for-sale financial assets.

Commission income and commission expenses

The Group receives commission income from reinsurance companies in respect of the ceded premiums in its life protection, personal accident and life savings business segments. Commission income is recognized on an accrual basis.

Commission expenses include third-party commissions paid in respect of the distribution of the Group’s life protection, life savings and personal accident business products through external channels including banks, agencies and brokers, and change in deferred acquisition costs. It does not include any distribution commissions for pension products, which are recorded separately under pension expenses including commissions. Commission expenses are recognized on an accrual basis.

Claims paid and change in outstanding claims provisions

Claims are recognized in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events, which have occurred up to the end of the accounting period. Full provision is accounted for outstanding claims, including claim settlements reported at the period-end. Incurred but not reported claims are also provided for under the provision for outstanding claims, presented in insurance contract liabilities.

Pension expenses including commission

Pension business expenses primarily consist of (i) pension business commissions paid to third parties, (ii) fund management charges paid to asset management companies, (iii) service charges of the Pension Monitoring Center (EGM), Takasbank and the custodian bank of pension funds and (iv) other pension business-related expenses.

Commissions paid to banks and agencies for distribution of the Group’s pension products are recognized (net of deferred acquisition cost) under pension expenses. As required under Turkish pension regulations, the Group’s pension funds are managed by third party asset manager(s) who receive asset management fees according to the terms specified in the agreement signed between the parties and such management fees are recorded under pension expenses.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Cash and cash equivalents

In terms of presentation of cash flow statement, cash and cash equivalents comprise cash at hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less, which are readily convertible to cash and are subject to an insignificant risk of changes in value.

Property and equipment

The costs of the property and equipment purchased before January 1, 2006 are restated for the effects of inflation in TL unit current at December 31, 2005 pursuant to IAS 29. The property and equipment purchased subsequent to this date are recorded at their historical cost. Accordingly, property and equipment are carried at cost, less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

Furniture and fixtures	2-15 years
Machinery and equipment	4 years
Other tangible assets	4-5 years
Leasehold improvements	5 years or term of rent contract

Where the carrying amount of an asset is greater than its estimated recoverable amount (higher of net selling price and value in use), it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Right of use assets and lease liabilities

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the lease term on a straight line basis.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar economic environment with similar terms and conditions. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities as of 30 June 2020 is 25% for local currency liabilities and 7% for foreign currency lease liabilities.

Intangible assets

Intangible assets mainly comprise computer software and internally generated software. They are recorded at acquisition cost and amortized on a straight-line basis over their estimated useful lives as three to five years from the acquisition date. Where an indication of impairment exists, the carrying amount of intangible assets is assessed and written down immediately to its recoverable amount.

Construction in progress refers to the Group’s software development projects to unify the basic insurance applications used within the structure of the Group and to use such applications by integration to all the surrounding systems. Personnel expenses and cost of the outsourced services associated directly with the development of the application are capitalised as incurred.

Financial instruments

Recognition

The Group initially recognizes loans and advances on the date which they are originated. Regular way of purchase and sales of financial assets are recognized on the trade date which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to contractual provisions of the instrument.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Classification

The Group classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this at every reporting date.

Financial assets at fair value through profit or loss: Financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, or if it forms part of a portfolio of financial assets in which there is evidence of short term profit making.

Available-for-sale financial assets: Available-for-sale ("AFS") financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale. Assets backing long term insurance contracts are classified as available-for-sale financial assets in the accompanying consolidated financial statements.

Financial investments with risks on policyholders classified as available for sale: Financial investments with risks on policyholders classified as available for sale consist of public securities, foreign currency Eurobonds and time deposits.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale. They arise when the Group provides money, goods and services directly to a debtor with no intention of trading the receivable.

Financial liability: Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Measurement

A financial asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair values, except that any equity instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost.

Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in the statement of comprehensive income in the period in which they arise. Unrealized gains and losses arising from changes in the fair values of available-for-sale financial assets are recognized in equity as "Fair value reserves from available-for-sale financial assets". When available-for-sale financial assets are sold or impaired, the accumulated fair value reserves under equity are transferred to the statement of comprehensive income as net realized gains/losses on financial assets.

All non-trading financial liabilities, loans and receivables are measured at amortized cost less impairment losses, if any. Amortized cost is calculated on the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the financial instruments.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Derecognition

A financial asset is derecognized when the control over the contractual rights that comprise that asset, is lost. This occurs when the rights are realized, expire or are surrendered. The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Available-for-sale financial assets and financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as at the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Offsetting

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

Impairment of financial assets

Premium and other insurance receivables

In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of premiums, other insurance receivables and individual premiums. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (a) significant financial difficulty of the agency or debtor;
- (b) the Group granting to the agency, for economic or legal reasons relating to the agency's financial difficulty, a concession that the lender would not otherwise consider;
- (c) it is probable that the agency will declare bankruptcy or enter into other financial reorganization;
- (d) the disappearance of an active market for the related financial asset because of financial difficulties; or
- (e) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - (i) adverse changes in the payment status of agencies; or
 - (ii) national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that there occurs an impairment loss on receivables, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in profit or loss.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its cost at the reversal date.

A write off is made when all or part of a premium receivable is deemed uncollectible or in the case of debt forgiveness. Such premium receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the amount of the insurance receivable. Subsequent recoveries of amounts previously written off are included in statement of profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial assets

If an available-for-sale investment security is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Reinsurance assets

If the reinsurance asset is impaired, the Group reduces its carrying amount accordingly and recognizes that impairment loss in the statement of profit or loss. A reinsurance asset is impaired if, and only if:

- (a) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts and
- (b) that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks. All premiums written within the coverage of insurance contracts are recognized as revenue under “written premiums” account.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

Insurance contracts

Insurance contracts are contracts that provide protection to the insured against adverse economic consequences of an event of loss as covered under the terms and conditions stipulated in the insurance policy according to IFRS 4.

Financial Guarantee Contract is a contract which requires that the issuer make specific payments to reimburse the holder for the loss incurred by the debtor when a specific breach of its obligation to pay, in accordance with the conditions, original or amended, of a debt instrument.

According to IFRS 4, financial risk is the risk posed by a possible future change in one or more of the following variables: an interest rate specified the price of a financial instrument, the price of a commodity trading, an exchange rate, a price index or interest, a credit rating or an index or other variable. If this is a nonfinancial variable, it is necessary that the variable is not specific to one of the parties to the contract.

According to this, insurance contracts include changes in market prices, as well as insurance risk.

Some policies (Saving Life Policies) of the Group include financial return in addition to insurance risk and carry financial risk, accordingly. However these contracts are defined as insurance contracts also and accounted in this context. Because there are no contracts with a stand-alone financial risk in the Group’s portfolio and contracts carry significant insurance risk, mentioned policies are within the context of insurance contracts.

All policies in the Group portfolio are treated as insurance contracts.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Liability adequacy test

At each reporting date, an assessment is made of whether the recognized long-term business provisions are adequate, using current estimates of future cash flows. A liability adequacy test is required to ensure that losses do not remain unrecognised.

- a) the test considers current estimates of all contractual cash flows, and of related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees; and
- b) if the best test shows that the liability is inadequate, the entire deficiency is recognised in profit or loss.

Deferred acquisition costs (DAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Incremental direct costs which are essential to the contract transaction are subject to deferral. During the deferral of salaries, benefits and other costs, two criteria are evaluated and should be met; must : have a direct role in acquisition activities and must be an essential activity resulting in the contract being issued. The Group management has identified that when the following criterias are met, expenses are subjected to deferral:

- Stand-alone direct sales force sales teams and sales managers’ commissions
- Bancassurance coaches’ and sales managers’ commissions
- Corporate sales teams commissions
- Third party, Akbank T.A.Ş. and agency commissions

Subsequent to initial recognition, DAC for life insurance are amortised over the expected life of the contracts as a constant percentage of expected premiums. DAC for personal accident insurance products are amortised over the period in which the related revenues are earned. The reinsurers’ share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in profit or loss.

Deferral periods can be the average life-time of the contracts (which are longer than the lapse assumptions). The Group management has determined the life time period as seven years for pension contracts and as as nine years for ROP products. The amount of DAC is subject to Liability Adequacy Test each year. The Group has applied straight line method for the amortisation of DAC.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to profit or loss as recognition of revenue over the period of risk.

Unearned premium reserve is calculated on a daily basis for all policies in force as of statement of financial position date for unearned portions of premiums written. During the calculation of unearned portion of premiums written on a daily basis, it is supposed that the policies start at 12:00 noon and end at 12:00 noon again. Unearned premium reserve and the reinsurers’ share of the unearned premium reserve for policies, are calculated and recorded as the deferred portion of the accrued premiums related to the policies in force and ceded premiums to reinsurers without deducting commissions or any other deduction, on a daily and gross basis.

Provision for outstanding claims/IBNR

Outstanding claims reserve represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported (“IBNR”) is also established as described below.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Provision for outstanding claims/IBNR (Continued)

Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on each claim file basis.

Mathematical reserves

Actuarial mathematical reserves are the difference between the premiums received for the risk undertaken by the companies and the cash values of the liabilities to the policyholders and beneficiaries. Actuarial mathematical reserves are calculated according to the formulas and principles specified in the technical principles of the tariffs for life insurance for more than one year and As of June 30, 2020, the company performs mathematical calculations based on Treasury approved tariffs. Actuarial mathematical reserves are calculated as the difference between the cash value of the insurer's future obligations and the present value of the premiums to be paid by the insurer in the future (prospective method).

Insurance companies operating in life branch allocate mathematical reserves, adequately according to actuarial principles, for long-term life policies in order to meet its obligations to beneficiaries and policyholders.

Mathematical reserves consist of actuarial mathematical reserves and profit share reserves, share of policyholders, determined from the income generated from mathematical reserves directed towards investment, that are calculated separately for each effective policy, in accordance with the technical principles in the tariffs.

Actuarial mathematical reserves are the difference between the premiums received for the risks assumed and cash value of liabilities to policyholders and beneficiaries. Actuarial mathematical reserves are provided for life insurance having more than one year of maturity, based on the formulas and elements of technical principles. Mathematical reserves are calculated on a prospective basis as the difference between the present value of liabilities and future premiums to be paid by the policyholders.

Profit share reserves consist of the income obtained from assets in relation to reserves provided for the obligations for the policyholders and beneficiaries in contracts for which the Group has committed to distribute profit shares; the guaranteed portion, not to exceed the technical interest income calculated based on the profit share distribution system prescribed in the approved technical principles of profit share and prior years' accumulated profit share reserves.

Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more life insurance contracts issued by the Group, and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Reinsurance liabilities are primarily reinsurance premiums payable to reinsurance contracts and are recognized as an expense when due.

Reinsurance cessions of the Group are made on risk premium basis with regard to death benefit and supplementary benefits. For group and individual life reinsurance surplus agreements, cessions are made to the treaty reinsurers according to shares of the surplus amounts in excess of the Group retention limits which are approved by the Turkish Treasury.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Pension business

The Group provides group and individual plans to customers.

The Group offers 35 pension investment funds (2019: 35). These pension funds are in different risk profiles according to the portfolio composition of the funds. The participants choose from among different pension funds within legal limitations and determine allocation rates for contributions and additional contributions according to the contract provisions. The participants gain right for retirement provided that they remain in the pension system for at least 10 years, pay contributions for at least 10 years and attain 56 years of age.

Pension business receivables consist of ‘receivable from pension investment funds for fund management fees’, ‘entry fee receivable from participants’ and ‘receivables from clearing house on behalf of the participants’. ‘Receivable from pension investment funds for fund management fees’ are the fees charged to the pension funds against for the administration of related pension funds which consist of fees which are not collected in the same day.

Pension business payables include participants’ temporary accounts, and payables to pension agencies. Pension business payables consist of payables to intermediaries in pension business, payables to custodians and payables to the Pension Monitoring Centre. The temporary accounts of participants consist of funds of participant which are yet not directed to investments and of payables due to sale of investments net of any entry fee payables by the participants and other deductions of participants who will either leave the pension business or who will transfer their funds to another insurance company. In case where collections from participants are performed or where cash is transferred to the Group subsequent to the sale of investments of the participants, the pension business payable account is credited. When the funds of participants are directed to investments or where the participants’ funds are transferred to another insurance company the account is debited.

Income on/Expense from Pension Operations

Details of income and expenses from pension operations are explained in detail in “e) Income generated from pension business” and “i) Pension expenses including commission above”.

Employee benefits

Provision for Termination Benefit Obligations

Provision for Termination Benefit Obligations represents the present value of the estimated future probable obligation of the Group arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the consolidated financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The maximum amount of TL 6,730 effective as of June 30, 2020 (December 31, 2019: TL 6,380) has been taken into consideration during calculation of provision from employment termination benefits.

IAS 19 - *Employee benefits* requires actuarial valuation methods to be developed to estimate the Group’s obligation for termination benefits. The principal statistical assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at June 30, 2020 and December 31, 2019 is as follows:

	June 30, 2020 %	December 31, 2019 %
Expected rate of salary/limit increase	7.77	8.67
Discount rate	12.80	13.60

Other benefits to employees

The Group has provided for undiscounted short-term employee benefits earned during the period as per services rendered in compliance with IAS 19 in the accompanying consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Provisions

A provision is recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Taxes on income

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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 Group intends to settle its current tax assets and liabilities on a net basis.

Since the tax rate effective from January 1, 2018 has been changed to 22% as valid for 3 years , in the calculation of deferred tax as of June 30, 2020, 22% tax rate is used for temporary differences expected to be realized within 3 years. Since the corporate tax rate will be 20% after 2020, for valid differences expected to be realized / closed after 2020, 20% tax rate is used.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Related parties

Parties are considered related to the Group if;

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

The Group management, groups associated to Sabancı Holding and Aviva are defined as related parties.

Foreign currency transactions

Transactions are recorded in TL, which represents the Group's functional currency. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Foreign currency denominated monetary assets and liabilities are converted into TL at the exchange rates ruling at the reporting date with the resulting exchange differences recognized in profit or loss as foreign exchange gains or losses.

Foreign currency assets and liabilities are converted by using period end exchange rates of Central Bank of the Republic of Turkey's bid rates.

The Central Bank of the Republic of Turkey exchange rates used in the conversion is as follows:

	June 30, 2020		December 31, 2019	
	USD / TL	Euro / TL	USD / TL	Euro / TL
Bid Rates	6.8422	7.7082	5.9402	6.6506
Ask Rates	6.8648	7.7337	5.9598	6.6725

Segment reporting

Reporting segments are determined to conform to the reporting made to the Group's chief operating decision maker. The chief operating decision maker is responsible for making decisions about resources to be allocated to the segment and assess its performance. Details related to the segment reporting are disclosed in the Note 3.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.4 Changes in accounting policy and disclosures

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance. If the presentation or classification of the consolidated financial statements is changed, consolidated financial statements of the prior periods are also reclassified in order to maintain consistency with the current year’s presentation in line with the related changes.

a) Standards, amendments and interpretations applicable as at 30 June 2020:

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, ‘Presentation of financial statements’, and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs:
 - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
 - ii) clarify the explanation of the definition of material; and
 - iii) incorporate some of the guidance in IAS 1 about immaterial information.
- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- **Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform;** effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.
- **Amendment to IFRS 16, ‘Leases’ – Covid-19 related rent concessions;** effective from Annual periods beginning on or after 1 June 2020. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

b) Standards, amendments and interpretations that are issued but not effective as at 30 June 2020:

- **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2023. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.4 Changes in accounting policy and disclosures (Continued)

b) Standards, amendments and interpretations that are issued but not effective as at 30 June 2020:

- **Amendments to IAS 1, Presentation of financial statements’ on classification of liabilities;** effective from 1 January 2022. These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability.
- **A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;** effective from Annual periods beginning on or after 1 January 2022.
 - o **Amendments to IFRS 3,** ‘Business combinations’ update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. .
 - o **Amendments to IAS 16,** ‘Property, plant and equipment’ prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
 - o **Amendments to IAS 37,** ‘Provisions, contingent liabilities and contingent assets’ specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 1, ‘First-time Adoption of IFRS’, IFRS 9, ‘Financial instruments’, IAS 41, ‘Agriculture’ and the Illustrative Examples accompanying IFRS 16, ‘Leases’.

2.5 Critical accounting estimates and judgments in applying accounting policies

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Deferred acquisition costs (DAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Deferral periods can be the average life-time of the contracts (which are longer than the lapse assumptions). The Group management reviews the historical lapse development for pension and ROP contracts each period. As of June 30, 2020, the estimated life time of the pension and ROP contracts is defined as seven years and nine years respectively. The amount of DAC is subject to Liability Adequacy Test each year. The Group has applied straight line method for the amortisation of DAC in the average-life time of the contacts.

Deferred income reserve (DIR)

IFRS 15 Revenue from Contracts with Customers requires the recognition of revenue over the life time of contracts. The Group believes that first year of fees should be recognized as entry fee. The management fees after the first year could be classified as investment management fees and recognized as revenue in accordance with the duration while the services are provided. The Group applied seven years of amortisation in line with DAC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.5 Critical accounting estimates and judgments in applying accounting policies (Continued)

Ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is executed depending on different assumptions. Mortality tables (CSO 1953-58, CSO 80 (Male-Female) approved by the Turkish Treasury are used to estimate the ultimate liability arising from life insurance policies. For estimating the risk of critical illness, the Critical Illness Rating Tables which are recommended by leader treaty reinsurer are used.

Estimate of future benefit payments and premiums arising from long-term insurance contracts

For estimation of future benefit and premium payments, four parameters have significant impacts:

- i) The lapse and surrender rates: These estimated rates are derived from past experience. In its estimation, the Group also takes into consideration the economic crisis or positive economic developments that will affect the rates either in a positive or a negative way.
- ii) Number of deaths: While estimating number of deaths in a year, the historical mortality experiences are used.
- iii) Future investment income: This estimate is based on current market returns as well as expectations about future economic and financial developments.
- iv) Average premium per insured: The assumption is based on historical trends in average premium amounts per insured and economical expectations that may affect the average premium amount.

Employee termination benefits

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In calculating the related liability to be recorded in the consolidated financial statements for these termination benefits, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 2.2 and Note 18 are reviewed regularly.

Doubtful receivables provisions

Doubtful receivables provisions are related to the total amount of receivables assessed by the Group’s management, to cover the future potential losses arising from the non-collectability of the receivables as of the balance sheet date, upon the current state of the economy. The total amount of the provision is determined according to the valuation results, performances, market credibility, collection performances following balance sheet date, and the restructuring on the receivables. The doubtful receivables provision as of the balance sheet date is disclosed in Note 8.

Provision for litigations

In determining the provision for litigations, the Management considers the probability of legal cases to be brought against the Group and in case it is brought against the Group considers its consequences based on the assessments of legal advisor. The Group management makes its best estimates using the available data provided (Note 16).

2.6 Covid-19

General Explanation;

Regarding to Coronavirus (Covid-19) pandemic, AvivaSA has taken the necessary actions for the safety of its employees, customers and the society. AvivaSA is evaluating the current news related to pandemic, and sharing all the decisions with its employees and customers as soon as possible.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

2. ACCOUNTING POLICIES (Continued)

2.6 Covid-19 (Continued)

General Explanation (Continued);

As of March 16, 2020, AvivaSA is carrying out its business processes with remote working model. The office is under strict health and safety measures, with the utmost care to maintain social distance, for those who are required to be there as per their duties. The face-to-face customer meetings held by the sales teams are suspended, AvivaSA Mobile application, AvivaSA Individual and Corporate internet branches, social media accounts and Customer Support Center continue to provide services in line with the Business Continuity Plan in order to implement customers’ transactions and requests regarding to their contracts and policies.

In line with the normalization processes, sales teams started face-to-face customer meetings on a voluntary basis in a controlled manner as of 15 June 2020, without going to the sales offices in line with the precautions and directions taken by the company. In addition, the Company has completed infrastructure preparations for remote sales, to be commissioned in July 2020 to support new business production.

The Group acts cautiously about the return plan of the Headquarters teams and takes all necessary precautions. As of July 13, the company has created a 6-week work plan to gradually work in the office, but it has not allowed the employees to go to the office, giving them the flexibility to continue with the remote work model.

Covid-19 Legal Regulations,

As per the new laws and amendments about “Reducing the Effects of 7244 New Coronavirus (Covid-19) Epidemic on Economic and Social Life” that are published in the Official Gazette on 17.04.2020,

- *Dividends payments are aloud up to twenty-five percent of the net profit for the year of 2019, until the date of 30.9.2020. If the the dividend payment decisions are already made, but not executed yet, or if partial payments are made, the exceeding amount of twenty-five percent of the net profit will be postponed until the end of the specified period.*

As per the dividends payment proposal of the Board of Directors in the General Assembly Meeting held on 11 March 2020, 25,245,658.45 TL Prime Capital Reserves (1st and 2nd Series of Capital Reserves) and 23,891,596.55 TL Excess Reserves are seperated from the net profit of 209,137,255 TL and the amount of 160.000.000 TL gross dividends payment is planned be made in cash within two instalments ; first one as gross amount of 100,000,000 TL on March 25th, 2020 and the second one as the gross amount of 60,000,000 TL on September 28th, 2020. In accordance with the decision, first instalment is made in 25th and 27th of March 2020, and as of 31st of March 2020, the second instalment is reseved under the item of Recievables From Shareholders in the financial statement.

The Company has paid the 50.25% of the 2019 gross profit to its investors in 25th and 27th of March 2020 and it is not possible to retrieve this amount from partners. However, second instalment will be evaluated within the scope of the new laws and amendments about “Reducing the Effects of 7244 NewCoronavirus (Covid-19) Epidemic on Economic and Social Life”

- *The force majeure short-term work payment applications will be executed in accordance with the employers' declaration without waiting for the completion of the conformity assesment.*
- *All kinds of employment or service contracts cannot be terminated by the employer for the next three months, except for the situations that do not comply with the rules of ethics and goodwill or similar reasons. Considering only three months of period, employers may obligate the employees for full or partial unpaid vacation leave*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

2. ACCOUNTING POLICIES (Continued)

2.6 Covid-19 (Continued)

Covid-19 Legal Regulations,(Continued)

The group has paused the face-to-face customer meetings held by its sales teams as of 16 March. In line with this practice, the company made applications for individual short-time work allowance for April, May and June under the relevant law article for sales staff, and sales teams benefited from short-time work allowance in April-May-June. In April, the necessary applications for cash wage support were made for employees who could not benefit from the short-time working allowance, valid from May, and in April, employees who could not benefit from the short-time working allowance were granted an annual leave for unemployed periods.

Presidential Decision dated 29/6/2020 and numbered 2706 in the Official Gazette dated 30 June 2020

Within the framework of the principles stated in the additional article 2 of the Unemployment Insurance Law dated 25/8/1999 and numbered 4447 and the temporary article 23, the duration of the short-time working allowance for workplaces that applied for short-term work until 30/6/2020 (including this date) for compelling reasons within the context of periodic situations due to external influences due to the new coronavirus (Covid-19); without the need for a new application and eligibility assessment, for the same workers who have previously benefited from short work and provided that they do not exceed the same conditions, as of 1/7/2020 in terms of workplaces whose short work application has ended before the publication date of this decision, in terms of workplaces whose short-term practice continued on the date of publication of this decision, one month has been extended starting from the short-term end date

The Group made the necessary applications for its sales staff in accordance with the related decision numbered 2706 published in the official newspaper on 30 June 2020.

In line with the normalization processes, sales teams are controlled on a voluntary basis. As of 15 June 2020, in line with the precautions and directions taken by the group, it has started face to face customer meetings without going to the sales offices.

Significant changes in the Group, Tariff changes, strategy changes

Industry announcement of T. C. Ministry of Treasury and Finance General Directorate of Insurance 36908670-010.07.02-E-221551 dated 25.03.2020 on the measures taken for the covid-19 outbreak and facilitating the payment of insurance premiums, one month additional period has been granted for policy cancellations. Within the scope of this announcement, the Group postponed the cancellation that should be made at the end of April, May and June to the policies that could not pay the following due date until the end of July.

The Group started Customer information on policy collections as of July 1, in line with the new normalization process decisions made by the Presidency dated June 10, 2020. The cancellations of the policies, which are not collected, will be realized as of the end of July.

The Group made advance incentive commission payments in order to minimize the potential negative effects of COVID-19 outbreak on commercial activities carried out under the agency agreement. The portion of the advance paid Temporary Incentive Commission amount that corresponds to monthly production is accepted as a “partial progress payment” and reflected in the profit and loss statement.

Corporation tax

With the Tax Procedure Law Circular No. 127, published by the Revenue Administration on April 17, 2020; The period of issuance of the Corporate Tax returns for the 2019 accounting period, which must be submitted by the end of April 30, 2020, and the payment periods of the taxes accrued on these statements have been extended until the end of Monday, June 1, 2020.

3. SEGMENT INFORMATION

Information related to the operational reporting made by the Group to the chief operating decision-maker in accordance with the “IFRS 8 - Operating Segments” is disclosed in this note. The Group manages its business through the following business segments:

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

3. SEGMENT INFORMATION (Continued)

Life Protection

The Group’s life insurance business is principally related to life protection insurance, including credit-linked life and non-credit-linked life policies, such as term life, return of premium, critical illness and unemployment.

- Credit-linked life insurance policies represent the largest group of products historically offered by the Group, both in terms of the number of valid insurance policies and by share of the gross written premiums in the total gross written premiums earned by the Group. The Group offers both long-term and short-term credit-linked life insurance. Long-term credit-linked life insurance includes insurance policies relating to mortgages or consumer loans for terms greater than one year. Short-term credit-linked life insurance includes yearly renewable insurance policies relating to consumer loans with accidental disability and optional unemployment covers check credit life and SME credit life.
- Non-credit-linked (term) life insurance policies provide life protection insurance for a certain period of time. The insurance covers the insuree’s life. In the event of death, the beneficiary receives the amount insured. Individual protection insurance may be entered into only with regular premium installments in amounts pre-determined for the entire contract period. The Group offers customizable life insurance riders including involuntary unemployment, critical illness, accidental death, and disability due to accident or sickness in its non-credit-linked product portfolio.

Life Savings

Life savings products are generally written for a contract period, during which the insured makes regular premium payments into a unit, in return for a unit-price guaranteed.

Personal Accident

Personal accident policies provide coverage against disability, death and medical expenses due to accident. The insurance covers the insuree’s life. In the event of a defined accident, the beneficiary receives the amount insured. Individual protection insurance may be entered into with a single premium or with regular premium installments in amounts pre-determined for the entire contract period.

Pension

The Group offers a number of individual and corporate pension plans within the framework of the private pension system in Turkey.

The segment information below is presented on the basis used by the chief operating decision-maker to evaluate performance. Premium production and technical profit are considered while determining operating segments. Technical profit is the profit that the Group derives from providing insurance coverage, exclusive of the income it derives from investments. The chief operating decision-maker reviews discrete financial information for each of its segments, including measures of operating results. The segments are managed primarily on the basis of their results, which are measured on a basis which is broadly consistent with the Summary of Significant Accounting Policies described in Note 2, with the exception of certain adjustments. Management considers that this information provides the most appropriate way of reviewing the performance of the business.

Since the Group operates principally in Turkey, geographic segment information is not presented.

Commission expenses: Represents commission expenses included in general and administrative expenses in the statement of profit or loss under IFRS which are attributable to life protection, life savings, pension and personal accident segments.

Net change in mathematical reserves: Net change in mathematical reserves are a component of net premiums earned as per the Group’s segment reporting; whereas this is presented as part of total income after net premiums earned in the statement of profit or loss under IFRS.

Other: Adjustments included in other represent individually insignificant reclassifications.

Transactions between the business segments are on normal commercial terms and conditions.

Below are the reconciliations of the statement of profit or loss:

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

3. SEGMENT INFORMATION (Continued)

January 1 - June 30, 2020	Life Insurance					Reconciliation to statement of profit and loss			
	Pension	Life protection	Life savings	Personal accident	Total	Commissions expenses	Other	Net change in mathematical reserves	Statement of profit or loss
Gross written premiums		615,091,369	4,396,533	37,685,837	657,173,739	-	-	-	657,173,739
Premium ceded to reinsurers		(7,335,003)	(262,621)	(2,163,183)	(9,760,807)	-	-	-	(9,760,807)
Premium written net of reinsurance	-	607,756,366	4,133,912	35,522,654	647,412,932	-	-	-	647,412,932
Net change in mathematical reserves	-	(289,133,849)	24,293,100	-	(264,840,749)	-	-	264,840,749	-
Net change in provision for unearned premiums reserves	-	4,937,227	(10,299)	1,732,838	6,659,766	-	-	-	6,659,766
Net premiums earned	-	323,559,744	28,416,713	37,255,492	389,231,949	-	-	264,840,749	654,072,698
Net change in mathematical reserves	-	-	-	-	-	-	-	(264,840,749)	(264,840,749)
Claim paid and change in outstanding claims	-	(83,478,835)	(26,698,732)	(1,798,042)	(111,975,609)	-	-	-	(111,975,609)
Commission income	-	4,058,704	238,499	1,247,236	5,544,439	-	-	-	5,544,439
Commission expense	-	(88,592,262)	-	(19,314,914)	(107,907,176)	1,536,294	-	-	(106,370,882)
Commission expense	-	(103,299,226)	-	(19,314,914)	(122,614,140)	1,536,294	-	-	(121,077,846)
DAC	-	14,706,964	-	-	14,706,964	-	-	-	14,706,964
Other income / (expense), net	-	22,235,638	-	(293,629)	21,942,009	-	196,857	-	22,138,866
Life and personal accident technical profit	-	177,782,989	1,956,480	17,096,143	196,835,612	-	-	-	-
Fund management charge	156,504,006	-	-	-	156,504,006	-	-	-	156,504,006
Management fee	1,589,424	-	-	-	1,589,424	-	-	-	1,589,424
Account management fee, net of DIR	45,311,160	-	-	-	45,311,160	-	-	-	45,311,160
Account management fee	41,303,042	-	-	-	41,303,042	-	-	-	41,303,042
DIR	4,008,118	-	-	-	4,008,118	-	-	-	4,008,118
Premium holiday charges	360,621	-	-	-	360,621	-	-	-	360,621
Deferred fee	12,780,218	-	-	-	12,780,218	-	-	-	12,780,218
Pension income	216,545,429	-	-	-	216,545,429	-	-	-	216,545,429
Fund management charge	(18,283,966)	-	-	-	(18,283,966)	-	-	-	(18,283,966)
Commission expense, net of DAC	(57,927,844)	-	-	-	(57,927,844)	2,860,159	-	-	(55,067,685)
Commission expense	(47,851,725)	-	-	-	(47,851,725)	2,860,159	-	-	(44,991,566)
DAC	(10,076,119)	-	-	-	(10,076,119)	-	-	-	(10,076,119)
Other income / (expense), net	(10,219,378)	-	-	-	(10,219,378)	-	-	-	(10,219,378)
Pension expenses including commission	(86,431,188)	-	-	-	(86,431,188)	2,860,159	-	-	(83,571,029)
Pension technical profit	130,114,241	-	-	-	130,114,241	-	-	-	-
Total technical profit	130,114,241	177,782,986	1,956,480	17,096,146	326,949,853	-	-	-	-
General and administrative expenses					(198,953,701)				
Net technical profit after overhead expenses	130,114,241	177,782,986	1,956,480	17,096,146	127,996,152	-	-	-	-
Foreign exchange gain/(loss), net					10,114,049				
Investment and other income/(expense), net					31,213,512				
Net financial income					41,327,561				
Profit before taxes					169,323,713				
Income tax expense					(38,315,527)				
Profit for the period					131,008,186				

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

3. SEGMENT INFORMATION (Continued)

(Restated (Note 1.1)) January 1 - June 30, 2019	Life Insurance					Reconciliation to statement of profit or loss			Statement of profit or loss
	Pension	Life protection	Life savings	Personal accident	Total	Commissions expenses	Other expenses	Net change in mathematical reserves	
Gross written premiums	-	321,595,099	4,524,403	42,590,685	368,710,187	-	-	-	368,710,187
Premium ceded to reinsurers	-	(10,071,949)	(150,488)	(2,659,415)	(12,881,852)	-	-	-	(12,881,852)
Premium written net of reinsurance	-	311,523,150	4,373,915	39,931,270	355,828,335	-	-	-	355,828,335
Net change in mathematical reserves	-	(134,475,492)	22,731,298	-	(111,744,194)	-	-	111,744,194	-
Net change in provision for unearned premiums reserves	-	(8,806,354)	6,404	(3,290,283)	(12,090,233)	-	-	-	(12,090,233)
Net premiums earned	-	168,241,304	27,111,617	36,640,987	231,993,908	-	-	111,744,194	343,738,102
Net change in mathematical reserves	-	-	-	-	-	-	-	(111,744,194)	(111,744,194)
Claim paid and change in outstanding claims	-	(20,747,444)	(24,563,497)	(1,965,304)	(47,276,245)	-	-	-	(47,276,245)
Commission income	-	4,484,815	235,962	622,459	5,343,236	-	-	-	5,343,236
Commission expense	-	(46,356,211)	(898)	(12,127,821)	(58,484,930)	501,990	-	-	(57,982,940)
<i>Commission expense</i>	-	(59,653,124)	(898)	(12,127,821)	(71,781,843)	501,990	-	-	(71,279,853)
<i>DAC</i>	-	13,296,913	-	-	13,296,913	-	-	-	13,296,913
Other income / (expense), net	-	(1,155,542)	-	(411,048)	(1,566,590)	-	431,863	-	(1,134,727)
Life and personal accident technical profit	-	104,466,922	2,783,184	22,759,273	130,009,379	-	-	-	-
Fund management charge	118,327,260	-	-	-	118,327,260	-	-	-	118,327,260
Management fee	3,783,043	-	-	-	3,783,043	-	-	-	3,783,043
<i>Account management fee, net of DIR</i>	37,883,260	-	-	-	37,883,260	-	-	-	37,883,260
<i>Account management fee</i>	40,859,032	-	-	-	40,859,032	-	-	-	40,859,032
<i>DIR</i>	(2,975,772)	-	-	-	(2,975,772)	-	-	-	(2,975,772)
Premium holiday charge	-	-	-	-	-	-	-	-	-
Deferred fee	20,024,614	-	-	-	20,024,614	-	-	-	20,024,614
Entry and deferred entry fees income	963,690	-	-	-	963,690	-	-	-	963,690
Pension income	180,981,867	-	-	-	180,981,867	-	-	-	180,981,867
Fund management charge	(12,101,084)	-	-	-	(12,101,084)	-	-	-	(12,101,084)
Commission expense, net of DAC	(37,543,875)	-	-	-	(37,543,875)	235,956	-	-	(37,307,919)
<i>Commission expense</i>	(31,746,309)	-	-	-	(31,746,309)	235,956	-	-	(31,510,353)
<i>DAC</i>	(5,797,566)	-	-	-	(5,797,566)	-	-	-	(5,797,566)
Other income/(expense), net	(8,954,070)	-	-	-	(8,954,070)	-	-	-	(8,954,070)
Pension expenses including commission	(58,599,029)	-	-	-	(58,599,029)	235,956	-	-	(58,363,073)
Pension technical profit	122,382,838	-	-	-	122,382,838	-	-	-	-
Total technical profit	122,382,838	104,466,922	2,783,184	22,759,273	252,392,217	-	-	-	-
General and administrative expenses	-	-	-	-	(171,752,818)	-	-	-	(171,752,818)
Net technical profit after overhead expenses	122,382,838	104,466,922	2,783,184	22,759,273	80,639,399	-	-	-	-
Foreign exchange gain/(loss), net	-	-	-	-	18,098,695	-	-	-	18,098,695
Investment income/(expense), net	-	-	-	-	59,508,967	-	-	-	59,508,967
Net financial income	-	-	-	-	77,607,662	-	-	-	-
Profit before taxes	-	-	-	-	158,247,061	-	-	-	-
Income tax expense	-	-	-	-	(34,876,663)	-	-	-	(34,876,663)
Profit for the year	-	-	-	-	123,370,398	-	-	-	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT

The Group has developed and implemented a risk management structure to protect it against events that undermine sustainable performance, solvency or the achievement of strategic objectives. The risk management system is a fundamental part of the daily operations and ongoing performance of the Group. By identifying, analyzing, measuring, controlling, managing, reporting and mitigating risks that may arise in the course of its operations in a timely manner, the Group intends to, among other things, comply with applicable legislative and regulatory requirements, meet its obligations towards its customers and counterparties and maintain capital adequacy.

The Group’s approach to risk management is based on the following elements:

- Ensuring compliance with legal obligations and the Group’s risk management policies;
- Identifying all structural risks the Group is exposed to and defining risk acceptance criteria; and;
- Designing and applying internal control mechanisms and actions to seek to address these risks, and assuring the Board of Directors about the transparent reporting of such risks.

The Board of Directors has overall responsibility for the risk and control environment, including setting the Group’s risk appetite, risk strategy and target operating model, and risk management and internal control systems.

Early Risk Detection Committee

Pursuant to the Regulation on Internal Systems and a resolution of AvivaSA’s Board of Directors dated July 15, 2011 and numbered 2011/29, AvivaSA established a risk committee. Subsequently, pursuant to a resolution of AvivaSA’s Board of Directors dated October 17, 2014 and numbered 2014/62, the risk committee was restructured to replace the former risk committee in compliance with the Corporate Governance Principles (the Early Risk Detection Committee). Pursuant to the Corporate Governance Communiqué, an early risk detection committee is to be responsible for the preliminary detection of risks that may endanger the existence, development and continuity of a public company. Such committee is also responsible for supervising the implementation of appropriate remedial measures and the performance of risk management activities, during the course of which it must monitor, at least once a year, the risk management systems of the Group.

Risk Management Framework

The Group aims to maximize Market Consistent Embedded Value (MCEV) and Shareholders’ expectations within the risk appetite framework. It is provided by consistent and strong risk management process are applied companywide.

AvivaSA Emeklilik ve Hayat A.Ş.’s risk management framework “(RMF)” forms an integral part of the management and Board processes and decision making framework. The key elements of our risk management framework comprise risk appetite, risk governance including risk policies and business standards, risk oversight committees and roles and responsibilities and the processes we use to identify, measure, manage, monitor and report “(IMMMR)” risks.

Roles and responsibilities for risk management are based around the “three lines of defence model” where ownership for risk is taken at all levels in the Group.

- *First line of defence (Management):* Primary responsibility for risk identification, measurement, management, monitoring and reporting lies with management. The first-line management is responsible for the implementation and practice of risk management, as well as establishing internal control systems.
- *Second line of defence (Risk and Internal Control Function):* Risk and Internal Control function is accountable for oversight and challenge of the IMMMR process and for developing the risk management framework.
- *Third line of defence (Internal audit function):* Internal Audit function provides an independent assessment of the risk framework and internal control processes.

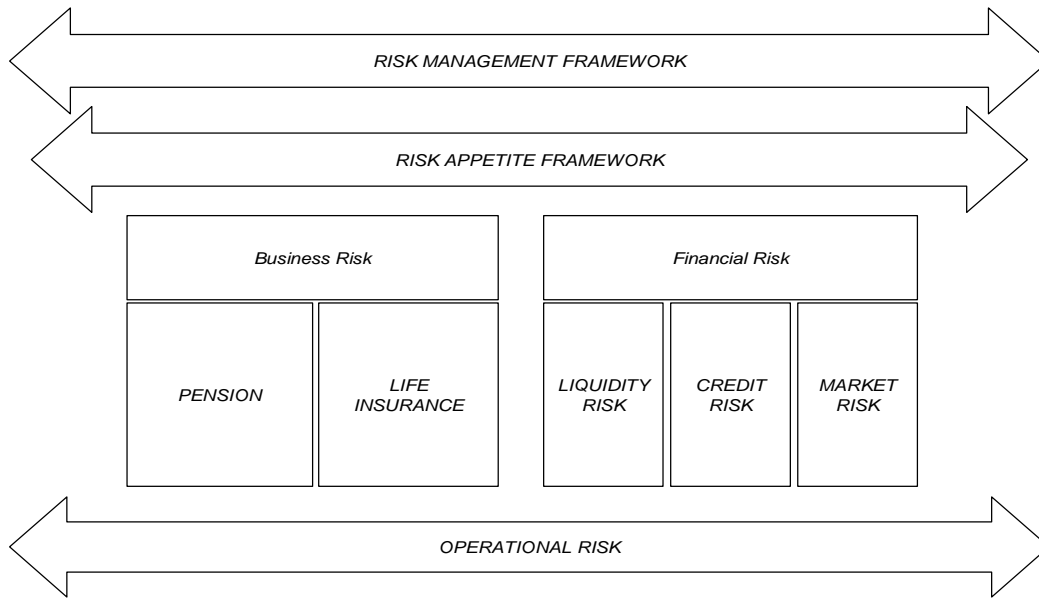
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

The Group’s risk management model identifies risk classes, which are then further highlighted under risk management policies and standards. These risk management policies and standards act as practical guides explaining how the Group can manage any financial, operational and nominal losses in the most appropriate way, by identifying the risks inherent in the life insurance and private pension industry, analyzing measurable data concerning these risks and establishing limits for such risks for the Group and its management.

The following diagram sets out the Group’s risk policy framework:



The Group also adheres to the following business policies and standards as regards risk management:

Risk policies

The risk management policies set the basic principles and standards for the risk management system and processes. The policies are approved by the Board of Directors and the amendments require the Board of Directors approval. The tools required to determine, measure, manage, monitor and report the risk vary by the risk type. Therefore, the risk policy framework includes six risk policies, including the Risk Management Framework Policy, special to each risk type to which the Group is exposed: life insurance and private pension, credit, market, liquidity and operational risk.

Business standards

The Group recognizes the importance of consistent and controlled business processes as a form of risk management. Each risk policy is therefore supported by a number of associated business standards which sets out the requirements for operating consistent processes across its most important business activities.

Primary risks facing the Group are Insurance Risk and Financial Risk (comprising mainly Market Risk and Credit Risk).

Insurance Risk

This is the risk that the insurance premiums allocated by the Group may not meet the claim liabilities and profit share payments and any payment in relation to claims and damages may exceed its expectations. Life insurance risk includes, death, disability, additional collateral due to accidents and dangerous diseases etc.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

Insurance Risk (Continued)

a) Life insurance

Life insurances are offered as individual and group contracts in short and long term periods. Mortality risk (the risk that more than expected insured parties die), disability, critical illness and additional collateral play an important role in the life insurance businesses of the Group. The all risk associated with the Group’s life insurance mentioned above and related rider businesses have been partly reinsured. The most important contracts are signed with Swiss Re, Scor Global Life, Cardiff Hayat ve Emeklilik and RGA. The Group has signed reinsurance agreement with Scor Global Life against catastrophic loss risks.

The life insurance businesses are also exposed to lapse risk and persistency risk. Lapse risk is the risk that policies exit prior the maturity. Persistency risk is defined as the risk of a sustained increase in lapse rates, unexpected volatility in lapse rates and mass lapses. Whether policyholders terminate or renew (explicitly or through automatic renewal) their insurance policies depends on consumer expectations and developments in the financial markets. Managing the attractiveness of life insurance products for customers and intermediaries as well as close monitoring of developments in the portfolio are key to mitigating this risk.

In case of technical interest rates remain below the guaranteed return on investment returns on life insurance will taken of the cumulative premium investment risk is the risk of the insurance company is concerned.

b) Personal accident (Non-Life)

Personal Accident insurances are offered as individual or group contracts. Personal accident insurance contains the risk like accidental death and accidental disability. Disposals and customer retention risks are also among the risk of personal accident insurance. The personal accident insurance as well as life insurance should be given as additional collateral to guarantee unemployment insurance, reinsurance collateral is transferred to all.

c) Pensions

The pensions business is also exposed to lapse risk, which is the risk of cancelling contracts, transfers out to competitors and termination of pension policies at maturity (*i.e.*, retirement).The investment risk under pension contracts is borne by the customer. The customer evaluates its pension fund investments according to its own preferences.

Assessment and claims settlement

In order to assess insurance risk, and accordingly manage the claim and premium balance, determine liabilities accurately and ensure sufficient provisioning to meet liabilities, the Group performs the following analyses:

- experience investigations on claims;
- persistency reports on lapses and transfer outs; and
- Market-Consistent Embedded Value (“MCEV”)

Claims handling is organized in a specialized department within the operations division of the Group, handling both individual and corporate policies, and the assessment and settlement of incurred claims takes place on a monthly basis.

Insurance Risk Management

The purpose in managing risks arising from insurance contracts and policies designed to reduce such risks:

The insurance risk is a risk transferred by insured to insurer, apart from financial risk. Transferred risk is about an uncertain future incident. Uncertainty arises from lack of information about whether the incident is going to happen or not or about its size or timing.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

Insurance Risk Management (Continued)

The ratio of premiums collected by insurer to claim paid to insured denotes a Company's capacity to meet insurance risk.

As at June 30, 2020 and December 31, 2019, Company's claim/premium ratio related branches are given below. It is observed that premiums collected provide a capacity to meet any incurred claims:

Net claims ratio	June 30, 2020	December 31, 2019
Life	3%	4%
Personal Accident (Casualty)	5%	5%

As at June 30, 2020 and December 31, 2019 that part of total risk which is ceded to reinsurers is given below on a risk coverage basis.

June 30, 2020							
Life							
Natural death	Accidental Death	Accidental disability	Sickness disability	Dangerous Sickness	Public Transport	Unemployment	Accidental Treatment Cost
7.68%	11.36%	3.84%	2.05%	50.75%	14.91%	100.00%	1.41%
Personal Accident		Accidental death		Accidental disability		Accidental treatment cost	
14.12%		22.13%		0.05%		100.00%	
December 31, 2019							
Life							
Natural death	Accidental Death	Accidental disability	Sickness disability	Dangerous Sickness	Public Transport	Unemployment	Accidental Treatment Cost
8.42%	12.98%	27.27%	33.48%	50.49%	16.16%	100.00%	1.99%
Personal Accident		Accidental death		Accidental disability		Accidental treatment cost	
14.27%		22.58%		0.06%		100.00%	

Sensitivity to Insurance Risk

The Group's policy production strategy is based on optimal distribution of risk to reinsurance companies according to policy type, as well as to kind and size of risk taken. At June 30, 2020 and December 31, 2019 the Group has both proportional and non-proportional reinsurance treaties.

Outstanding claims are reviewed and updated periodically by claims department.

The Group executes insurance contracts in life insurance and personal accident branches. Accordingly, in such insurance contracts, insurance risk concentration according to nature of the subject-matter of insurance are summarized below in gross and net figures (net of reinsurance):

June 30, 2020	Total gross risk liability	Share of reinsurer in total risk liability	Net risk liability
Life	57,660,784,251	4,430,951,747	53,229,832,504
Personal Accident	35,873,357,443	6,349,971,873	29,523,385,570
Total	93,534,141,694	10,780,923,620	82,753,218,074
December 31, 2019	Total gross risk liability	Share of reinsurer in total risk liability	Net risk liability
Life	50,688,699,110	4,268,272,016	46,420,427,094
Personal Accident	40,278,781,382	7,247,054,261	33,031,727,121
Total	90,967,480,492	11,515,326,277	79,452,154,215

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

Sensitivity to Insurance Risk (Continued)

The Group's gross provision for outstanding claims at June 30, 2020 and December 31, 2019 are as follows:

Outstanding Claims	June 30, 2020	December 31, 2019
Life	65,644,840	60,490,381
Personal Accident	9,039,421	9,131,358
Total	74,684,261	69,621,739

Financial Risk

Financial risk arises from the financial instruments used by the Group, such as cash, time bank deposits, government bonds, treasury bills, private sector bonds and Eurobonds. The specific risks arising from such instruments and insurance contract liabilities are as follows:

a) *Market Risk*

Market risk refers to the risk of incurring financial losses as a result of fluctuations in the fair value of a financial instrument or expected future cash flows from a financial instrument and the risk that fair value of cash flows resulting from liabilities (including insurance liabilities) will change due to fluctuations in the level or the volatility of market variables. Market risk consists of equity risk, inflation risk, property risk, commodity risk and, more importantly for the Group, interest rate risk and foreign exchange risk.

i) *Foreign Currency Risk*

The Group is exposed to foreign exchange risk through the impact of rate changes at the translation of Turkish Lira pertaining to foreign currency denominated receivables and payables.

Foreign currency sensitivity analysis as of June 30, 2020 and December 31, 2019 are as follows:

At June 30, 2020, on condition that all variables remain constant, effect of a 10% appreciation/devaluation of Eurobonds against TL on owners' equity is TL 1,923,024/ (1,923,024). As at December 31, 2019, on condition that all variables remain constant, effect of a 10% appreciation/devaluation of Eurobonds against TL on owners' equity is TL 3,782,858/(3,782,858).

June 30, 2020:

Liabilities and assets in foreign currency	Effect on income/expense		
	USD (*)	EUR (*)	GBP (*)
Exchange rate variation (*)			
10%	7,830,750	(247,401)	5,828
-10%	(7,830,750)	247,401	(5,828)

June 30, 2019:

Liabilities and assets in foreign currency	Effect on income/expense		
	USD (*)	EUR (*)	GBP (*)
Exchange rate variation (*)			
10%	(628,409)	(624,912)	(657)
-10%	628,409	624,912	657

(*) All amounts are presented in TL.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

Financial Risk (Continued)

a) Market Risk (Continued)

ii) Interest Risk

The Group's sensitivity to interest rate risk is related to the change in the fair values or expected cash inflows of the financial assets due to the fluctuations in the interest rates. The Group closely monitors interest rate risk by monitoring market conditions and appropriate valuation methods.

In the following table, on condition that all other variables remain constant, it is disclosed that the effect of 100 base points and 500 base points increase / decrease in market interest rates on securities. The underlying logic used in this projection is that a discount interest rate applicable for each year with effect of the stresses set in different rates by respective years is found using the upward-downward variation which might occur in average market interest rates and that market value of securities are then discounted at such rate in connection with their respective maturity period

The company implements stress tests and scenarios for interest rate risk in routine basis and creates an action plan by considering these studies while determining the distribution of strategic assets.

As at June 30, 2020 :

Total of trading and available for sale financial assets	Effect Profit and Loss		
	TL	USD (*)	EUR (*)
Market interest increase / (decrease) (**)			
5%	(63,230,155)	(29,274,565)	(4,976)
-5%	63,698,188	23,649,517	4,050
1%	(14,741,381)	(56,464,354)	(9,875)
-1%	12,079,610	49,108,089	8,157

(*) Amounts are presented in TL.

(**) Interest risk computed according to a 0.5% variation in interest rates for USD and EUR portfolio.

As at December 31, 2019 :

Total of trading and available for sale financial assets	Effect Profit and Loss		
	TL	USD (*)	EUR (*)
Market interest increase / (decrease) (**)			
5%	(10,781,680)	(26,047,327)	(37,484)
-5%	10,371,697	17,236,211	37,739
1%	(2,290,017)	(49,050,029)	(74,716)
-1%	1,969,484	37,157,578	75,736

(*) Amounts are presented in TL.

(**) Interest risk computed according to a 0.5% variation in interest rates for USD and EUR portfolio.

b) Credit Risk

Credit risk is the failure of Group to third parties not to fulfill their obligations wholly or partially, financial loss related to changes in credit spreads and credit note.

Since, financial assets of the Group mainly consist of government bonds which are not considered as a high credit risk and bank deposits in the banks resident in Turkey, credit risk is lower than other risk categories.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk (Continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the consolidated financial statements:

	June 30, 2020	December 31, 2019
Cash and cash equivalents	580,532,611	398,527,876
Financial assets	2,012,133,104	1,771,746,764
Pension business receivables	231,048,135	212,976,185
Premium and other insurance receivables	48,179,167	37,011,109
Reinsurance share of insurance liabilities	14,182,597	15,815,927
Other financial assets	868,012	868,012
Total	2,886,943,626	2,436,945,873

c) Liquidity Risk

The Group faces the risk that its short-term assets are insufficient to meet its short-term obligations (such as claims arising from insurance contracts) as they fall due. To mitigate this risk, it uses liquidity coverage ratio “(LCR)” to monitor its liquidity risk profile on a 12-month basis. The monthly LCR is defined as (i) the projected amount of cash available at the start of the month divided by (ii) the planned net cash outflows during the month plus an allowance for a 1 in 10 stress event.

Liquidity risk refers to the risk that the Company's short-term liabilities, such as losses arising from insurance contracts, cannot be supplied by the short-term resources it holds. The company estimates the Liquidity Coverage Ratio (LCR) to monitor the liquidity risk and execute stress tests.

The company develops and monitors strategies, policies and procedures to ensure that liquidity risk is effectively managed in line with the liquidity risk appetite and that sufficient liquidity is maintained continuously, due to the worldwide coronavirus (COVID-19) outbreak.

Below table shows the distribution of the Company's financial and insurance liabilities based on their contractual periods or remaining period to maturities as of the balance sheet date:

As of 30 June 2020, the Company's non-discounted commercial debts and the maturities of financial debts are as follows, and there is no liquidity risk at present and for the future periods.

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk (Continued)

As at June 30, 2020, table of liquidity risk is as follows:

The following tables detail the Group’s remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. The undiscounted totals column includes the effect of the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the statement of financial position.

June 30, 2020	Carrying amount	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	5 years and over	No maturity date	Undiscounted Totals
Financial assets								
Cash and cash equivalents	580,532,611	23,370,542	529,546,565	57,987,972	2,778,849	-	-	613,683,928
Financial assets	2,012,133,104	-	-	44,903,064	603,106,479	1,188,192,159	132,408,469	1,968,610,171
- Available for sale financial investments	326,820,432	-	-	4,011,534	88,694,425	219,190,615	-	311,896,574
- Financial assets at fair value through profit or loss	213,033,696	-	-	40,891,530	1,743,720	40,439,789	132,408,469	215,483,508
- Available for sale asset backing financial investments, Policyholders’ portfolio	1,472,278,976	-	-	-	512,668,334	928,561,755	-	1,441,230,089
Premium and other insurance receivables	48,179,167	-	33,709,085	14,046,197	423,885	-	-	48,179,167
Pension business receivables	231,048,135	32,854,307	11,598,790	34,295,128	139,677,678	12,622,232	-	231,048,135
Other financial assets	868,012	-	-	-	-	-	868,012	868,012
Total	2,872,761,029	56,224,849	574,854,440	151,232,361	745,986,891	1,200,814,391	133,276,481	2,862,389,413
Financial liabilities								
Lease liabilities	33,733,679	33,733,679	-	-	-	-	-	33,733,679
Due to insurance and reinsurance companies	34,340,594	625,370	33,715,224	-	-	-	-	34,340,594
Pension business payables	524,399,723	319,697,128	11,978,149	35,416,812	144,246,090	13,061,544	-	524,399,723
Other payables and liabilities	128,148,290	82,311,946	16,264,006	20,028,299	9,544,039	-	-	128,148,290
Total	720,622,286	436,368,123	61,957,379	55,445,111	153,790,129	13,061,544	-	720,622,286
Liquidity surplus/(deficit)	2,152,138,743	-380,143,274	512,897,061	95,787,250	592,196,762	1,187,752,847	133,276,481	2,141,767,127

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk (Continued)

As at December 31, 2019, table of liquidity risk is as follows:

December 31, 2019	Carrying amount	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	5 years and over	No maturity date	Undiscounted Totals
Financial assets								
Cash and cash equivalents	398,527,876	27,664,968	300,747,063	80,702,091	-	-	-	409,114,122
Financial assets	1,771,746,764	-	17,228,829	90,096,772	278,528,675	938,265,941	310,325,097	1,634,445,314
- Available for sale financial investments	193,245,501	-	-	25,310,602	157,371,117	-	-	182,681,719
- Financial assets at fair value through profit or loss	512,015,032	-	17,228,829	25,310,602	32,184,592	-	310,325,097	385,049,120
- Available for sale asset backing financial investments, Policyholders' portfolio	1,066,486,231	-	-	39,475,568	88,972,966	938,265,941	-	1,066,714,475
Premium and other insurance receivables	37,011,109	-	25,081,270	11,577,140	352,699	-	-	37,011,109
Pension business receivables	212,976,185	14,787,668	8,805,158	26,415,474	102,274,394	60,693,491	-	212,976,185
Other financial assets	868,012	-	-	-	-	-	868,012	868,012
Total	2,421,129,946	42,452,636	351,862,320	208,791,477	381,155,768	998,959,432	311,193,109	2,294,414,742
Financial liabilities								
Lease liabilities	35,733,545	35,733,545	-	-	-	-	-	35,733,545
Due to insurance and reinsurance companies	43,940,869	465,116	43,475,753	-	-	-	-	43,940,869
Pension business payables	486,090,486	202,259,875	11,365,566	34,096,699	132,014,259	106,354,087	-	486,090,486
Other payables and liabilities	46,051,457	31,580,499	5,700,445	105,373	8,665,141	-	-	46,051,458
Total	611,816,357	270,039,035	60,541,764	34,202,072	140,679,400	106,354,087	-	611,816,358
Liquidity surplus/(deficit)	1,809,313,589	(227,586,399)	291,320,556	174,589,405	240,476,368	892,605,345	311,193,109	1,682,598,384

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk (Continued)

Fair value of the financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction in accordance with market conditions.

The Group determines the estimated fair value of its financial instruments by using the current market information and appropriate valuation methods. Additionally, ability to estimate the market values through assessing the market information requires interpretation and judgment. As a result, the estimations presented herein cannot be an indicator of the amounts obtained by the Group in a current market transaction.

Fair value hierarchy

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

Level 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

	June 30, 2020			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Available for sale financial assets (Note 6)	326,820,432	-	-	326,820,432
Financial assets held for trading (Note 6)	213,033,696	-	-	213,033,696
Financial investments with risks on policyholders classified as available for sale and held to maturity (Note 6) (*)	1,402,572,204	-	-	1,402,572,204
Total financial assets	1,942,426,332	-	-	1,942,426,332

(*) Time deposits amounting to TL 69,706,771 are not included. Carrying values of time deposits approximate their fair values due to their short term nature.

	December 31, 2019			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Available for sale financial assets (Note 6)	193,245,501	-	-	193,245,501
Financial assets held for trading (Note 6)	383,015,032	-	-	383,015,032
Financial investments with risks on company as held to maturity (Note 6)	129,000,000	-	-	129,000,000
Financial investments with risks on policyholders classified as available for sale and held to maturity (Note 6) (*)	1,035,844,554	-	-	1,035,844,554
Total financial assets	1,741,105,087	-	-	1,741,105,087

(*) Time deposits amounting to TL 30,641,677 are not included. Carrying values of time deposits approximate their fair values due to their short term nature.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

d) Operational Risk

Operational risks consist of all other risks that may cause financial loss or loss of reputation to the Group and may result from the potential failure of the people, processes and technology employed in taking and managing risks. Operational risks that Company faces include the following:

- Regulatory reporting defects regarding pension and life;
- Defects due to incapability of the IT infrastructure; and
- Deficiencies in internal control systems.

The Group regards tight control over its IT systems as a strategic necessity. The Group aims to strengthen its central IT organization and the strategic information management function to increase the effectiveness of the general IT controls and to reduce costs through, for example, the improvement of existing IT systems. The IT systems require many ongoing adjustments because of legislative changes and chain integration.

Operational risks are detailed in the Group’s risk tracking system, called OPERA, which is updated to reflect changes in the operating environment and its business processes.

Capital Management

In accordance with the regulations on capital requirements within the framework of the “Regulation on Measurement and Evaluation of Capital Requirements of Insurance and Reinsurance and Pension Companies” published in the Official Gazette dated 23 August 2015 no. 29454 of the Ministry of Treasury and Finance, the purpose of the Company’s capital management is to create and maintain a strong capital structure to sustain the operations of the Company and to maximize the value it provides to the Company’s partners.

As of June 30, 2020 and December 31, 2019, the Company has a sufficient amount of equity for losses which may arise from current liabilities and potential risks of the Company. As of June 30, 2020 and December 31, 2019, the required capital reserves (calculated in accordance with the above-mentioned local regulation) and current capital adequacy analysis is as follows:

	June 30, 2020	December 31, 2019
Total shareholders’ equity in the statutory consolidated financial statements (*)	508,039,072	547,413,447
Required minimum capital reserves	376,750,027	235,572,317
Capital surplus	131,289,045	311,841,130

(*) Included equalization reserve.

In accordance with the regulations on capital requirements within the framework of the “Regulation on Measurement and Evaluation of Capital Requirements of Insurance and Reinsurance and Pension Companies” published in the Official Gazette dated 23 August 2015 no. 29454 of the Ministry of Treasury and Finance, the purpose of the Company’s capital management is to create and maintain a strong capital structure to sustain the operations of the Company and to maximize the value it provides to the Company’s partners.

The company has a strong capital structure with a long-term sustainable profitability target. In this period, with frequent market fluctuations, the Company’s capital adequacy ratio is also closely monitored and regularly subjected to stress tests.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

5. CASH AND CASH EQUIVALENTS

As at June 30, 2020 and December 31, 2019, cash and cash equivalents are as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
Banks	291,385,668	190,080,031	421,860,205
Other cash and cash equivalents (**)	289,255,882	208,489,233	261,278,065
Cheques given and payment orders	(108,939)	(41,388)	(125,315)
Total cash and cash equivalents	580,532,611	398,527,876	683,012,955
Blockage amount (*)	(76,539,728)	(98,984,103)	(124,212,908)
Time deposits more than 3 months	(57,917,199)	(17,820,600)	(79,019,690)
Accrued interest	(315,859)	(1,348,651)	(6,589,633)
Total cash and cash equivalents per statement of cash flow	445,759,825	280,374,522	473,190,724

(*) Note 32 presents the details about the blockage on bank accounts in favour of Ministry of Finance and Treasury.

(**) Other cash and cash equivalents consist of credit card receivables with maturities up to 41 days.

Interest rates of time deposits are stated below:

	June 30, 2020	December 31, 2019
	Interest Rate	Interest Rate
	(%)	(%)
EUR	0.25	-
USD	1.60	2.22
TL	8.27	11.49

As of June 30, 2020, TL time deposit maturity varies between April 1, 2020 and May 12, 2020, foreign currency time deposits maturity varies between April 1, 2020 and December 18, 2020.

As of December 31, 2019, TL deposit maturity varies between January 2, 2019 and November 7, 2019, foreign currency deposits maturity varies between January 2, 2019 and September 12, 2019.

As at June 30, 2020 and December 31, 2019; the detail of cash and cash equivalents are as follows:

	June 30, 2020	December 31, 2019
Foreign currency cash and cash equivalents	74,598,700	21,692,167
- demand deposits	4,625,373	1,791,284
- time deposits	69,973,327	19,900,883
TL cash and cash equivalents	505,933,911	376,835,709
- demand deposits	18,745,173	20,808,958
- time deposits	198,041,795	147,578,906
- credit card receivables	289,255,882	208,489,233
- cheques given and payment orders	(108,939)	(41,388)
Total	580,532,611	398,527,876

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

6. FINANCIAL ASSETS

As at June 30, 2020 and December 31, 2019; the securities portfolio of the Group is as follows:

	June 30, 2020	December 31, 2019
Financial assets at fair value through profit / loss	213,033,696	512,015,032
Total available for sale financial assets and held to maturity	1,799,099,408	1,259,731,732
Available for sale financial investments	326,820,432	193,245,501
Available for sale asset backing financial investments and held to maturity policyholders’ portfolio	1,472,278,976	1,066,486,231
Total securities portfolio	2,012,133,104	1,771,746,764

As at June 30, 2020 and December 31, 2019; financial assets as fair value through profit or loss are as follows:

	June 30, 2020		
	Cost	Fair value	Carrying value
Investment funds	116,543,472	132,408,469	132,408,469
Treasury bills and government bonds	35,841,367	37,889,493	37,889,493
Private sector bonds	45,368,735	48,232,783	48,232,783
Derivatives	(5,497,049)	(5,497,049)	(5,497,049)
Total financial assets at fair value through profit or loss	192,256,525	213,033,696	213,033,696

	December 31, 2019		
	Cost	Fair value	Carrying value
Investment funds	320,680,239	332,494,367	332,494,367
Treasury bills and government bonds	33,419,418	33,291,862	33,291,862
Private sector bonds	14,725,321	17,228,803	17,228,803
Reverse repo	129,000,000	129,000,000	129,000,000
Total financial assets at fair value through profit or loss	497,824,978	512,015,032	512,015,032

As at June 30, 2020 and December 31, 2019; available for sale financial assets owned by the Group are as follows:

	June 30, 2020		
	Cost	Fair value	Carrying value
Treasury bills and government bonds - TL	208,730,072	213,629,831	213,629,831
Private Sector bonds	35,260,000	40,717,964	40,717,964
Eurobonds - USD	66,401,840	72,472,637	72,472,637
Total available for sale financial investments	310,391,912	326,820,432	326,820,432

	December 31, 2019		
	Cost	Fair value	Carrying value
Treasury bills and government bonds - TL	165,679,396	163,826,455	163,826,455
Private Sector bonds	24,760,000	29,419,046	29,419,046
Total available for sale financial investments	190,439,396	193,245,501	193,245,501

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

6. FINANCIAL ASSETS (Continued)

As at June 30, 2020 and December 31, 2019; available for sale financial assets backing insurance contracts and held to maturity financial assets are as follows:

	June 30, 2020		
	Cost	Fair value	Carrying value
Treasury bills and government bonds-TL	47,710,721	43,765,300	43,765,300
Eurobonds - USD	861,305,416	810,023,412	810,023,412
Eurobonds - EUR	746,805	768,028	768,028
Time deposits - TL	2,500,000	2,588,780	2,588,780
Time deposits - USD	67,053,560	67,117,991	67,117,991
Held to maturity Eurobonds- USD	540,016,159	548,015,465	553,023,591
Total available for sale asset backing financial investments and held to maturity policyholders' portfolio	1,519,332,661	1,472,278,976	1,477,287,102

	December 31, 2019		
	Cost	Fair value	Carrying value
Treasury bills and government bonds-TL	48,045,996	41,884,722	41,884,722
Eurobonds - USD	786,601,906	742,449,400	742,449,400
Eurobonds - EUR	2,556,328	2,615,036	2,615,036
Time deposits - TL	5,000,000	6,248,965	6,248,965
Time deposits - USD	25,637,903	24,392,711	24,392,711
Held to maturity Eurobonds- USD	245,059,725	248,895,397	248,895,397
Total available for sale asset backing financial investments and held to maturity policyholders' portfolio	1,112,901,858	1,066,486,231	1,066,486,231

As at June 30, 2020 and June 30, 2019; financial assets at fair value through profit or loss and available for sale financial assets movement table are as follows:

	2020	2019
Opening, January 1	1,771,746,764	843,339,644
Purchases	3,745,267,954	1,147,146,479
Disposals	(3,118,272,886)	(968,095,504)
Change in the valuation - unrealized gain and losses	28,496,919	(12,985,132)
Disposals through the redemption	(321,402,849)	(34,356,946)
Unrealized exchange rate gains/(losses)	(79,284,536)	69,448,005
Change in balance recognized under equity	(11,394,830)	6,531,633
Change in balance recognized under life mathematical reserves	(3,023,432)	3,304,231
Closing, June 30	2,012,133,104	1,054,332,410

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

6. FINANCIAL ASSETS (Continued)

The maturity analysis of financial assets is as follows:

As at June 30, 2020 and December 31, 2019; the remaining contractual maturities of financial assets are as follows:

	June 30, 2020						Total
	No stated maturity	0-3 months	3-6 months	6 months to 1 year	1-3 years	More than 3 years	
Eurobonds	-	-	-	-	-	907,942,786	907,942,786
Investment funds	132,408,469	-	-	-	-	-	132,408,469
Government bonds and treasury bills	-	-	-	-	63,064,010	232,220,614	295,284,624
Private sector bonds	-	-	-	46,598,758	27,862,046	14,489,943	88,950,747
Eurobond private sector	-	-	-	-	168,334,618	355,002,138	523,336,756
Time deposits	-	67,117,991	2,588,780	-	-	-	69,706,771
Derivative securities	-	-	(5,497,049)	-	-	-	(5,497,049)
	132,408,469	67,117,991	(2,908,269)	46,598,758	259,260,674	1,509,655,481	2,012,133,104

	December 31, 2019						Total
	No stated maturity	0-3 months	3-6 months	6 months to 1 year	1-3 years	More than 3 years	
Eurobonds	-	-	29,098,763	-	58,475,675	702,883,433	790,457,871
Investment funds	332,494,367	-	-	-	-	-	332,494,367
Government bonds and treasury bills	-	14,883,872	-	-	130,785,216	93,333,951	239,003,039
Private sector bonds	-	527,229	-	-	39,595,759	6,524,861	46,647,849
Eurobond private sector	-	-	-	-	30,497,290	173,004,671	203,501,961
Time deposits	-	30,641,677	-	-	-	-	30,641,677
Reverse repo	-	129,000,000	-	-	-	-	129,000,000
	332,494,367	175,052,778	29,098,763	-	259,353,940	975,746,916	1,771,746,764

The currency analysis of financial assets is as follows:

	June 30, 2020			
	Currency Type	Currency Amount	Rate	Amount TL
Financial assets available-for-sale	TL	-	-	254,347,795
	USD	10,592,008	6,8422	72,472,637
				326,820,432
Financial assets at fair value through profit or loss	TL			213,033,696
				213,033,696
Financial investments with risks on policy holders	USD	208,289,274	6,8422	1,425,156,868
	EUR	99,638	7,7082	768,028
	TL			46,354,080
				1,472,278,976
Total securities portfolio				2,012,133,104

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

6. FINANCIAL ASSETS (Continued)

	December 31, 2019			
	Currency Type	Currency Amount	Rate	Amount TL
Financial assets available-for-sale	TL			193,245,501
				193,245,501
Reverse repo				129,000,000
Financial assets at fair value through profit or loss	TL			383,015,032
				512,015,032
Financial investments with risks on policy holders	USD	171,203,839	5,9402	1,016,985,045
	EUR	393,203	6,6506	2,615,035
	TL			46,886,151
				1,066,486,231
Total securities portfolio				1,771,746,764

7. REINSURANCE SHARE OF INSURANCE LIABILITIES

As at June 30, 2020 and December 31, 2019; reinsurance share of insurance liabilities are as follows:

	June 30, 2020	December 31, 2019
Reinsurers’ share of outstanding claims	7,491,647	7,301,642
Reinsurers’ share of unearned premiums reserve	5,541,245	6,516,521
Reinsurers’ share of life mathematical reserve	1,149,705	1,997,764
	14,182,597	15,815,927

8. PREMIUM AND OTHER INSURANCE RECEIVABLES

As at June 30, 2020 and December 31, 2019; premium and other insurance receivables are as follows:

	June 30, 2020	December 31, 2019
Policyholders and reinsurance companies	48,179,167	37,011,109
Total premium and other insurance receivables	48,179,167	37,011,109

As at June 30, 2020 and December 31, 2019; maturity distribution of neither past due nor impaired insurance operations receivables is as follows:

	June 30, 2020	December 31, 2019
Receivables from policyholders and reinsurance companies		
Up to 3 months	7,988,058	8,736,266
3 to 6 months	4,189,501	5,651,573
6 to 9 months	2,219,303	3,789,420
9 to 12 months	587,794	1,179,789
	14,984,656	19,357,048

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

8. PREMIUM AND OTHER INSURANCE RECEIVABLES (Continued)

As at June 30, 2020 and December 31, 2019; an analysis of the aging of overdue but not impaired insurance operations receivables is as follows:

	June 30, 2020	December 31, 2019
Overdue 0-3 months	21,763,682	11,799,488
Overdue 3-6 months	6,695,931	585,835
Overdue 6-9 months	50,756	207,997
Overdue 9-12 months	302,912	162,526
Overdue 1 year	423,885	352,699
	29,237,166	13,108,545
Total	44,221,822	32,465,593

As of June 30, 2020, total of receivables from reinsurance companies and intermediaries are TL 3,957,345 (31 December 2019: TL 4,545,516).

As at June 30, 2020 and December 31, 2019; the collateral held by the Group as security for its receivables are as follows:

	June 30, 2020			Total (TL)
	USD	EUR	TL	
Guarantees received				
Letter of guarantees	410,532	-	19,652,700	20,063,232
Mortgage deed	-	-	309,700	309,700
Other guarantees	735,856	21,297	117,800	874,953
	1,146,388	21,297	20,080,200	21,247,885
	December 31, 2019			
	USD	EUR	TL	Total (TL)
Guarantees received				
Letter of guarantees	356,412	-	14,206,330	14,562,742
Mortgage deed	-	-	309,700	309,700
Other guarantees	533,963	18,375	222,686	775,024
	890,375	18,375	14,738,716	15,647,466

9. PENSION BUSINESS RECEIVABLES AND PAYABLES

As at June 30, 2020 and December 31, 2019; pension business receivables are as follows:

	June 30, 2020	December 31, 2019
Pension business receivables - deferred income reserves	197,520,672	197,593,665
Receivables pension operations	32,854,307	14,787,668
Capital advance for pension funds	673,156	594,852
Total individual pension business receivables, net	231,048,135	212,976,185

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

9. PENSION BUSINESS RECEIVABLES AND PAYABLES (Continued)

As at June 30, 2020 and December 31, 2019; pension business payables are as follows:

	June 30, 2020	December 31, 2019
Temporary account of participants	272,662,058	230,271,710
Pension business payables - deferred income reserves (*)	251,737,665	255,818,776
Total pension business payables	524,399,723	486,090,486

(*) Reserve for account management fee deferred over 7 years based on the average deviation of the contract terms of pension portfolio.

10. OTHER ASSETS

As at June 30, 2020 and December 31, 2019; other assets are as follows:

	June 30, 2020	December 31, 2019
Prepaid expenses	57,691,104	5,199,477
Other receivables from other related parties	12,304,715	3,114,021
Advances to personnel	2,057,563	204,482
Advances given	1,461,498	635,488
Other receivables from third parties	274,115	220,631
Deposits and guarantees given	92,887	71,307
Receivables from shareholders (Note 33)	-	23,568
Other	257,192	251,443
Total other assets	74,139,074	9,720,417

11. PROPERTY AND EQUIPMENT, NET

As of June 30, 2020 and June 30, 2019; tangible assets movement and its accumulated depreciation is as follows:

Cost	January 1, 2020	Additions	Disposals	June 30, 2020
Machinery and equipment	13,296,320	853,534	-	14,149,854
Furniture and fixtures	21,007,774	2,010,133	(80,508)	22,937,399
Other tangible assets	29,640,700	963,695	-	30,604,395
Motor Vehicles	1,721,735	-	-	1,721,735
Right of use assets	42,063,298	1,949,528	-	44,012,826
Total	107,729,827	5,776,890	(80,508)	113,426,209
Accumulated depreciation	January 1, 2020	Period charge	Disposals	June 30, 2020
Machinery and equipment	(9,308,787)	(1,086,877)	-	(10,395,664)
Furniture and fixtures	(13,148,826)	(1,247,399)	63,876	(14,332,349)
Other tangible assets	(15,501,314)	(1,506,082)	-	(17,007,396)
Motor Vehicles	(271,867)	(172,174)	-	(444,041)
Right of use assets	(9,172,556)	(5,263,097)	-	(14,435,653)
Total	(47,403,350)	(9,275,629)	63,876	(56,615,103)
Net book value	60,326,477			56,811,106

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

11. PROPERTY AND EQUIPMENT, NET (Continued)

Cost	January 1, 2019	Additions	Disposals	Impairment	June 30, 2019
Machinery and equipment	12,217,595	191,546	-	-	12,409,141
Furniture and fixtures	19,598,505	1,102,696	(6,844)	-	20,694,357
Other tangible assets	28,709,148	911,307	-	(130,073)	29,490,382
Vehicles	-	1,721,735	-	-	1,721,735
Right of use assets	38,805,375	490,512	-	-	39,295,887
	99,330,623	4,417,796	(6,844)	(130,073)	103,611,502
Accumulated depreciation	January 1, 2019	Period charge	Disposals		June 30, 2019
Machinery and equipment	(7,237,964)	(1,027,619)	-		(8,265,583)
Furniture and fixtures	(11,054,726)	(1,056,949)	3,850		(12,107,825)
Other tangible assets	(12,554,680)	(1,466,906)	-		(14,021,586)
Vehicles	-	(99,694)	-		(99,694)
Right of use assets	-	(4,568,046)	-		(4,568,046)
Total	(30,847,370)	(8,219,214)	3,850		(39,062,734)
Net book value	68,483,253				64,548,768

12. INTANGIBLE ASSETS, NET

As of June 30, 2020 and June 30, 2019; intangible assets movement and its accumulated amortization are as follows:

Cost	January 1, 2020	Additions	Transfer	June 30, 2020
Software	101,306,352	15,137,703	2,344,348	118,788,403
Capitalized software development costs	14,745,065	6,994,318	(2,344,348)	19,395,035
Total	116,051,417	22,132,021	-	138,183,438
Accumulated amortization	January 1, 2020	Period charge	Transfer	June 30, 2020
Software	(57,516,287)	(9,390,208)	-	(66,906,495)
Total	(57,516,287)			(66,906,495)
Net book value	58,535,130			71,276,943
Cost	January 1, 2019	Additions	Transfer	June 30, 2019
Software	73,999,388	7,410,379	6,127,652	87,537,419
Capitalized software development costs	18,838,796	6,314,327	(6,127,652)	19,025,471
	92,838,184	13,724,706	-	106,562,890
Accumulated amortization	January 1, 2019	Period charge	Transfer	June 30, 2019
Software	(43,277,201)	(6,236,978)	-	(49,514,179)
Total	(43,277,201)	(6,236,978)	-	(49,514,179)
Net book value	49,560,983			57,048,711

AVIVASA EMEKLİLİK VE HAYAT A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

13. OTHER FINANCIAL ASSETS

Other financial assets include equity participations that are classified as available for sale. As these equity participations do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and impracticable, they are stated at cost. As at June 30, 2020 and December 31, 2019; the details of other financial assets are as follows:

	June 30, 2020		December 31, 2019	
	Participation rate (%)	Amount	Participation rate (%)	Amount
Third Party				
Milli Reasürans A.Ş.	0.1494	575,082	0.1494	575,082
Emeklilik Gözetim Merkezi A.Ş.	5.5553	292,303	5.5553	292,303
Enternasyonal Turizm Yatırım A.Ş.	0.0001	2	0.0001	2
Endüstri Holding A.Ş.	0.0001	625	0.0001	625
		868,012		868,012

14. LEASE LIABILITIES

As at June 30, 2020 and June 30, 2019; lease liabilities are as follows:

	June 30, 2020	June 30, 2019
Short-term lease liabilities (undiscounted)	14,107,041	7,445,998
Long term lease liabilities (undiscounted)	40,313,708	54,377,933
Discount amount with lease’s incremental borrowing rate of interest	(20,687,070)	(25,081,908)
Total	33,733,679	36,742,023

Movement of lease liabilities for the period ended June 30, 2020 and June 30, 2019 are as follows:

	June 30, 2020	June 30, 2019
Opening balance, January 1	35,733,545	38,805,375
IFRS 16 lease increase / decrease	1,949,528	490,512
Lease payments	(8,128,932)	(6,859,283)
Exchange rate valuation	584,341	723,267
Interest payments	3,595,197	3,582,152
Closing balance	33,733,679	36,742,023

15. DUE TO INSURANCE AND REINSURANCE COMPANIES

As at June 30, 2020 and December 31, 2019; due to insurance and reinsurance companies are as follows:

	June 30, 2020	December 31, 2019
Due to the intermediaries	33,406,997	40,616,332
Due to the policyholders	625,370	465,116
Due to the reinsurance companies	308,227	2,859,421
	34,340,594	43,940,869

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

16. OTHER PROVISIONS

As at June 30, 2020 and December 31, 2019; provision for expenses and lawsuit provisions are as follows:

	June 30, 2020	December 31, 2019
Personnel bonus provision	16,740,709	18,604,271
Provision for lawsuit against the Group (Note 34)	10,844,368	10,457,200
Bonus provision for sales activities	6,065,480	2,680,745
Commission provision	3,370,000	6,016,000
Cancellation provision	2,100,000	-
	39,120,557	37,758,216

17. TAXES

Corporate taxes

Statutory income is subject to corporate tax at 22% (2019: 22%). However, with Article 91 of the Bag Law No. 7061 published in the Official Gazette dated December 5, 2017 and numbered 30261, the corporate tax rate is set at 22% for corporate earnings for the tax years 2018, 2019 and 2020 and Provisional Article 10 has been added to the Law on Corporations Tax No. 5520. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. Withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

In Turkey, advance tax returns are filed on a quarterly basis. The prepaid taxes are calculated and paid at the rates valid for the earnings of the related years. Advance corporate income tax rate applied in 2020 is 22% (2019: 22%). The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous years.

In Turkey, there is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25th day of the fourth month following the close of the accounting period to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Transfer pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing, dated November 18, 2007 sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm’s length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

17. TAXES (Continued)

Income tax

As at June 30, 2020 and December 31, 2019; prepaid income taxes are netted off with the current income tax payable as stated below:

	June 30, 2020	December 31, 2019
Income taxes payable	47,593,375	70,705,258
Prepaid income taxes (-)	(15,573,616)	(59,267,485)
Current tax liabilities / (assets)	32,019,759	11,437,773

Deferred taxes

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its consolidated financial statements as reported for International Accounting Standards (IAS) purposes and its statutory tax consolidated financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for IAS.

Since the tax rate effective from January 1, 2018 has been changed to 22% as valid for 3 years , in the calculation of deferred tax as of June 30, 2020, 22% tax rate is used for temporary differences expected to be realized within 3 years. Since the corporate tax rate will be 20% after 2020, for valid differences expected to be realized / closed after 2020, 20% tax rate is used.

	Cumulative temporary Differences		Deferred tax assets / (liabilities)	
	June 30, 2020	December 31, 2019 Restated (Note 1.1)	June 30, 2020	December 31, 2019 Restated (Note 1.1)
Deferred income reserves	251,737,665	255,818,776	53,293,001	54,009,116
Expense accruals	43,647,838	24,089,850	9,602,524	6,193,739
Provision for employee termination benefit	19,106,392	15,971,826	4,203,406	3,513,802
Unused vacation provision	6,144,794	4,775,942	1,351,855	1,050,707
Claims for Insured Customer Claims	5,413,914	5,231,525	1,082,783	1,046,305
Accumulated loss	4,773,964	-	1,050,272	-
Derivative securities	5,497,049	-	1,209,351	-
Right of use asset	4,156,506	2,510,595	914,431	552,331
Provision for lawsuits	2,656,401	2,433,639	584,408	535,401
Provisions for agency receivables	2,370,474	2,370,474	474,095	474,095
Incentive commission	1,619,250	1,699,250	356,235	373,835
Deposits internal rate of return linear interest rate difference	53,872	102,163	11,852	22,476
Total deferred tax assets	347,178,119	315,004,040	74,134,213	67,771,807
Eurobond valuation difference	(1,363,005)	(7,687,231)	(299,861)	(1,691,191)
Pension business receivables	(197,520,672)	(197,593,665)	(41,527,639)	(41,910,702)
Price difference in coupon bond held for trading	1,088	(45,797)	239	(10,075)
Net difference between the carrying values and tax base values of tangible assets and intangible assets	(15,906,325)	(12,722,615)	(3,499,392)	(2,798,975)
Profit commission	(1,823,687)	-	(401,211)	-
Deferred acquisition cost	(510,700,831)	(455,243,007)	(95,934,541)	(93,732,691)
Total deferred tax liabilities	(727,313,432)	(673,292,315)	(141,662,405)	(140,143,634)
Deferred tax assets/ (liabilities) accounted for under equity over the fair value reserve for available for sale financial assets	20,994,695	4,940,567	4,618,833	1,086,924
Effect of rate change of corporation tax	-	-	261,066	261,066
Deferred tax liabilities, net	(359,140,618)	(353,347,708)	(62,648,293)	(71,023,837)

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

17. TAXES (Continued)

Deferred taxes (Continued)

Movement of deferred tax liabilities for the period ended June 30, 2020 and 2019 are as follows:

	2020	Restated (Note 1.1) 2019
Opening balance, January 1	(57,708,907)	(38,640,075)
ROP DAC impact (*)	(13,314,930)	(12,929,408)
Charged to profit or loss	4,396,568	(1,263,881)
Cancellation available for sale financial assets that are recognized in shareholders' equity of deferred tax assets	(1,086,924)	(9,574,754)
Deferred tax asset/(liability) recognized in other comprehensive income due to fair value losses on available for sale financial assets	4,618,833	8,461,323
Deferred tax asset of actuarial loss on employment termination provision	447,067	687,192
Closing balance, June 30	(62,648,293)	(53,259,603)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets and liabilities are determined using tax rates and tax legislation that has been enacted at the statement of financial position date and is expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

There are no unrecognised deferred tax assets in the periods presented.

(*) Effects of ROP DAC impact has been explained in Note 1.1.

Income tax expenses for the period ended June 30, 2020 and June 30, 2019; are as follows:

	January 1 - June 30, 2020	Restated (Note 1.1) January 1 - June 30, 2019
Income tax expense recognized in profit or loss:		
- Current tax charge	(46,531,658)	(36,709,160)
- Deferred tax charge	4,396,509	(3,342,036)
Adjustments recognized in the period for current tax of prior periods	3,819,622	5,174,533
Income tax expense	(38,315,527)	(34,876,663)

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate of 22% to income before provision for taxes as shown in the following reconciliation:

	January 1 - June 30, 2020	Restated (Note 1.1) January 1 - June 30, 2019
Profit before taxes	169,323,713	158,247,061
Tax rate	22%	22%
Taxes on income per statutory tax rate	(37,251,217)	(34,814,353)
Revenue that is exempt from taxation	(1,061,717)	(662,152)
Non-deductible expenses	(2,593)	599,842
Income tax expense	(38,315,527)	(34,876,663)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

18. EMPLOYMENT TERMINATION BENEFITS

	June 30, 2020	December 31, 2019
Provision for employment termination benefits	19,106,392	15,971,826
Total	19,106,392	15,971,826

Under Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service and attains the retirement age.

The amount payable consists of one month's salary limited to a maximum of TL 6,730 (December 31, 2019: TL 6,018) for each year of service as of June 30, 2020.

IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation; the provision has been calculated by using projection method. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	June 30, 2020	December 31, 2019
Estimated salary increase rate	7,77%	8.67%
Discount rate	12,8%	13.6%

The movement in the provision for employment termination benefits in the current period is as follows:

	2020	2019
Opening balance, January 1	15,971,826	11,934,859
Paid during the period	(781,099)	(2,608,581)
Service cost	867,855	684,778
Interest cost	1,015,688	918,956
Actuarial loss	2,032,122	3,123,624
Closing balance, June 30	19,106,392	14,053,636

19. DEFERRED EXPENSES

As at June 30, 2020 and 2019; movements of deferred expenses are as follows:

	2020	Restated (Note 1.1) 2019
Deferred acquisition costs, gross January 1	444,609,469	393,496,930
Acquisition costs deferred during the period	74,151,031	63,046,388
Amortization	(68,582,080)	(50,799,446)
Deferred acquisition costs - June 30	450,178,420	405,743,872
Deferred commission costs, gross January 1	33,578,846	37,123,339
Commission cost deferred during the period	(4,115,061)	4,949,853
Deferred commission costs - June 30	29,463,785	42,073,192
Total deferred expenses	479,642,205	447,817,064

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

20. OTHER PAYABLES AND LIABILITIES

As at June 30, 2020 and December 31, 2019; other payables and liabilities are as follows:

	June 30, 2020	December 31, 2019
Payables to shareholders	60,389,293	264,235
Payables to suppliers	21,276,687	13,672,113
Taxes and funds payable	21,185,911	17,689,835
Payables to related parties	15,328,528	5,233,195
Unused vacation provision	7,190,548	5,943,026
Deferred commission income	2,353,491	2,722,115
Payables to personnel	417,264	520,965
Other deferred income	2,055	2,052
Deposits and guarantees	4,513	3,921
Total	128,148,290	46,051,457

21. INSURANCE CONTRACT LIABILITIES

Insurance contract liabilities as at June 30, 2020 and December 31, 2019; are as follows:

	June 30, 2020	December 31, 2019
Gross insurance contract liabilities		
Life mathematical reserves (*)	1,719,905,306	1,278,324,099
Reserve for unearned premiums	88,236,330	95,871,371
Claims provision	74,684,261	69,621,739
	1,882,825,897	1,443,817,209
Reinsurance share of insurance contract liabilities		
Mathematical reserves, ceded (Note 7)	1,149,705	1,997,764
Reserve for unearned premiums, ceded (Note 7)	5,541,245	6,516,521
Claims provision, ceded (Note 7)	7,491,647	7,301,642
	14,182,597	15,815,927
Net insurance contract liabilities		
Life mathematical reserves	1,718,755,601	1,276,326,335
Reserve for unearned premiums	82,695,085	89,354,850
Claims provision	67,192,614	62,320,097
Net insurance liabilities	1,868,643,300	1,428,001,282

(*) As of June 30, 2020, the negative fair value difference of financial assets at insuree's risk amounting to TL 18,564,925 (December 31, 2019: negative fair value difference of financial assets at insuree's risk amounting to TL 13,630,243), deferred taxes on the fair value difference of financial assets at insuree's risk amounting to TL 36,673 (December 31, 2019: TL 2,059,572) and reinsurers share of TL 1,149,705. (December 31, 2019: 1,997,764) have been included in the above mentioned mathematical reserve table.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

21. INSURANCE CONTRACT LIABILITIES (Continued)

Movements in insurance liabilities and reinsurance assets

Claims:

June 30, 2020	Gross	Ceded	Net
Total at the beginning of the year	69,621,739	7,301,645	62,320,094
Change during period	5,062,522	190,002	4,872,520
Total at the end of the period	74,684,261	7,491,647	67,192,614

June 30, 2020			
Reported claims	58,045,523	6,036,357	52,009,166
Incurred but not reported	16,638,738	1,455,290	15,183,448
Total at the end of the period	74,684,261	7,491,647	67,192,614

December 31, 2019	Gross	Ceded	Net
Total at the beginning of the year	72,092,000	(6,286,342)	65,805,658
Change during period	(2,470,261)	(1,015,300)	(3,485,561)
Total at the end of the period	69,621,739	(7,301,642)	62,320,097

December 31, 2019			
Reported claims	51,507,851	(5,599,323)	45,908,528
Incurred but not reported	18,113,888	(1,702,319)	16,411,569
Total at the end of the period	69,621,739	(7,301,642)	62,320,097

Claims paid and change in outstanding claims provision for the period ended June 30, 2020 and 2019 are as follows:

	January 1 - June 30, 2020	April 1 - June 30, 2020	January 1 - June 30, 2019	April 1 - June 30, 2019
Cash paid for claims settled during the period	107,103,092	48,265,019	47,514,187	21,478,007
- Surrender and maturity from life savings	9,813,908	6,113,896	24,759,739	11,814,992
- Death and disability claims (*)	24,820,732	10,227,136	19,571,147	8,278,764
- Surrender from life protection	72,468,452	31,923,987	3,183,301	1,384,251
Change in outstanding claims provision	4,872,517	5,667,265	(237,942)	81,151
Claims paid and change in outstanding claims provision	111,975,609	53,932,284	47,276,245	21,559,158

(*) The amounts are presented net off reinsurance.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

21. INSURANCE CONTRACT LIABILITIES (Continued)

Reserve for unearned premiums:

June 30, 2020	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the year	95,871,371	(6,516,521)	89,354,850
Premiums written during the period	657,173,739	(9,760,807)	647,412,932
Premiums earned during the period	(664,808,780)	10,736,083	(654,072,697)
Reserve for unearned premiums at the end of the period	88,236,330	(5,541,245)	82,695,085
December 31, 2019	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the year	119,149,509	(4,536,303)	114,613,206
Premiums written during the period	987,754,213	(27,565,423)	960,188,790
Premiums earned during the period	(1,011,032,351)	25,585,205	(985,447,146)
Reserve for unearned premiums at the end of the period	95,871,371	(6,516,521)	89,354,850

Life mathematical reserves

	2020	2019
	Mathematical reserve TL	Mathematical reserve TL
Total at the beginning of the year, January 1	1,293,865,592	761,252,272
Additions	523,520,137	217,095,154
Disposals	(78,878,825)	(25,128,813)
Total at the end of the period, June 30 (*)	1,738,506,904	953,218,613

(*) As of June 30, 2020, the negative fair value difference of financial assets at insuree's risk amounting to TL 18,564,925 (December 31, 2019: negative fair value difference of financial assets at insuree's risk amounting to TL 13,630,243), deferred taxes on the fair value difference of financial assets at insuree's risk amounting to TL 36,673 (December 31, 2019: TL 2,059,572) and reinsurers share of TL 1,149,705. (December 31, 2019: 1,997,764) have been included in the above mentioned mathematical reserve table.

Claims development tables

The claims provision is sensitive to some key assumptions. The sensitivity of certain assumptions like legislative change, uncertainty in the estimation process, etc., is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting date.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognized in subsequent consolidated financial statements.

As at June 30, 2020; claim development table of the Group is as follows:

Accident year	2013 and earlier	2014	2015	2016	2017	2018	2019	2020	Total
Current estimate of claims									
Accident year	7,966,106	2,795,933	3,895,913	5,921,791	4,039,924	5,628,484	3,854,105	15,323,468	49,425,724
1 year later	295,428	1,044,356	749,340	775,753	1,283,802	1,988,033	1,161,270	-	7,297,982
2 year later	13,403	2,067	98,612	183,910	31,601	203,485	-	-	533,078
3 year later	-	5,338	57,126	54,797	42,044	-	-	-	159,305
4 year later	-	9,395	60,978	4,027	-	-	-	-	74,400
5 year later	-	19,121	7,076	-	-	-	-	-	26,197
6 year later	528,837	-	-	-	-	-	-	-	528,837
7 year later	-	-	-	-	-	-	-	-	-
Total	8,803,774	3,876,210	4,869,045	6,940,278	5,397,371	7,820,002	5,015,375	15,323,468	58,045,523
Incurred but not reported									16,638,738
Total gross provision for outstanding claims as at June 30, 2020									74,684,261

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

21. INSURANCE CONTRACT LIABILITIES (Continued)

As at December 31, 2019, claim development table of the Group is as follows:

Accident year	2012 and earlier	2013	2014	2015	2016	2017	2018	2019	Total
Current estimate of claims									
Accident year	3,265,507	4,700,993	3,884,552	4,027,782	5,829,895	4,869,959	5,664,402	11,241,309	43,484,399
1 year later	117,632	335,643	1,237,939	729,744	818,815	1,289,702	2,107,395	-	6,636,870
2 year later	-	4,200	2,067	138,939	194,255	487,378	-	-	826,839
3 year later	13,080	-	13,882	57,126	54,797	-	-	-	138,885
4 year later	-	43	10,895	69,138	-	-	-	-	80,076
5 year later	-	-	38,660	-	-	-	-	-	38,660
6 year later	-	-	-	-	-	-	-	-	-
7 year later	302,122	-	-	-	-	-	-	-	302,122
Total	3,698,341	5,040,879	5,187,995	5,022,729	6,897,762	6,647,039	7,771,797	11,241,309	51,507,851
Incurring but not reported									18,113,888
Total gross provision for outstanding claims as at December 31, 2019									69,621,739

22. EQUITY

Share capital of the Group as at June 30, 2020 and December 31, 2019; are as follows:

	June 30, 2020		December 31, 2019	
	Shareholding %	TL	Shareholding %	TL
Hacı Ömer Sabancı Holding A.Ş.	40.00	72,000,007	40.00	72,000,007
Aviva International Holdings Ltd.	40.00	72,000,007	40.00	72,000,007
Other	0.09	166,026	0.09	166,026
Publicly Traded	19.91	35,833,960	19.91	35,833,960
Total share capital	100.00	180,000,000	100.00	180,000,000

Profit and other capital reserves:

Details of the profit and other capital reserves are explained below:

	June 30, 2020	December 31, 2019
Profit reserves	184,865,332	135,728,079
Other capital reserves	837,095	837,095
Total	185,702,427	136,565,174

Retained earnings as per the statutory consolidated financial statements, other than legal reserve requirements as referred below, are available for distribution. The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code. The Turkish Commercial Code stipulates that 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 Group’s paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the Turkish Commercial Code, the legal reserves can only be used to offset losses unless they exceed 50% of paid-in share capital and are not available for any other usage.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

22. EQUITY (Continued)

Profit reserves

As at June 30, 2020 and December 31, 2019; details of profit reserves is as follows:

	June 30, 2020	December 31, 2019
Extraordinary reserves	104,813,937	80,922,342
Legal reserves	80,039,901	54,794,243
Statutory reserves	11,494	11,494
Total	184,865,332	135,728,079

Movement of profit reserves is presented below:

	June 30, 2020	December 31, 2019
Opening balance, January 1	135,728,079	44,498,235
Transfers	49,137,253	91,229,844
Closing balance	184,865,332	135,728,079

Profit reserves

As of 30 June 2020, the Group’s profit reserves consists of 80,039,901 TL (31 December 2019: 54,794,243 TL) legal reserves, 11,494 TL (31 December 2019: 11,494 TL) statute reserves and 104,813,937 TL (31 December 2019: 80,922,342 TL) extraordinary reserves.

Other capital reserves

As of June 30, 2020 capital reserves of the Group amounting to TL 837,095 consist of the amount of TL 512,783 as a result of addition of TL 66,028,020 to capital, which is difference resulted between the amount of TL 82,320,000 that is pre-merger nominal paid capital of Aviva Emeklilik and TL 15,779,197 that is capital increase amount of Ak Emeklilik; participants’ capitalization issue amounting to TL 324,312.

Fair value reserves from available for sale assets

Unrealized gains and losses due to changes in the fair values available for sale financial assets net of taxes are directly recognized in the shareholders’ equity as “Fair value reserves from available for sale assets”.

Movement of the reserve is below:

	2020	2019
Opening balance, January 1	(294,093)	(39,141,204)
Unrealized gains and losses due to changes in the fair values of available for sale financial assets net of taxes	(8,887,965)	5,094,674
Closing balance, June 30	(9,182,058)	(34,046,530)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

23. EARNINGS PER SHARE

The Group's earnings per share calculation is as follows:

	January 1- June 30, 2020	April 1- June 30, 2020	January 1- June 30, 2019 (Restated)	April 1- June 30, 2019 (Restated)
Profit for the period	131,008,186	77,994,855	123,370,398	68,635,580
Weighted average number of shares with nominal value of TL 0.01 nominal value per share	18,000,000,000	18,000,000,000	18,000,000,000	18,000,000,000
Earnings per share	0.0073	0.0043	0.0069	0.0038

As of June 30, 2020 capital of the Group consists of 18,000,000,000 shares with nominal value of TL 0.01 (December, 2019: 18,000,000,000 shares with nominal value of TL 0.01).

24. WRITTEN PREMIUMS

The distribution of written premiums is as follows:

	January 1- June 30, 2020			April 1- June 30, 2020		
	Gross	Reinsurer share	Net	Gross	Reinsurer share	Net
Non-life	37,685,837	(2,163,182)	35,522,655	16,465,392	(79,357)	16,386,035
Life (Life protection + savings)	619,487,902	(7,597,625)	611,890,277	312,766,951	(4,592,184)	308,174,767
Total premium income	657,173,739	(9,760,807)	647,412,932	329,232,343	(4,671,541)	324,560,802

	January 1- June 30, 2019			April 1- June 30, 2019		
	Gross	Reinsurer share	Net	Gross	Reinsurer share	Net
Non-life	42,590,685	(2,659,415)	39,931,270	16,821,494	(1,370,020)	15,451,474
Life (Life protection + savings)	326,119,502	(10,222,437)	315,897,065	174,462,618	(4,857,959)	169,604,659
Total premium income	368,710,187	(12,881,852)	355,828,335	191,284,112	(6,227,979)	185,056,133

25. INCOME GENERATED FROM PENSION BUSINESS

Income generated from pension business for the periods ended June 30, 2020 and June 30, 2019; are as follows:

	January 1- June 30, 2020	April 1- June 30, 2020	January 1- June 30, 2019	April 1- June 30, 2019
Fund management income	156,504,006	81,968,175	118,327,260	59,653,586
Management fee	46,900,584	25,299,584	41,666,303	15,999,480
Entry and deferred entry fees income	12,780,218	5,946,546	20,024,614	8,372,525
Premium holiday charges	360,621	148,896	963,690	441,678
Total	216,545,429	113,363,201	180,981,867	84,467,269

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

26. FOREIGN EXCHANGE GAINS / (LOSSES), NET

Foreign exchange gains / (losses) for the periods ended June 30, 2020 and 2019; are as follows:

	January 1- June 30, 2020	April 1 - June 30, 2020	January 1- June 30, 2019	April 1 - June 30, 2019
Foreign exchange gains	26,398,933	11,349,798	32,221,060	10,157,669
Foreign exchange losses	(20,365,983)	(10,141,626)	(14,357,964)	(6,573,919)
Total	6,032,950	1,208,172	17,863,096	3,583,750

27. COMMISSION INCOME AND COMMISSION EXPENSE

Commission income for the periods ended June 30, 2020 and June 30, 2019; are as follows:

	January 1- June 30, 2020	April 1 - June 30, 2020	January 1- June 30, 2019	April 1 - June 30, 2019
Commission income from reinsurance companies (net)	5,544,439	4,030,552	5,343,236	3,836,666
Total	5,544,439	4,030,552	5,343,236	3,836,666

Commission expense for the periods ended June 30, 2020 and June 30, 2019; are as follows:

	January 1- June 30, 2020	April 1 - June 30, 2020	January 1- June 30, 2019 (Restated)	April 1 - June 30, 2019 (Restated)
Commission expenses due to personal accident insurance	(19,314,914)	(9,636,260)	(17,185,865)	(8,815,574)
Commission expenses due to life insurance	(87,055,968)	(39,803,664)	(40,797,075)	(23,181,310)
-Change in commission expenses	(101,762,932)	(46,472,004)	(48,645,392)	(25,681,612)
-Change in deferred acquisition cost	14,706,964	6,668,340	7,848,317	2,500,302
	(106,370,882)	(49,439,924)	(57,982,940)	(31,996,884)

28. INVESTMENT AND OTHER INCOME

Investment income for the periods ended June 30, 2020 and June 30, 2019; are as follows:

	January 1- June 30, 2020	April 1 - June 30, 2020	January 1- June 30, 2019	April 1 - June 30, 2019
Interest income	65,150,376	31,144,603	49,943,390	11,017,328
-Income from financial assets at fair value through profit or loss	18,287,888	10,253,523	23,775,150	5,141,425
-Income from available for sale financial assets	46,862,488	20,891,080	26,168,240	5,875,903
Net income from sale of financial assets	22,346,818	29,822,343	(4,915,994)	10,267,075
-Income from financial assets at fair value through profit or loss	5,480,494	11,298,809	(9,352,970)	231,099
-Income from available for sale financial assets	16,866,324	18,523,534	4,436,976	10,035,976
Dividend and realization income from other financial assets	(1,452,554)	(1,854,289)	14,395,156	21,365,920
Interest expense regarding lease liabilities	(3,595,197)	(1,803,141)	(3,582,093)	(1,821,332)
Investment management expenses	(20,015,909)	(20,114,569)	676,578	654,515
Other income, net	1,559,973	370,629	5,391,024	1,661,070
Total investment and other income/(expense), net	63,993,507	37,565,576	61,908,061	43,144,576

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

29. PENSION EXPENSES INCLUDING COMMISSION

Pension expenses including commission for the periods ended June 30, 2020 and June 30, 2019; are as follows:

	January 1- June 30, 2020	April 1 - June 30, 2020	January 1- June 30, 2019	April 1 - June 30, 2019
Fund management charge	(18,283,966)	(10,396,370)	(12,101,084)	(6,014,851)
Commission expense, net of DAC	(55,067,105)	(34,753,264)	(36,740,954)	(17,012,672)
- Commission expense	(44,990,986)	(20,817,245)	(30,943,388)	(14,315,210)
- Change in deferred acquisition cost	(10,076,119)	(13,936,019)	(5,797,566)	(2,697,462)
Takasbank commission expense	(2,861,213)	(1,402,171)	(2,674,300)	(1,279,567)
Other expense	(7,358,745)	(3,626,498)	(6,846,735)	(3,250,314)
Total pension expenses	(83,571,029)	(50,178,303)	(58,363,073)	(27,557,404)

30. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the periods ended June 30, 2020 and June 30, 2019; are as follows:

	January 1- June 30, 2020	April 1 - June 30, 2020	Restated January 1- June 30, 2019	Restated April 1 - June 30, 2019
Personnel expenses	(127,526,202)	(54,878,512)	(104,877,824)	(53,590,448)
Outsourced expenses including IT services	(38,199,101)	(20,201,477)	(30,927,284)	(15,215,335)
Depreciation and amortization	(18,665,837)	(9,663,721)	(14,456,191)	(5,225,185)
Management expenses	(4,637,486)	(2,444,869)	(4,080,821)	(2,029,654)
Brokerage expenses	(3,404,525)	(22,646)	(1,468,249)	(783,550)
Travelling and transportation expenses	(3,159,290)	(292,332)	(4,862,078)	(2,455,573)
Representation and hosting expenses	(2,054,263)	(369,655)	(3,860,143)	(816,800)
Communication expenses	(2,971,442)	(1,394,369)	(2,581,021)	(1,348,248)
Advertising and marketing expenses	(1,219,219)	(745,106)	(1,516,419)	(965,174)
Office supplies expenses	(935,927)	(350,556)	(1,538,369)	(706,941)
Other marketing, sales and distribution expenses	(788,992)	(537,832)	(720,455)	(439,222)
Change in deferred acquisition cost	938,106	(4,741,976)	20,786,120	8,783,987
Other expenses	(4,753,831)	(3,141,391)	(24,983,388)	(11,560,524)
Total	(207,378,009)	(98,784,442)	(175,086,122)	(86,352,667)

Personnel expenses for the period ended June 30, 2020 and June 30, 2019; are as follows:

	January 1- June 30, 2020	April 1 - June 30, 2020	January 1- June 30, 2019	April 1 - June 30, 2019
Salaries	(65,197,910)	(30,649,134)	(58,829,035)	(29,214,255)
Commission and promotion expenses	(19,944,923)	(6,479,492)	(15,520,949)	(9,273,712)
Social security expenses	(13,599,376)	(5,943,978)	(11,603,783)	(6,015,799)
Other salary expenses	(19,089,601)	(9,697,399)	(10,713,111)	(4,366,189)
Other personnel expenses	(5,728,413)	(1,988,660)	(5,525,048)	(3,156,952)
Employee termination benefit expenses	(1,883,544)	(894,977)	(1,603,762)	(801,880)
Unused vacation expenses	(1,907,705)	775,128	(623,220)	(553,273)
Notice pay expense	(174,730)	-	(458,916)	(208,388)
Total	(127,526,202)	(54,878,512)	(104,877,824)	(53,590,448)

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

31. OTHER INCOME/(EXPENSE), NET

Other income and expenses for the periods ended June 30, 2020 and 2019 are as follows:

	January 1- June 30, 2020	April 1 - June 30, 2020	January 1- June 30, 2019	April 1 - June 30, 2019
Other income:				
Other technical income	499,040	(177,872)	-	-
Other expense:				
Other operating expense	(2,514,750)	(2,192,432)	(970,990)	(461,322)
Other expense	(713,322)	(627,756)	(163,737)	(9,025)
Total other income / (expense), net	(2,729,032)	(2,998,060)	(1,134,727)	(470,347)

32. BLOCKED SECURITIES AND BANK DEPOSITS

The amounts below are deposited in a blocked account in favour of Ministry of Finance and Treasury. Accordingly the following guarantees have been issued to the Turkish Treasury based on the financial results:

	June 30, 2020	December 31, 2019
Blocked securities	1,474,147,896	1,074,562,018
Blocked bank deposits (*)	152,493,289	129,622,006
Total	1,626,641,184	1,204,184,024

(*) 138,469,091 TRY is the company's blocked bank deposit amount and 14,024,197 TRY is the policyholder's blocked bank deposit amount in favour of Ministry of Finance and Treasury.

33. RELATED PARTY BALANCES AND TRANSACTIONS

As at June 30, 2020 and December 31, 2019 balances with related parties are as follows:

	June 30, 2020	December 31, 2019
Akbank T.A.Ş. - Credit card receivables	288,193,688	207,104,884
Other cash and cash equivalents	288,193,688	207,104,884
Akbank T.A.Ş.- Bank deposit	37,221,312	37,665,000
Banks	37,221,312	37,665,000

As of June 30, 2020 and December 31, 2019, The Group's portfolio of financial assets classified as held for trading and financial assets issued by related parties of the Group are as follows:

	June 30, 2020	December 31, 2019
Other receivables from related parties		
Akbank T.A.Ş.	-	3,114,021
Aksigorta A.Ş.	1,024,260	-
	1,024,260	3,114,021

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

33. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	June 30, 2020	December 31, 2019
Receivables from main operations		
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	115,022	93,337
Sabancı Üniversitesi	8,720	84,614
Other	48,278	(122,365)
	172,020	55,586
	June 30, 2020	December 31, 2019
Income accruals for the year		
Akbank T.A.Ş.	45,331,840	-
	45,331,840	-
	June 30, 2020	December 31, 2019
Other payables to related parties		
Sabancı Dijital Teknoloji Hizmetleri A.Ş.	7,570,893	3,448,562
EnerjiSA Anadolu Yakası Elektrik Perakende Satış A.Ş.	49,534	92,558
TeknoSA İç ve Dış Tic. A.Ş.	12,728	-
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	9,358	-
EnerjiSA Başkent Elektrik Perakende Satış A.Ş.	570	-
EnerjiSA Toroslar Elektrik Perakende Satış A.Ş.	237	-
Ak Sigorta A.Ş.	(81,378)	471,577
Vista Turizm ve Seyahat A.Ş.	(3,471)	143,334
Ak Portföy Yönetimi A.Ş.	-	917,164
	7,558,471	5,073,195
	June 30, 2020	December 31, 2019
Advances given		
Vista Turizm ve Seyahat A.Ş.	588,367	-
	588,367	-
	June 30, 2020	December 31, 2019
Payables from main operations		
Akbank T.A.Ş.	34,815,004	42,251,264
Ak Portföy Yönetimi A.Ş.	2,830,028	3,718,833
Emeklilik Gözetim Merkezi A.Ş.	308,409	266,544
	37,953,441	46,236,641

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

33. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	June 30, 2020	December 31, 2019
Expense accruals		
Hacı Ömer Sabancı Vakfı	5,059,407	-
Ak Portföy Yönetimi A.Ş.	2,550,649	-
Akbank T.A.Ş.	160,000	160,000
Aviva International Holdings Ltd.	-	93,318
	7,770,056	253,318

	June 30, 2020	December 31, 2019
Income accruals for the month		
Akbank T.A.Ş.	7,308,733	-
	7,308,733	-

	June 30, 2020	December 31, 2019
Shareholders:		
Hacı Ömer Sabancı Holding	68,519	21,884
Other	-	242,351
Payables to shareholders	68,519	264,235

Shareholders:		
Aviva International Holdings Ltd.	-	23,568
Receivables from shareholders	-	23,568

Transactions with related parties for the period ended June 30, 2020 and June 30, 2019 are as follows:

	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Services Purchased				
Akbank T.A.Ş.	77,973,503	37,946,517	86,265,238	41,403,440
- Commission paid	77,023,503	37,471,517	85,132,540	40,745,742
- Paid administrative expenses	950,000	475,000	1,132,698	657,698
Bimsa Uluslararası İletişim ve Bilgi Sistemleri A.Ş.	19,267,704	10,046,746	13,293,038	7,792,832
Ak Portföy Yönetimi A.Ş.	16,150,257	8,281,243	11,087,647	6,350,001
Vista Turizm ve Seyahat A.Ş.	1,803,944	112,869	3,111,734	600,882
Teknosa İç ve Dış Ticaret A.Ş.	227,500	85,437	235,740	(895,921)
AkSigorta A.Ş.	527,611	426,497	2,634,638	1,552,198
Emeklilik Gözetim Merkezi A.Ş.	1,873,862	927,886	1,603,031	786,512
Anadolu Yakası Elektrik Dağıtım A.Ş.	477,955	162,414	507,110	204,123
Other	605,022	93,535	900,066	513,036
	118,907,358	58,083,144	119,638,242	58,307,103

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2020**

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

33. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Financial income				
Akbank (interest income)	8,484,976	1,380,129	23,495,832	6,265,860
Enerjisa Enerji A.Ş.	160,650			
Akyatırım (liquidity provider)	15,612			
	8,661,238	1,380,129	23,495,832	6,265,860
	1 January- 30 June 2020	1 April- 30 June 2020	1 January- 30 June 2019	1 April- 30 June 2019
Services Provided				
Enerjisa Elektrik Üretim A.Ş. and subsidiaries	1,433,959	376,257	1,291,256	952,350
Kordsa Global Endüstriyel İplik ve Kordbezi San. ve Tic A.Ş.	895,258	(359)	749,353	395
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş.	726,470	(8,472)	634,987	1,761
Akbank T.A.Ş. and subsidiaries	537,625	867	476,286	(376,569)
Çimsa Çimento Sanayi ve Ticaret A.Ş. and subsidiaries	391,788	39,167	325,932	23,693
Enerjisa Enerji Üretim A.Ş. ve subsidiaries	387,187	2,348	339,943	(573,376)
Akçansa Çimento Sanayi ve Ticaret A.Ş. and subsidiaries	301,584	(3,682)	267,765	(6,995)
Aksigorta A.Ş.	286,128	(1,187)	244,011	(1,476)
Temsa Global Sanayi and Ticaret A.Ş. and subsidiaries	279,026	(41,403)	492,971	(4,088)
Other	226,569	8,494	239,478	5,284
Teknosa İç ve Dış Ticaret A.Ş. and subsidiaries	211,316	3,881	171,329	(4,898)
Bimsa Uluslararası İş. Bilgi ve Yönetim Sistemleri A.Ş.	202,034	2,822	297,290	127,851
Yünsa Yünlü Sanayi ve Ticaret A.Ş.	60,851	(12,340)	143,366	(18,283)
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	10,548	-	8,833	-
Sabancı Üniversitesi	9,934	8,725	185,914	185,707
	5,960,277	375,118	5,868,714	311,356

Benefits provided to executive management

For the period ended June 30, 2020 and 2019, wages and other benefits provided to Chairman and members of the Board of Directors, general manager, general coordinator, senior managers and assistant general managers are TL 6,785,586 and TL 7,251,485 respectively.

34. CONTINGENCIES

Provision for lawsuits

Provision for lawsuits against the Group is classified under other provision and claims provision.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

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

34. CONTINGENCIES (Continued)

Provision for lawsuits (Continued)

As at June 30, 2020 and December 31, 2019; provisions for lawsuits against the Group are as follows:

	June 30, 2020	December 31, 2019
Lawsuits provision under other provision:	10,844,368	10,328,480
Insurance lawsuits against the Group	2,684,833	5,264,549
Business lawsuits against the Group	5,529,242	2,433,639
Other lawsuits against the Group	2,630,293	2,630,292
Lawsuits provision under claims provision	26,525,458	32,578,804
Total lawsuits provision	37,369,826	42,907,284

35. COMMITMENTS

As at June 30, 2020 and December 31, 2019, total insurance risk accepted by the Group under normal courses of the insurance business is detailed in Note 4.

As at June 30, 2020 and December 31, 2019, letters of guarantee given to suppliers and government institutions are as follows:

	June 30, 2020	December 31, 2019
Letters of guarantee	9,291,629	9,723,771
Total	9,291,629	9,723,771

36. SUBSEQUENT EVENTS

The Group's consolidated financial statements as of 30 June 2020 is approved at 4 August 2020 by the Board of Directors.

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