

**AVIVASA EMEKLİLİK VE HAYAT
ANONİM ŞİRKETİ**

**FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2017
AND INDEPENDENT AUDITOR'S REVIEW REPORT**

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the Board of Directors of
AvivaSA Emeklilik ve Hayat Anonim Şirketi

Introduction

1. We have reviewed the accompanying interim statement of financial position of AvivaSA Emeklilik ve Hayat Anonim Şirketi (“the Company”) as at 30 September 2017 and the related statements of profit or loss, other comprehensive income, changes in equity and cash flows for the nine-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim financial statements 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 financial statements 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 consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be 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 financial statements do not present fairly, in all material respects, the financial position of the Company as at 30 September 2017, and its financial performance and its cash flows for the nine - month period then ended in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

Other matter

4. The financial statements of the Company as of 31 December 2016 and for the year then ended were audited and the interim financial information as of 30 September 2016 and for the nine - month period then ended were reviewed by another audit firm whose audit report dated 22 February 2017 expressed an unqualified opinion and whose review report dated 26 October 2016 expressed a conclusion that no material non-compliance with International Financial Reporting Standards has come to their attention.

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

Adnan Akan, SMMM
Partner

İstanbul, 26 October 2017

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

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AVIVASA EMEKLİLİK VE HAYAT A.Ş.

STATEMENT OF FINANCIAL POSITION AS AT SEPTEMBER 30, 2017

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

Assets	Note	September 30, 2017	December 31, 2016
Cash and cash equivalents	5	596,024,420	529,124,443
Financial assets	6	458,363,777	381,174,585
Premium and other insurance receivables	8	20,992,434	16,856,828
Reinsurance share of insurance liabilities	7	13,514,123	11,393,920
Deferred expenses	19	354,291,937	310,711,074
Other financial assets	13	868,012	838,932
Pension business receivables	9	160,331,978	97,165,390
Other assets	10	14,575,551	10,879,396
Current tax assets	17	-	989,413
Property and equipment, net	11	14,068,334	5,331,894
Intangible assets, net	12	28,525,814	17,442,634
Total assets		1,661,556,380	1,381,908,509
Liabilities			
Financial liabilities	14	-	2,248,924
Due to insurance and reinsurance companies	15	15,610,291	10,539,751
Pension business payables	9	379,817,996	329,990,885
Insurance contract liabilities	21	605,425,168	499,861,936
Provision for employment termination benefits	18	9,676,088	9,404,969
Deferred tax liabilities	17	52,026,237	46,759,762
Current tax liabilities	17	8,150,952	-
Other payables and liabilities	20	48,539,516	27,788,866
Other provisions	16	29,142,971	27,645,520
Total liabilities		1,148,389,219	954,240,613
Share capital	22	118,000,000	118,000,000
Items that may be reclassified to profit or loss			
Fair value reserves from available for sale assets	22	(2,241,935)	(3,270,313)
Other capital reserves	22	837,095	837,095
Profit reserves	22	53,117,686	29,180,281
Retained earnings		237,318,628	177,883,792
Profit for the period		106,135,687	105,037,041
Total shareholders' equity		513,167,161	427,667,896
Total equity and liabilities		1,661,556,380	1,381,908,509

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

Statement of Income	Note	January 1 – September 30, 2017	July 1 – September 30, 2017	January 1 – September 30, 2016	July 1 – September 30, 2016
Income:					
Gross written premiums	24	344,693,160	113,579,307	220,338,007	73,152,667
Premium ceded to reinsurers	24	(12,338,406)	(3,277,502)	(10,619,506)	(2,340,790)
Premium written net of reinsurance	24	332,354,754	110,301,805	209,718,501	70,811,877
Net change in provision for unearned premiums reserves		(37,428,561)	(6,025,557)	(5,638,235)	69,698
Net premiums earned		294,926,193	104,276,248	204,080,266	70,881,575
Net change in mathematical reserves		(24,512,076)	(12,432,190)	19,718,125	2,062,225
Income generated from pension business	25	214,050,965	73,413,827	171,617,014	60,115,662
Investment and other income	28	47,498,312	15,904,035	36,832,531	11,319,961
Commission income	27	5,003,358	1,492,042	4,634,442	1,179,426
Foreign exchange gains/(losses), net	26	339,559	5,241	67,275	1,685,447
Total income		537,306,311	182,659,203	436,949,653	147,244,296
Expenses:					
Claims paid and change in outstanding claims provisions		(75,326,597)	(23,527,135)	(82,709,465)	(27,477,957)
General and administrative expenses	30	(200,174,228)	(66,428,173)	(157,167,067)	(52,002,709)
Pension expenses including commission	29	(58,199,211)	(17,199,424)	(56,477,872)	(21,185,958)
Commission expense	27	(70,355,995)	(25,011,263)	(41,828,992)	(15,627,153)
Other (expense)/income, net	31	(490,156)	(26,990)	(77,787)	(58,126)
Total expenses		(404,546,187)	(132,192,985)	(338,261,183)	(116,351,903)
Profit before taxes		132,760,124	50,466,218	98,688,470	30,892,393
Income tax expense (-)	17	(26,624,437)	(10,126,134)	(20,094,400)	(6,342,574)
Profit for the period		106,135,687	40,340,084	78,594,070	24,549,819
Earnings per share (TL 0.01 nominal value per share)	23	0.0090	0.0034	0.0067	0.0021

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.**STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

		January 1 – September 30, 2017	July 1 – September 30, 2017	January 1 – September 30, 2016	July 1 – September 30, 2016
Profit for the period		106,135,687	40,340,084	78,594,070	24,549,819
Other comprehensive income:					
Items that may be reclassified subsequently to profit or (loss):					
Net gain/(loss) on available-for-sale assets		1,479,373	667,832	1,549,113	(2,580,863)
Deferred tax relating to components of other comprehensive income		(450,995)	(202,150)	(309,823)	320,111
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	22	1,028,378	465,682	1,239,290	(2,260,752)
Total comprehensive income, net of tax		107,164,065	40,805,766	79,833,360	22,289,067

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

	Note	Share capital	Other capital reserves	Items that may be reclassified to profit or loss/ Fair value reserves for available for sale financial assets	Profit reserves	Retained earnings	Profit for the period	Total
Balance at January 1, 2016 (previously reported)		118,000,000	837,095	(2,210,446)	24,648,038	151,292,303	80,513,896	373,080,886
Effects of restatement (*)		-	-	-	-	-	(17,618,210)	(17,618,210)
Balance at January 1, 2016 (restated)		118,000,000	837,095	(2,210,446)	24,648,038	151,292,303	62,895,686	355,462,676
Profit for the period		-	-	-	-	-	78,594,070	78,594,070
Other comprehensive loss	22	-	-	1,239,290	-	-	-	1,239,290
Total comprehensive income		-	-	1,239,290	-	-	78,594,070	79,833,360
Transfer	22	-	-	-	4,532,243	58,363,443	(62,895,686)	-
Dividend payment	22	-	-	-	-	(30,916,000)	-	(30,916,000)
Balance at September 30, 2016		118,000,000	837,095	(971,156)	29,180,281	178,739,746	78,594,070	404,380,036

	Note	Share capital	Other capital reserves	Items that may be reclassified to profit or loss/ Fair value reserves for available for sale financial assets	Profit reserves	Retained earnings	Profit for the period	Total
Balance at January 1, 2017		118,000,000	837,095	(3,270,313)	29,180,281	177,883,792	105,037,041	427,667,896
Profit for the period		-	-	-	-	-	106,135,687	106,135,687
Other comprehensive income	22	-	-	1,028,378	-	-	-	1,028,378
Total comprehensive income		-	-	1,028,378	-	-	106,135,687	107,164,065
Transfer	22	-	-	-	23,937,405	81,099,636	(105,037,041)	-
Dividend payment	22	-	-	-	-	(21,664,800)	-	(21,664,800)
Balance at September 30, 2017		118,000,000	837,095	(2,241,935)	53,117,686	237,318,628	106,135,687	513,167,161

(*) Effects of restatement have been explained in Note 1.1

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

	Note	January 1 – September 30, 2017	January 1 – September 30, 2016
Cash flows from operating activities:			
Profit for the period		106,135,687	78,594,070
Income taxes	17	26,624,437	20,094,400
Depreciation and amortization	31	4,772,436	2,969,129
(Gains) / losses from sale of property and equipment		-	(10,137)
Interest income		(40,071,872)	(30,806,834)
Unrealized exchange rates (gains) / losses from cash and cash equivalents		(3,263,356)	(212,279)
Fair value changes in marketable securities		(16,852,769)	(5,255,284)
Change in claims provision	21	76,543,360	83,023,585
Change in life mathematical provisions	21	63,432,508	10,496,865
Change in reserve for unearned premiums	21	37,689,802	7,034,098
Provision for employment termination benefits	18	1,440,767	1,057,299
Change in other provisions		23,292,803	36,583,475
Operating profit before changes in operating assets / liabilities		279,743,803	203,568,387
Changes in operating assets and liabilities:			
Change in premium and other insurance receivables	8	(4,135,606)	3,259,987
Change in other assets	10	(3,696,155)	(4,618,410)
Change in deferred expenses	19	(43,580,864)	(33,497,112)
Change in pension business receivables	9	(63,166,588)	(8,401,270)
Change in pension business payables	9	49,827,111	14,614,128
Taxes paid		(11,327,091)	(40,893,592)
Cash paid for claims settled during the period, net		(72,102,438)	(79,974,705)
Employment termination benefits paid	18	(1,169,648)	(1,174,777)
Net cash provided from / (used in) operating activities		130,392,524	52,882,636
Cash flows from investing activities:			
Acquisition of property and equipment	11	(8,969,775)	(3,245,145)
Acquisition of intangible assets	12	(13,835,494)	(2,190,113)
Acquisition of financial assets	6	(84,192,652)	(81,433,618)
Proceeds from sale of financial assets	6	26,929,241	77,409,788
Interest received		40,071,872	30,699,084
Net cash provided by investing activities		(39,996,808)	21,239,996
Cash flow from financing activities:			
Change in financial liabilities		(2,248,924)	12,942,840
Dividend payment	22	(21,664,800)	(30,916,000)
Net cash provided by/(used in) financing activities		(23,913,724)	(17,973,160)
Effect of exchange rates on cash and cash equivalents		(254,002)	212,279
Net increase in cash and cash equivalents		66,227,990	56,141,846
Cash and cash equivalents at the beginning of the year		405,039,713	446,518,137
Cash and cash equivalents at the end of the period		471,267,703	502,659,983

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

1. GENERAL INFORMATION

1.1 Restatement to Prior Year Financial Statements

During the course of 2016 it was determined that the Company’s accounting policy in respect of Return of Life Insurance Policies had resulted in a mismatch of the recognition of premium income and the related actuarial reserves, causing a net overstatement of the 2015 net result.

The policy has been amended to ensure the appropriate matching of revenue and related reserves and other costs in June 2016. Consequently the financial statements have been retrospectively restated to reflect the financial position and the net result in accordance with the amended accounting policy starting from June 2016. The details of the restatements to the financial statements as of 31 December 2015 are set out below;

31 December 2015	Previously Reported	Effect of Restatement	Restated
Premium and other insurance receivables	41,606,776	(23,508,244)	18,098,532
Due to insurance and reinsurance companies	(9,755,762)	1,485,481	(8,270,281)
Deferred tax liabilities	(32,899,254)	4,404,553	(28,494,701)
Total assets	1,128,343,232	(23,508,244)	1,104,834,988
Total liabilities	(755,262,346)	5,890,034	(749,372,312)
Net profit/(loss) for the year	80,513,896	(17,618,210)	62,895,686
Shareholders’ equity	373,080,886	(17,618,210)	355,462,676

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).

Ak Emeklilik was established in Istanbul on December 6, 1941 with the title of Doğan Sigorta A.Ş. On October 3, 1995, the title of Doğan Sigorta A.Ş. was changed as to “Akhayat Sigorta Anonim Şirketi” and declared on the Trade Registry Gazette.

Akhayat Sigorta Anonim Şirketi was transformed into a pension company with the official letter of the Republic of Turkey Prime Ministry Undersecretariat of Treasury (the “Undersecretariat of Treasury”) dated December 3, 2002 numbered 77941.

Based on the decision of the Board of Directors of Akhayat Sigorta Anonim Şirketi dated December 11, 2002 numbered 26 and the Extraordinary General Meeting held on January 23, 2003, it has been decided to amend the articles of association for change in company title and scope of the operations and to add Article 40 related to Pension Investment Fund Portfolio and Portfolio Managers. The title of Akhayat Sigorta Anonim Şirketi has been changed as “Ak Emeklilik Anonim Şirketi” and declared on Trade Registry Gazette dated January 31, 2003 numbered 5730.

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 16 July 2007 based on balance sheets of Ak Emeklilik and Aviva Emeklilik as of 31 May 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”.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

1 GENERAL INFORMATION (Continued)

1.2 Corporate Information (Continued)

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 16.09.2003. 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 TL0.01 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.

As of September 30, 2017 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.

On July 7, 2003, Ak Emeklilik acquired a pension operating license from the Undersecretariat of Treasury to operate in the pension branch. The individual pension investment funds were registered by the Capital Market Board (CMB) on September 26, 2003 and the sale of pension products started as of October 27, 2003.

On August 26, 2003, Aviva Emeklilik acquired a pension operating license from the Undersecretariat of Treasury to operate also in the pension branch. The individual pension investment funds were registered by the Capital Market Board (CMB) on October 27, 2003, the individual retirement plans were approved on December 12, 2003 and the sale of pension products started as of December 15, 2003. In accordance with the decree of the Board of Directors dated October 8, 2007 and numbered 15, it was decided that the pension investment funds of Aviva Emeklilik shall be transferred to Ak Emeklilik as of October 31, 2007. The pension funds of the Company are managed by Ak Portföy.

In accordance with the permission acquired from CMB dated November 20, 2008 and numbered 15-1098, the names of Pension Investment Funds have been changed. The amendments were put into practice as of December 5, 2008.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

1. GENERAL INFORMATION (Continued)

1.2 Corporate Information (Continued)

As of September 30, 2017, there are 27 pension investment funds established by the Company (December 31, 2016: 23 pension funds). The pension investment funds established by the Company are as follows:

Name of Pension Fund	Date of Establishment
AvivaSA Emeklilik ve Hayat A.Ş., Dengeli Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik ve Hayat A.Ş., Esnek Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik ve Hayat A.Ş., Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu (*)	21.10.2003
AvivaSA Emeklilik ve Hayat A.Ş., Kamu 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 Esnek Emeklilik Yatırım Fonu (*)	21.10.2003
AvivaSA Emeklilik ve Hayat A.Ş., Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu (*)	08.11.2005
AvivaSA Emeklilik ve Hayat A.Ş., Büyüme Amaçlı 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., Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu (*)	20.08.2003
AvivaSA Emeklilik ve Hayat A.Ş., Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu	20.08.2003
AvivaSA Emeklilik ve Hayat A.Ş., Birinci Esnek 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., Kamu Borçlanma Araçları Emeklilik Yatırım Fonu – Grup (*)	05.01.2005
AvivaSA Emeklilik ve Hayat A.Ş., Gelir Amaçlı Esnek Emeklilik Yatırım Fonu (*)	05.01.2005
AvivaSA Emeklilik ve Hayat A.Ş., Büyüme Amaçlı Hisse Senedi Grup Emeklilik Yatırım Fonu (*)	05.01.2005
AvivaSA Emeklilik ve Hayat A.Ş., Büyüme Amaçlı Esnek Grup Emeklilik Yatırım Fonu	17.08.2010
AvivaSA Emeklilik ve Hayat A.Ş., Büyüme Amaçlı Performans Esnek 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., BRIC Ülkeleri Esnek 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 Emeklilik Yatırım Fonu (***)	26.05.2017
AvivaSA Emeklilik ve Hayat A.Ş., Katılım Katkı Emeklilik Yatırım Fonu (***)	26.05.2017

(*) With the decision of the Capital Markets Board dated 3 March 2016 and numbered 7/223, it has been decided to make a name change in 18 pension investment funds and the application was made to CMB . Changes have been made on October 2 and October 12, 2017 and will be treated with new fund titles as of the relevant date.

(**) With the permission dated March 22, 2017 and numbered 12233903.E.3657 taken from the CMB, fund titles are registered with the Capital Markets Board Bylaws, explanations and forms have been amended in order to harmonize the pension funds with the pension investment funds approved by the resolution no. 7/223 of 3 March 2016. The amendments have been in effect since April 17, 2017.

(***) On 12 January 2017, AvivaSA Emeklilik ve Hayat A.Ş. Başlangıç Emeklilik Yatırım Fonu and AvivaSA Emeklilik ve Hayat A.Ş. Başlangıç Katılım Emeklilik Yatırım Fonu was offered to public. On May 26, 2017, AvivaSA Emeklilik ve Hayat A.Ş. Katılım Standart Emeklilik Yatırım Fonu has been offered to the public and the fund has not yet entered.

(****) The decision on the establishment of the Avivasa Emeklilik ve Hayat A.Ş. Katılım Katkı Emeklilik Yatırım Fonu was made on 5 April 2016 and the CMB process was completed. Establishment and Public Offering took place on May 26, 2017, and there is no activity in the fund due to the fact that there is no government contribution for automatic participation yet.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

1. GENERAL INFORMATION (Continued)

1.2 Corporate Information (Continued)

As at September 30, 2017 and December 31, 2016 units and amounts of share certificates in circulation are as follows:

Share certificates in circulation	September 30, 2017		December 31, 2016	
	Number of Share Certificates	Net Asset Value (TL)	Number of Share Certificates	Net Asset Value (TL)
AvivaSA Emeklilik ve Hayat A.Ş. Dengeli Emeklilik Yatırım Fonu	1,612,752,690	79,097,456	1,825,027,098	79,160,550
AvivaSA Emeklilik ve Hayat A.Ş. Esnek Emeklilik Yatırım Fonu	2,547,366,035	132,287,266	2,912,770,944	133,900,080
AvivaSA Emeklilik ve Hayat A.Ş. Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	19,858,880,729	941,708,124	16,081,866,654	682,369,684
AvivaSA Emeklilik ve Hayat A.Ş. Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	4,683,698,419	237,313,631	5,834,735,406	275,580,388
AvivaSA Emeklilik ve Hayat A.Ş. İkinci Para Piyasası Emeklilik Yatırım Fonu	2,811,340,491	114,938,845	3,339,541,946	125,676,982
AvivaSA Emeklilik ve Hayat A.Ş. İkinci Esnek Emeklilik Yatırım Fonu	2,583,381,680	68,263,277	2,612,238,033	64,903,666
AvivaSA Emeklilik ve Hayat A.Ş. Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	17,651,888,895	773,223,341	12,698,194,864	494,658,181
AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Hisse Senedi Emeklilik Yatırım Fonu	2,423,981,643	77,821,931	3,324,935,586	78,877,447
AvivaSA Emeklilik ve Hayat A.Ş. Birinci Para Piyasası Emeklilik Yatırım Fonu	35,177,192,236	1,530,172,685	32,292,033,497	1,292,876,145
AvivaSA Emeklilik ve Hayat A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	60,664,861,729	3,131,156,173	60,406,745,128	2,903,752,238
AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu	44,463,405,266	2,347,979,042	43,102,637,881	2,049,616,637
AvivaSA Emeklilik ve Hayat A.Ş. Birinci Esnek Emeklilik Yatırım Fonu	15,558,613,307	529,490,728	10,055,979,686	299,436,907
AvivaSA Emeklilik ve Hayat A.Ş. Hisse Senedi Emeklilik Yatırım Fonu	15,747,847,307	964,382,421	15,999,888,029	736,266,848
AvivaSA Emeklilik ve Hayat A.Ş. Kamu Borçlanma Araçları Emeklilik Yatırım Fonu - Grup	9,144,650,291	379,219,503	12,189,461,645	467,892,485
AvivaSA Emeklilik ve Hayat A.Ş. Gelir Amaçlı Esnek Emeklilik Yatırım Fonu	4,086,743,057	173,923,611	4,379,608,736	172,118,623
AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Hisse Senedi Grup Emeklilik Yatırım Fonu	1,790,708,835	91,732,641	2,131,598,795	79,205,948
AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Esnek Grup Emeklilik Yatırım Fonu	1,911,284,743	35,511,670	2,289,320,312	37,281,581
AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Performans Esnek Emeklilik Yatırım Fonu	112,998,575	1,807,299	97,125,669	1,456,400
AvivaSA Emeklilik ve Hayat A.Ş. Katkı Emeklilik Yatırım Fonu	131,812,307,468	1,757,980,745	110,950,391,988	1,354,704,286
AvivaSA Emeklilik ve Hayat A.Ş. Standart Emeklilik Yatırım Fonu	9,173,744,342	116,589,117	8,688,522,721	103,402,109
AvivaSA Emeklilik ve Hayat A.Ş. Altın Emeklilik Yatırım Fonu	40,362,741,780	655,531,289	23,839,674,804	348,965,160
AvivaSA Emeklilik ve Hayat A.Ş. BRIC Ülkeleri Esnek Emeklilik Yatırım Fonu	436,694,137	8,629,950	191,686,192	3,101,099
AvivaSA Emeklilik ve Hayat A.Ş. Özel Sektör Borçlanma Araçları Emeklilik Yatırım Fonu	129,951,409	1,864,543	81,689,336	1,074,378
AvivaSA Emeklilik ve Hayat A.Ş. Başlangıç Emeklilik Yatırım Fonu	6,888,855,584	74,151,642	-	-
AvivaSA Emeklilik ve Hayat A.Ş. Başlangıç Katılım Emeklilik Yatırım Fonu	3,220,961,867	34,245,267	-	-
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Katılım Emeklilik Yatırım Fonu(*)	-	-	-	-
	434,896,852,515	14,259,434,972	375,325,674,950	11,786,277,822

(*) The decision on the establishment of the AvivaSA Emeklilik ve Hayat A.Ş. Katılım Katılım Emeklilik Yatırım Fonu was made on 5 April 2016 and the CMB process was completed. Establishment and Public Offering took place on May 26, 2017, and there is no activity in the fund due to the fact that there is no government contribution for automatic participation yet.

Contribution Documents at Founder	September 30, 2017		December 31, 2016	
	Number of Share Certificates	Net Asset Value (TL)	Number of Share Certificates	Net Asset Value (TL)
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Standart Emeklilik Yatırım Fonu	40,000,000	412,775	-	-
	40,000,000	412,775	-	-

There are no entities controlled or jointly controlled by the Company (December 31, 2016: None). 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.

The average personnel number of the Company is 1,515 employees for the period ended September 30, 2017 (1 January - September, 2016: 1,482).

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

The accompanying financial statements of the Company for the year ended September 30, 2017 were authorised for issue in accordance with a resolution of the directors on October 26, 2017.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The 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 Company 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 Summary of significant accounting policies

Gross 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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 Company 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 Company 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 that entered into force on January 1, 2016, the reduction from contracts established in 2016 and beyond are tracked through this item. IAS 18 revenue recognition principle requires the deferral of upfront fees over the life time of contracts. The Company believes that first year of fees should be recognized as entry fee and the account management fees after the first year should be classified as investment management fees and recognized as revenue over the average duration of the portfolio while the services are provided. The Company applied 9 years for the average duration of the portfolio in line with the 9 years DAC amortization period estimate.

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.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

2. ACCOUNTING POLICIES (Continued)

2.2 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 Company 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 Company’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 Company’s pension products are recognized (net of deferred acquisition cost) under pension expenses. As required under Turkish pension regulations, the Company’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 THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

2. ACCOUNTING POLICIES (Continued)

2.2 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:

Machinery and equipment	4 years
Furniture and fixtures	2-15 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.

Leases as lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessee are classified as financial leases while other leases are classified as operational leases.

The payment of the operational lease is charged to profit or loss on a straight-line basis over the lease period. The incentives received or to be received from the lessor and payments made to intermediaries to acquire the lease contract are also charged to profit or loss on a straight-line basis over the lease period. As at September 30, 2017 and December 31, 2016 details of the outstanding operational lease liability has been disclosed in Note 35.

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 Company’s software development project started in 2012 to unify the basic insurance applications used within the structure of the Company 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Financial instruments

Recognition

The Company 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 Company commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Company becomes a party to contractual provisions of the instrument.

Classification

The Company 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 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 Company 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 Company 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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.

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 Company 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 Company 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 Company 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 Company about the following loss events:

- (a) significant financial difficulty of the agency or debtor;
- (b) the Company 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Premium and other insurance receivables (Continued)

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.

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 Company 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 Company may not receive all amounts and
- (b) that event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

An insurance contract is a contract under which the Company 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Insurance contracts (Continued)

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 Company 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 Company’s portfolio and contracts carry significant insurance risk, mentioned policies are within the context of insurance contracts.

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

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 resulting from and 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 Company 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 Company management has determined the period for pension contracts as nine years and amount of DAC is subject to Liability Adequacy Test each year. The Company has applied straight line method for the amortisation of DAC on pension contracts which is nine years.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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.

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 Company also reassesses its notified claims provision at each reporting date on each claim file basis.

Mathematical reserves

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 Company 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.

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FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more life insurance contracts issued by the Company, 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 Company 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 Company retention limits which are approved by the Turkish Treasury.

Pension business

The Company provides group and individual plans to customers.

The Company offers 27 pension investment funds (2016: 23). 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 Company 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”.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Employee benefits

Provision for Termination Benefit Obligations

Provision for Termination Benefit Obligations represents the present value of the estimated future probable obligation of the Company arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the 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 4,732 effective as of September 30, 2017 (December 31, 2016: TL 4,297) 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 Company’s obligation for termination benefits. The principal statistical assumptions used in the calculation of the total liability in the accompanying financial statements at September 30, 2017 and December 31, 2016 is as follows:

	September 30, 2017	December 31, 2016
	%	%
Expected rate of salary/limit increase	7.00	7.00
Discount rate	11.30	11.30

Other benefits to employees

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

Provisions

A provision is recognized when, and only when, the Company 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 material, 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 Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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

Related parties

Parties are considered related to the Company 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).

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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

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

Foreign currency transactions

Transactions are recorded in TL, which represents the Company’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:

	September 30, 2017		December 31, 2016	
	USD / TL	Euro / TL	USD / TL	Euro / TL
Bid Rates	3.5521	4.1924	3.5192	3.7099
Ask Rates	3.5638	4.2063	3.5308	3.7222

Segment reporting

Reporting segments are determined to conform to the reporting made to the Company’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.

2.3 Changes in accounting policy and disclosures

Financial statements of the Company 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 financial statements is changed, 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 September 2017

- **Amendments to IAS 7 ‘Statement of cash flows’** on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.
- **Amendments IAS 12 ‘Income Taxes’**, effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset’s tax base. It also clarify certain other aspects of accounting for deferred tax assets.

**NOTES TO THE FINANCIAL STATEMENTS
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(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

2. ACCOUNTING POLICIES (Continued)

a) Standards, amendments and interpretations applicable as at 30 September 2017 (Continued)

- **Annual improvements 2014–2016**, effective from annual periods beginning on or after 1 January 2017. These amendments impact 3 standards:
 - o IFRS 1, ‘First-time adoption of IFRS’, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
 - o IFRS 12, ‘Disclosure of interests in other entities’ regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.
 - o IAS 28, ‘Investments in associates and joint ventures’ regarding measuring an associate or joint venture at fair value effective 1 January 2018.

b) Standards, amendments and interpretations effective after 1 October 2017

- **IFRS 9 ‘Financial instruments’**, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- **IFRS 15 ‘Revenue from contracts with customers’**, effective from annual periods beginning on or after 1 January 2018. IFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- **Amendment to IFRS 15, ‘Revenue from contracts with customers’**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- **IFRS 16 ‘Leases’**, effective from annual periods beginning on or after 1 January 2019, This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- **Amendments to IFRS 4, ‘Insurance contracts’** regarding the implementation of IFRS 9, ‘Financial Instruments’, effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - o give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - o give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard - IAS 39.

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2. ACCOUNTING POLICIES (Continued)

b) Standards, amendments and interpretations effective after 1 October 2017 (Continued)

- **Amendment to IAS 40, ‘Investment property’** relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- **Amendments to IFRS 2, ‘Share based payments’** on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.
- **IFRS 17, ‘Insurance contracts’**, effective from annual periods beginning on or after 1 January 2021. 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.
- **IFRIC 22, ‘Foreign currency transactions and advance consideration’**, effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.
- **IFRIC 23, ‘Uncertainty over income tax treatments’**, effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

2.4 Critical accounting estimates and judgments in applying accounting policies

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

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.

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2. ACCOUNTING POLICIES (Continued)

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

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 Company management has estimated the period as nine years based on historical contracts lapse development and amount of DAC is subject to Liability Adequacy Test each year. The Company has applied straight line method for the amortisation of DAC which is nine years.

Deferred income reserve (DIR)

IAS 18 revenue recognition principle requires the deferral of upfront fees over the life time of contracts. The company 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 Company applied 9 years of amortisation in line with DAC.

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, five parameters have significant impacts:

- i) The lapse and surrender rates: These estimated rates are derived from past experience. In its estimation, the Company 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.

Capitalized software development costs

As of September 30, 2017, investment costs amounting to TL 16,816,628 (December 31, 2016 : TL 14,404,435), which are followed under “advances on intangible assets” account on a project basis, consist of expenditures related to modernisation of basic insurance application and existing environmental systems. On July 19, 2017, the Board of Directors has resolved to conduct the agile scrum methodology with Technology transformation of existing applications (called as the Modernisation and BAU program) and software developments in line with new business needs and, accordingly, the agreements have been signed with the service provider company. In the context of the Modernisation and BAU program, the system developments are estimated to be completed within one to two years and all costs of the related system development, including expenditures that are currently being followed as investment, will be subject to amortisation at the start date of the utilisation.

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

2. ACCOUNTING POLICIES (Continued)

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

Employee termination benefits

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Company 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 financial statements for these termination benefits, the Company 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 Company’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 Company and in case it is brought against the Company considers its consequences based on the assessments of legal advisor. The Company management makes its best estimates using the available data provided (Note 16).

2.5 Changes in Accounting Estimates and Errors

If any change in an accounting estimate affects only one period, the effects of the change shall be recognized in the period of the change; if the change affects future periods, the effects of the change shall be recognized in the period of the change and in the future periods prospectively. There are no significant changes in the accounting estimates of the Company in the current period.

Significant accounting errors are corrected retrospectively and prior period financial statements are restated. As disclosed below, an error in accounting for premium income has been identified and relevant financial statements have been restated.

The Company has recognised premiums of the Return of Premium life insurance policies on a yearly basis and recognised the actuarial mathematical reserves on a monthly basis. This cut-off error corrects itself within 12 months for each individual policy. In order to correct this error and make the financial statements comparable, the Company changed its premium accounting method; due to this change the Company’s prior year financial statements are restated retrospectively.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

3. SEGMENT INFORMATION

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

Life Protection

The Company’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 Company, 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 Company. The Company 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 Company 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 Company 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 Company 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 Company 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 Company’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:

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

3. SEGMENT INFORMATION (Continued)

January 1 - September 30, 2017	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	-	284,132,503	7,736,296	52,824,361	344,693,160	-	-	-	344,693,160
Premium ceded to reinsurers	-	(11,496,291)	(225,018)	(617,097)	(12,338,406)	-	-	-	(12,338,406)
Premium written net of reinsurance	-	272,636,212	7,511,278	52,207,264	332,354,754	-	-	-	332,354,754
Net change in mathematical reserves	-	(58,302,045)	33,792,089	-	(24,509,956)	-	(2,120)	24,512,076	-
Net change in provision for unearned premiums reserves	-	(27,345,398)	6,759	(10,089,922)	(37,428,561)	-	-	-	(37,428,561)
Net premiums earned	-	186,988,769	41,310,126	42,117,342	270,416,237	-	(2,120)	24,512,076	294,926,193
Net change in mathematical reserves	-	-	-	-	-	-	-	(24,512,076)	(24,512,076)
Claim paid and change in outstanding claims	-	(31,279,334)	(38,288,321)	(5,783,397)	(75,351,052)	-	24,455	-	(75,326,597)
Commission income	-	4,254,745	24,072	724,541	5,003,358	-	-	-	5,003,358
Commission expense	-	(52,723,151)	(2,449)	(19,960,734)	(72,686,334)	2,330,339	-	-	(70,355,995)
<i>Commission expense</i>	-	(59,881,128)	(2,449)	(19,960,734)	(79,844,311)	2,330,339	-	-	(77,513,972)
<i>DAC</i>	-	7,157,977	-	-	7,157,977	-	-	-	7,157,977
Other income / (expense), net	-	(617,979)	-	(644,534)	(1,262,513)	-	772,357	-	(490,156)
Life and personal accident technical profit	-	106,623,050	3,043,428	16,453,218	126,119,696	2,330,339	794,692	-	129,244,727
Fund management charge	146,092,554	-	-	-	146,092,554	-	-	-	146,092,554
Management fee	12,285,966	-	-	-	12,285,966	-	-	-	12,285,966
Account management fee, net of DIR	28,414,525	-	-	-	28,414,525	-	-	-	28,414,525
<i>Account management fee</i>	23,578,408	-	-	-	23,578,408	-	-	-	23,578,408
<i>DIR</i>	4,836,117	-	-	-	4,836,117	-	-	-	4,836,117
Premium holiday charges	3,121,476	-	-	-	3,121,476	-	-	-	3,121,476
Entry and deferred entry fees income	24,136,444	-	-	-	24,136,444	-	-	-	24,136,444
Pension income	214,050,965	-	-	-	214,050,965	-	-	-	214,050,965
Fund management charge	(16,419,996)	-	-	-	(16,419,996)	-	-	-	(16,419,996)
Commission expense, net of DAC	(36,718,383)	-	-	-	(36,718,383)	4,143,948	-	-	(32,574,435)
<i>Commission expense</i>	(59,183,384)	-	-	-	(59,183,384)	4,143,948	-	-	(55,039,436)
<i>DAC</i>	22,465,001	-	-	-	22,465,001	-	-	-	22,465,001
Other income / (expense), net	(9,183,910)	-	-	-	(9,183,910)	-	(20,870)	-	(9,204,780)
Pension expenses including commission	(62,322,289)	-	-	-	(62,322,289)	4,143,948	(20,870)	-	(58,199,211)
Pension technical profit	151,728,676	-	-	-	151,728,676	-	-	-	151,728,676
Total technical profit	151,728,676	106,623,050	3,043,428	16,453,218	277,848,372	-	-	-	277,848,372
General and administrative expenses	-	-	-	-	(190,492,534)	-	-	-	(190,492,534)
Net technical profit after overhead expenses	-	-	-	-	87,355,838	-	-	-	87,355,838
Foreign exchange gain/(loss), net	-	-	-	-	339,559	-	-	-	339,559
Investment and other income/(expense), net	-	-	-	-	45,064,727	-	-	-	45,064,727
Net financial income	-	-	-	-	45,404,286	-	-	-	45,404,286
Profit before taxes	-	-	-	-	132,760,124	-	-	-	132,760,124
Income tax expense	-	-	-	-	(26,624,437)	-	-	-	(26,624,437)
Profit for the year	-	-	-	-	106,135,687	-	-	-	106,135,687

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

3. SEGMENT INFORMATION (Continued)

January 1 – September 30, 2016	Life Insurance				Reconciliation to statement of profit or loss				
	Pension	Life protection	Life savings	Personal accident	Total	Commissions expenses	Other expenses	Net change in mathematical reserves	Statement of profit or loss
Gross written premiums	-	172,152,022	8,508,806	39,677,179	220,338,007	-	-	-	220,338,007
Premium ceded to reinsurers	-	(8,465,895)	(428,909)	(1,724,702)	(10,619,506)	-	-	-	(10,619,506)
Premium written net of reinsurance	-	163,686,127	8,079,897	37,952,477	209,718,501	-	-	-	209,718,501
Net change in mathematical reserves	-	(21,567,802)	41,289,565	-	19,721,763	-	(3,638)	(19,718,125)	-
Net change in provision for unearned premiums reserves	-	(3,954,607)	8,636	(1,692,264)	(5,638,235)	-	-	-	(5,638,235)
Net premiums earned	-	138,163,718	49,378,098	36,260,213	223,802,029	-	(3,638)	(19,718,125)	204,080,266
Net change in mathematical reserves	-	-	-	-	-	-	-	19,718,125	19,718,125
Claim paid and change in outstanding claims	-	(31,148,624)	(47,175,192)	(4,425,307)	(82,749,123)	-	39,658	-	(82,709,465)
Commission income	-	3,617,227	18,106	999,109	4,634,442	-	-	-	4,634,442
Commission expense	-	(26,098,693)	(5,339)	(17,275,464)	(43,379,496)	1,550,504	-	-	(41,828,992)
Other income / (expense), net	-	(40,295)	-	(155,956)	(196,251)	-	118,464	-	(77,787)
Life and personal accident technical profit	-	84,493,333	2,215,673	15,402,595	102,111,601	-	-	-	-
Fund management charge	117,527,942	-	-	-	117,527,942	-	-	-	117,527,942
Management fee	13,224,855	-	-	-	13,224,855	-	-	-	13,224,855
Account management fee	15,523,593	-	-	-	15,523,593	-	-	-	15,523,593
Entry fee	1,388,298	-	-	-	1,388,298	-	-	-	1,388,298
Deferred fee	20,477,597	-	-	-	20,477,597	-	-	-	20,477,597
Premium holiday charge	3,474,729	-	-	-	3,474,729	-	-	-	3,474,729
Pension income	171,617,014	-	-	-	171,617,014	-	-	-	171,617,014
Fund management charge	(15,989,507)	-	-	-	(15,989,507)	-	-	-	(15,989,507)
Commission expense, net of DAC	(35,438,707)	-	-	-	(35,438,707)	1,800,339	-	-	(33,638,368)
<i>Commission expense</i>	(66,704,585)	-	-	-	(66,704,585)	1,800,339	-	-	(64,904,246)
<i>DAC</i>	31,265,878	-	-	-	31,265,878	-	-	-	31,265,878
Other income/(expense), net	(6,892,189)	-	-	-	(6,892,189)	-	42,192	-	(6,849,997)
Pension expenses including commission	(58,320,403)	-	-	-	(58,320,403)	1,800,339	42,192	-	(56,477,872)
Pension technical profit	113,296,611	-	-	-	113,296,611	-	-	-	113,296,611
Total technical profit	113,296,611	84,493,333	2,215,673	15,402,595	215,408,212	-	-	-	215,408,212
General and administrative expenses	-	-	-	-	(151,818,779)	-	-	-	(151,818,779)
Net technical profit after overhead expenses	-	-	-	-	63,589,433	-	-	-	63,589,433
Foreign exchange gain/(loss), net	-	-	-	-	67,275	-	-	-	67,275
Investment income/(expense), net	-	-	-	-	35,031,762	-	-	-	35,031,762
Net financial income	-	-	-	-	35,099,037	-	-	-	35,099,037
Profit before taxes	-	-	-	-	98,688,470	-	-	-	98,688,470
Income tax expense	-	-	-	-	(20,094,400)	-	-	-	(20,094,400)
Profit for the year	-	-	-	-	78,594,070	-	-	-	78,594,070

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT

The Company 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 Company. By identifying, analyzing, measuring, controlling, managing, reporting and mitigating risks that may arise in the course of its operations in a timely manner, the Company 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 Company’s approach to risk management is based on the following elements:

- Ensuring compliance with legal obligations and the Company’s risk management policies;
- Identifying all structural risks the Company 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 Company’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 Company.

Risk Management Framework

The Company 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 Company.

- *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.

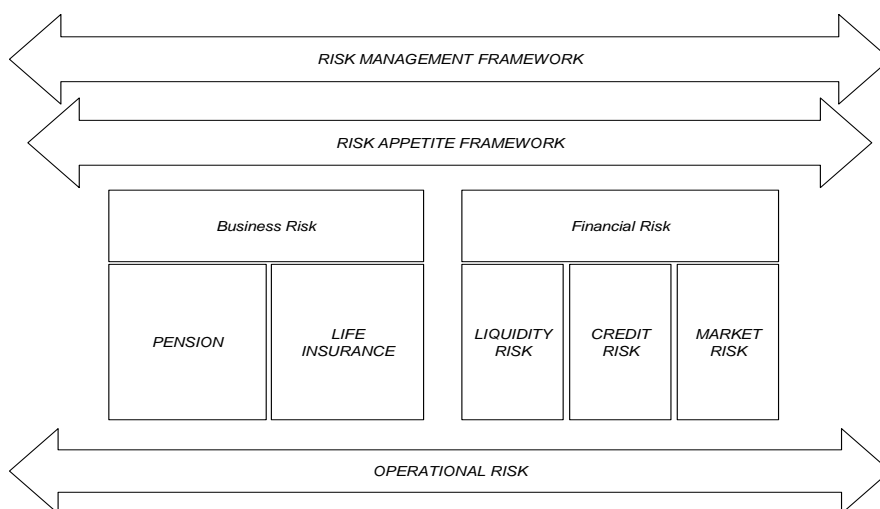
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

The Company’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 Company 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 Company and its management.

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



The Company 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 company is exposed: life insurance and private pension, credit, market, liquidity and operational risk.

Business standards

The Company 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 Company are Insurance Risk and Financial Risk (comprising mainly Market Risk and Credit Risk).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2017**

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

Insurance Risk

This is the risk that the insurance premiums allocated by the Company 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.

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 Company. The all risk associated with the Company’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 Gen Re. The company has signed reinsurance agreements with Scor Global Life ve RGA 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 Company 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 Company, handling both individual and corporate policies, and the assessment and settlement of incurred claims takes place on a monthly basis.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

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.

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

As at September 30, 2017 and December 31, 2016, 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	September 30, 2017	December 31, 2016
Life	11%	17%
Personal Accident (Casualty)	16%	19%

As at September 30, 2017 and December 31, 2016 that part of total risk which is ceded to reinsurers is given below on a risk coverage basis.

September 30, 2017

Life

Natural death	Accidental Death	Accidental disability	Sickness disability	Dangerous Sickness	Public Transport	Unemployment	Accidental Treatment Cost
11.87%	16.62%	7.25%	9.92%	49.90%	16.92%	100.00%	0.84%

Personal Accident

Accidental death	Accidental disability	Accidental treatment cost	Unemployment
1.72%	1.98%	0.01%	100.00%

December 31, 2016

Life

Natural death	Accidental Death	Accidental disability	Sickness disability	Dangerous Sickness	Public Transport	Unemployment	Accidental Treatment Cost
7.79%	17.09%	5.93%	5.64%	51.27%	18.59%	100.00%	0.79%

Personal Accident

Accidental death	Accidental disability	Accidental treatment cost	Unemployment
1.43%	1.70%	0.01%	100.00%

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

Sensitivity to Insurance Risk

The Company’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 September 30, 2017 and December 31, 2016 the Company has both proportional and non-proportional reinsurance treaties.

Outstanding claims are reviewed and updated periodically by claims department.

The Company 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):

September 30, 2017	Total gross risk liability	Share of reinsurer in total risk liability	Net risk liability
Life	35,839,065,482	4,254,549,219	31,584,516,263
Personal Accident	40,603,367,766	737,994,664	39,865,373,102
Total	76,442,433,248	4,992,543,883	71,449,889,365

December 31, 2016	Total gross risk liability	Share of reinsurer in total risk liability	Net risk liability
Life	32,718,162,724	2,549,829,277	30,168,333,447
Personal Accident	34,700,581,853	541,785,197	34,158,796,656
Total	67,418,744,577	3,091,614,474	64,327,130,103

The Company’s gross provision for outstanding claims at September 30, 2017 and December 31, 2016 are as follows:

Outstanding Claims	September 30, 2017	December 31, 2016
Life	62,294,648	57,036,344
Personal Accident	11,033,051	11,850,433
Total	73,327,699	68,886,777

Financial Risk

Financial risk arises from the financial instruments used by the Company, 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 Company, interest rate risk and foreign exchange risk.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

a) Market Risk (Continued)

i) Foreign Currency Risk

The Company 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 September 30, 2017 and December 31, 2016 are as follows:

At September 30, 2017, on condition that all variables remain constant, effect of a 10% appreciation/devaluation of Eurobonds against TL on owners’ equity is TL 58,893 / (58,893). As at September 30, 2016, on condition that all variables remain constant, effect of a 10% appreciation/devaluation of Eurobonds against TL on owners’ equity is TL 23,852 / (23,852).

September 30, 2017:

Liabilities and assets in foreign currency Exchange rate variation (*)	Effect on income/expense		
	USD	EUR	GBP
10%	670,513	80,355	(579)
-10%	(670,513)	(80,355)	579

September 30, 2016:

Liabilities and assets in foreign currency Exchange rate variation (*)	Effect on income/expense		
	USD	EUR	GBP
10%	211,477	24,426	253
-10%	(211,477)	(24,426)	(253)

(*) All amounts are presented in TL.

ii) Interest Risk

The Company’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 Company 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 on the statement of profit or loss of a 5% increase/(decrease) in market interest rates for TL securities, as well as of a 0,5 % increase/(decrease) for USD and EURO 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.

As at 30 September 2017:

Total of trading and available for sale financial assets Market interest increase / (decrease) (**)	Effect Profit and Loss		
	TL	USD (*)	EUR (*)
5%	(9,889,926)	(2,835,525)	(2,857)
-5%	9,375,397	2,228,263	2,367

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

ii) Interest Risk (Continued)

Trading financial assets (company)		Effect Profit and Loss		
Market interest increase / (decrease) (**)		TL	USD (*)	EUR (*)

%5	(1,391,811)	-	-	-
-%5	1,382,848	-	-	-

Available for sale financial assets		Effect Profit and Loss		
Market interest increase / (decrease) (**)		TL	USD (*)	EUR (*)

5% Asset backing investment contacts	(6,783,363)	(2,835,525)	(2,857)	
5% Available for sale financial assets (company)	(1,714,752)	-	-	
-5% Asset backing investment contacts	6,378,084	2,228,263	2,367	
-5% Available for sale financial assets (company)	1,614,465	-	-	

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

(**) Amounts are shown in relevant currency.

September 30, 2016:

Total of trading and available for sale financial assets		Effect Profit and Loss		
Market interest increase / (decrease) (**)		TL	USD (*)	EUR (*)

5%	(12,767,002)	(5,009,730)	(5,420)	
-5%	12,267,645	4,368,272	4,381	

Trading financial assets (company)		Effect Profit and Loss		
Market interest increase / (decrease) (**)		TL	USD (*)	EUR (*)

5%	(680,449)	-	-	
-5%	745,921	-	-	

Available for sale financial assets		Effect Profit and Loss		
Market interest increase / (decrease) (**)		TL	USD (*)	EUR (*)

5% Asset backing investment contacts	(10,578,667)	(1,749,685)	(5,420)	
5% Available for sale financial assets (company)	(1,507,886)	(3,260,045)	-	
-5% Asset backing investment contacts	10,083,369	1,406,936	4,381	
-5% Available for sale financial assets (company)	1,438,355	2,961,336	-	

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

(**) All amounts are shown in relevant currency.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

b) *Credit Risk*

Credit risk is the failure of Company 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 Company 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.

Maximum exposure to credit risk

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

	September 30, 2017	December 31, 2016
Cash and cash equivalents	596,024,420	529,124,443
Financial assets	458,363,777	381,174,585
Pension business receivables	160,331,978	97,165,390
Premium and other insurance receivables	20,992,434	16,856,828
Reinsurance share of insurance liabilities	13,514,123	11,393,920
Other financial assets	868,012	838,932
Total	1,250,094,744	1,036,554,098

c) *Liquidity Risk*

The Company 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk (Continued)

As at September 30, 2017, table of liquidity risk is as follows:

The following tables detail the Company’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 Company 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.

September 30, 2017	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	596,024,420	48,444,496	541,991,944	-	-	-	-	590,436,440
Financial assets	458,363,777	-	22,278,787	714,736	44,675,549	346,159,844	57,423,871	471,252,787
- Available for sale financial investments	18,102,736	-	15,190,157	-	4,323,736	(1,411,157)	-	18,102,736
- Financial assets at fair value through profit or loss	81,704,187	-	7,088,630	714,736	11,710,235	4,766,715	57,423,871	81,704,187
- Available for sale asset backing financial investments, Policyholders’ portfolio	358,556,854	-	-	-	28,641,578	342,804,286	-	371,445,864
4Premium and other insurance receivables	20,992,434	20,274	13,021,305	5,972,531	157,201	-	-	19,171,311
Pension business receivables	160,331,978	18,817,164	2,507,453	5,513,885	63,311,815	51,840,258	18,341,403	160,331,978
Other financial assets	868,012	-	-	-	-	-	868,012	868,012
Total	1,236,580,621	67,281,934	579,799,489	12,201,152	108,144,565	398,000,102	76,633,286	1,242,060,528
Financial liabilities								
Financial liabilities	-	-	-	-	-	-	-	-
Due to insurance and reinsurance companies	15,610,291	334,463	15,275,828	-	-	-	-	15,610,291
Pension business payables	379,817,996	232,537,571	27,027,241	5,513,885	62,899,041	51,840,258	-	379,817,996
Other payables and liabilities	48,539,516	17,668,183	23,775,431	263,468	6,832,435	-	-	48,539,517
Total	443,967,803	250,540,217	66,078,500	5,777,353	69,731,476	51,840,258	-	443,967,804
Liquidity surplus/(deficit)	792,612,818	(183,258,283)	513,720,989	6,423,799	38,413,089	346,159,844	76,633,286	798,092,724

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

c) *Liquidity Risk (Continued)*

As at December 31, 2016, table of liquidity risk is as follows:

December 31, 2016	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	529,124,443	54,148,173	476,723,769					530,871,942
Financial assets	381,174,585	54,927,701	-	-	-	361,821,447	-	416,749,148
- Available for sale financial investments	9,295,188	-	-	-	-	10,674,871	-	10,674,871
- Financial assets at fair value through profit or loss	54,916,845	54,927,701	-	-	-	-	-	54,927,701
- Available for sale asset backing financial investments, Policyholders' portfolio	316,962,552	-	-	-	-	351,146,576	-	351,146,576
Premium and other insurance receivables	16,856,828	167,755	10,693,639	5,698,329	297,105	-	-	16,856,828
Pension business receivables	97,165,390	10,811,334	191,169	4,518,081	47,717,285	33,436,056	491,465	97,165,390
Other financial assets	838,932	-	-	-	-	-	838,932	838,932
Total	1,025,160,178	120,054,963	487,608,577	10,216,410	48,014,390	395,257,503	1,330,397	1,062,482,240
Financial liabilities								
Financial liabilities	2,248,924	2,248,924	-	-	-	-	-	2,248,924
Due to insurance and reinsurance companies	10,539,751	104,805	10,434,946	-	-	-	-	10,539,751
Pension business payables	329,990,885	220,184,272	28,653,272	-	47,717,285	33,436,056	-	329,990,885
Other payables and liabilities	27,788,866	10,306,572	9,900,930	104,664	7,476,700	-	-	27,788,866
Total	370,568,426	232,844,573	48,989,148	104,664	55,193,985	33,436,056	-	370,568,426
Liquidity surplus/(deficit)	654,591,752	(112,789,610)	438,619,429	10,111,746	(7,179,595)	361,821,447	1,330,397	691,913,814

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

(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 Company 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 Company 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).

	September 30, 2017			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Available for sale financial assets (Note 6)	18,102,736	-	-	18,102,736
Financial assets held for trading (Note 6)	81,704,187	-	-	81,704,187
Financial investments with risks on policyholders as available for sale (Note 6) (*)	343,366,697	-	-	343,366,697
Total financial assets	443,173,620	-	-	443,173,620

(*) Time deposits amounting to TL 15,190,157 are not included. Carrying values of time deposits approximate their fair values due to their short term nature.

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Available for sale financial assets (Note 6)	9,295,188	-	-	9,295,188
Financial assets held for trading (Note 6)	54,916,845	-	-	54,916,845
Financial investments with risks on policyholders classified as available for sale (Note 6) (*)	315,429,523	-	-	315,429,523
Total financial assets	379,641,556	-	-	379,641,556

(*) Time deposits amounting to TL 1,533,029 are not included. Carrying values of time deposits approximate their fair values due to their short term nature.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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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 Company 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 Company regards tight control over its IT systems as a strategic necessity. The Company 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 Company’s risk tracking system, called OPERA, which is updated to reflect changes in the operating environment and its business processes.

Capital Management

The Company’s capital adequacy is calculated within the framework of “Regulation on Measurement and Evaluation of Capital Adequacy of Insurance, Reinsurance and Pension Companies” published in the Official Gazette dated January 19, 2008 and numbered 26761, in the semi-annual periods. The main purpose of the Company’s capital management is to maximize the contribution provided made to its shareholders in order to create and maintain a strong capital structure to continue the operations of the Company.

As of September 30, 2017 and December 31, 2016, the Company has a sufficient amount of equity for losses which may arise from current liabilities and potential risks of the Company. As of September 30, and December 31, 2016, the required capital reserves (calculated in accordance with the above-mentioned local regulation) and current capital adequacy analysis is as follows:

	June 30, 2017	December 31, 2016
Total shareholders’ equity in the statutory financial statements (*)	222,681,881	199,750,590
Required minimum capital reserves	148,705,767	132,791,270
Capital surplus	73,976,114	66,959,320

(*) Includes equalization reserve.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

5. CASH AND CASH EQUIVALENTS

As at September 30, 2017 and December 31, 2016, cash and cash equivalents are as follows:

	September 30, 2017	December 31, 2016
Banks (*)	361,863,486	306,518,142
Other cash and cash equivalents (**)	(111,939)	222,714,993
Cheques given and payment orders	234,272,873	(108,692)
Total cash and cash equivalents	596,024,420	529,124,443
Blockage amount	(122,497,336)	(122,675,745)
Accrued interest	(2,259,381)	(1,408,985)
Total cash and cash equivalents per statement of cash flow	471,267,703	405,039,713

(*) Note 32 presents the details about the blockage on bank accounts in favour of Undersecretariat of 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:

	September 30, 2017	December 31, 2016
	Interest Rate	Interest Rate
	(%)	(%)
USD	4.03	3.01
TL	14.13	11.11

As of September 30, 2017, TL deposit maturity varies between October 2, 2017 and November 15, 2017, foreign currency deposits maturity is April 7, 2017.

As of December 31, 2016, TL deposit maturity varies between January 2, 2017 and March 3, 2017, foreign currency deposits maturity is January 4, 2017.

As at September 30, 2017 and December 31, 2016; the detail of cash and cash equivalents are as follows:

	September 30, 2017	December 31, 2016
Foreign currency cash and cash equivalents	21,166,767	12,672,255
- demand deposits	1,631,434	680,006
- time deposits	19,534,858	11,991,564
- credit card receivables	475	685
TL cash and cash equivalents	574,857,653	516,452,188
- demand deposits	11,861,807	42,905,259
- time deposits	328,835,387	250,941,313
- credit card receivables	234,272,398	222,714,308
- cheques given and payment orders	(111,939)	(108,692)
Total	596,024,420	529,124,443

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

6. FINANCIAL ASSETS

As at September 30, 2017 and December 31, 2016; the securities portfolio of the Company is as follows:

	September 30, 2017	December 31, 2016
Financial assets at fair value through profit or loss	81,704,187	54,916,845
Total available for sale financial assets	376,659,590	326,257,740
Available for sale financial investments	18,102,736	9,295,188
Available for sale asset backing financial investments, policyholders’ portfolio	358,556,854	316,962,552
Total securities portfolio	458,363,777	381,174,585

As at September 30, 2017 and December 31, 2016; financial assets as fair value through profit or loss are as follows:

	September 30, 2017		
	Cost	Fair value	Carrying value
Investment funds	43,679,031	57,423,871	57,423,871
Private sector bonds	23,780,000	24,280,316	24,280,316
Total financial assets at fair value through profit or loss	67,459,031	81,704,187	81,704,187
	December 31, 2016		
	Cost	Fair value	Carrying value
Investment funds	35,412,525	44,038,355	44,038,355
Private sector bonds	10,710,000	10,878,490	10,878,490
Total financial assets at fair value through profit or loss	46,122,525	54,916,845	54,916,845

As at September 30, 2017 and December 31, 2016; available for sale financial assets owned by the Company are as follows:

	September 30, 2017		
	Cost	Fair value	Carrying value
Treasury bills and government bonds – TL	21,538,000	18,102,736	18,102,736
Total available for sale financial investments	21,538,000	18,102,736	18,102,736
	December 31, 2016		
	Cost	Fair value	Carrying value
Treasury bills and government bonds – TL	10,772,000	9,295,188	9,295,188
Total available for sale financial investments	10,772,000	9,295,188	9,295,188

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

6. FINANCIAL ASSETS (Continued)

As at September 30, 2017 and December 31, 2016; available for sale financial assets backing insurance contracts are as follows:

	September 30, 2017		
	Cost	Fair value	Carrying value
Treasury bills and government bonds – TL	64,784,796	53,556,539	53,556,539
Eurobonds – USD	306,094,059	288,056,042	288,056,042
Eurobonds – EUR	1,611,456	1,754,116	1,754,116
Time deposits – TL	5,000,000	5,044,819	5,044,819
Time deposits – USD	10,123,485	10,145,338	10,145,338
Total available for sale asset backing financial investments, policyholders’ portfolio	387,613,796	358,556,854	358,556,854

	December 31, 2016		
	Cost	Fair value	Carrying value
Treasury bills and government bonds – TL	75,550,796	63,035,736	63,035,736
Eurobonds – USD	281,603,714	250,849,196	250,849,196
Eurobonds – EUR	1,425,995	1,544,591	1,544,591
Time deposits – TL	1,500,000	1,533,029	1,533,029
Total available for sale asset backing financial investments, policyholders’ portfolio	360,080,505	316,962,552	316,962,552

As at September 30, 2017 and September 30, 2016; financial assets at fair value through profit or loss and available for sale financial assets movement table are as follows:

	2017	2016
Opening, January 1	381,174,585	333,829,916
Purchases	84,192,652	81,433,618
Disposals	(26,929,241)	(76,379,281)
Change in the valuation - unrealized gain and losses	(3,285,205)	(4,155,637)
Disposals through the redemption	-	(7,241,565)
Unrealized exchange rate gains/(losses)	2,372,386	6,211,058
Change in balance recognized under equity	1,285,474	1,549,113
Change in balance recognized under life mathematical reserves	19,553,126	7,699,625
Closing, September 30	458,363,777	342,946,847

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

6. FINANCIAL ASSETS (Continued)

The maturity analysis of financial assets is as follows:

As at September 30, 2017 and December 31, 2016; the remaining contractual maturities of financial assets are as follows:

	September 30, 2017						Total
	No stated maturity	0-3 months	3-6 months	6 months to 1 year	1-3 years	More than 3 years	
Government bonds and treasury bills	-	-	-	-	14,278,384	57,380,891	71,659,275
Eurobonds	-	-	-	-	19,009,716	270,800,442	289,810,158
Private sector bonds	-	7,088,630	-	714,736	11,710,235	4,766,715	24,280,316
Time deposits	-	15,190,157	-	-	-	-	15,190,157
Investment funds	57,423,871	-	-	-	-	-	57,423,871
	57,423,871	22,278,787	-	714,736	44,998,335	332,948,048	458,363,777

	December 31, 2016						Total
	No stated maturity	0-3 months	3-6 months	6 months to 1 year	1-3 years	More than 3 years	
Government bonds and treasury bills	-	-	-	-	-	72,330,924	72,330,924
Eurobonds	-	-	-	-	-	252,393,787	252,393,787
Private sector bonds	-	-	-	7,101,060	3,777,430	-	10,878,490
Time deposits	-	1,533,029	-	-	-	-	1,533,029
Investment funds	44,038,355	-	-	-	-	-	44,038,355
	44,038,355	1,533,029	-	7,101,060	3,777,430	324,724,711	381,174,585

The currency analysis of financial assets is as follows:

	September 30, 2017			
	Currency Type	Currency Amount	Rate	Amount TL
Financial assets available-for-sale	TL			18,102,736
Financial assets at fair value through profit or loss	TL			81,704,187
Financial investments with risks on policy holders	USD	83,950,729	3.5521	298,201,384
	EUR	418,403	4.1924	1,754,113
	TL			58,601,358
				358,556,854
Total securities portfolio				458,363,777

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

6. FINANCIAL ASSETS (Continued)

	December 31, 2016			
	Currency Type	Currency Amount	Rate	Amount TL
Financial assets available-for-sale	TL	-	-	9,295,188
				9,295,188
Financial assets at fair value through profit or loss	TL	-	-	54,916,845
				54,916,845
Financial investments with risks on policy holders	USD	71,280,176	3.5192	250,849,196
	EUR	416,343	3.7099	1,544,591
	TL	-	-	64,568,765
				316,962,552
Total securities portfolio				381,174,585

7. REINSURANCE SHARE OF INSURANCE LIABILITIES

As at September 30, 2017 and December 31, 2016; reinsurance share of insurance liabilities are as follows:

	September 30, 2017	December 31, 2016
Reinsurers’ share of outstanding claims	6,139,926	4,923,163
Reinsurers’ share of unearned premiums reserve	5,117,330	4,856,089
Reinsurers’ share of life mathematical reserve	2,256,867	1,614,668
	13,514,123	11,393,920

8. PREMIUM AND OTHER INSURANCE RECEIVABLES

As at September 30, 2017 and December 31, 2016; premium and other insurance receivables are as follows:

	September 30, 2017	December 31, 2016
Policyholders and reinsurance companies	20,972,160	16,667,157
Loans to policyholders	20,274	189,671
Total premium and other insurance receivables	20,992,434	16,856,828

Loans to policyholders are secured by the accumulated premiums of the policyholders.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

8. PREMIUM AND OTHER INSURANCE RECEIVABLES (Continued)

As at September 30, 2017 and December 31, 2016; maturity distribution of neither past due nor impaired insurance operations receivables is as follows:

	September 30, 2017	December 31, 2016
Receivables from policyholders and reinsurance companies		
Up to 3 months	7,156,873	5,684,249
3 to 6 months	3,105,665	2,910,942
6 to 9 months	1,722,486	1,754,653
9 to 12 months	549,684	645,170
	12,534,708	10,995,014

As at September 30, 2017 and December 31, 2016; an analysis of the aging of overdue but not impaired insurance operations receivables is as follows:

	September 30, 2017	December 31, 2016
Overdue 0-3 months	7,614,162	4,846,023
Overdue 3-6 months	269,043	185,744
Overdue 6-9 months	191,054	118,923
Overdue 9-12 months	134,599	60,981
Overdue 1 year	157,201	297,105
	8,366,059	5,508,776

As of September 30, 2017, total of receivables from reinsurance companies are TL 71,393 (31 December 2016: TL 163,367).

As at September 30, 2017 and December 31, 2016; maturity distribution of neither past due nor impaired loans to the policyholders is as follows:

	September 30, 2017	December 31, 2016
Up to 3 months	20,274	167,755
6 to 9 months		21,916
	20,274	189,671

As at September 30, 2017 and December 31, 2016; the collateral held by the Company as security for its receivables are as follows:

	September 30, 2017			
	USD	EURO	TL	Total (TL)
Guarantees received				
Letter of guarantees	71,042	6,372	12,020,748	12,098,162
Mortgage deed	-	-	309,700	309,700
Other guarantees	345,640	11,583	945,815	1,303,038
	416,682	17,955	13,276,263	13,710,900

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

8. PREMIUM AND OTHER INSURANCE RECEIVABLES (Continued)

	December 31, 2016			
	USD	EURO	TL	Total (TL)
Guarantees received				
Letter of guarantees	211,152	5,639	9,259,110	9,475,901
Mortgage deed	-	-	315,200	315,200
Other guarantees	367,344	16,186	1,243,310	1,626,840
	578,496	21,825	10,817,620	11,417,941

9. PENSION BUSINESS RECEIVABLES AND PAYABLES

As at September 30, 2017 and December 31, 2016; pension business receivables are as follows:

	September 30, 2017	December 31, 2016
Due from pension operations	17,739,522	11,282,864
Pension business receivables - deferred income reserves	142,179,681	85,882,526
Investment management fee receivable	412,775	-
Total individual pension business receivables, net	160,331,978	97,165,390

As at September 30, 2017 and December 31, 2016; pension business payables are as follows:

	September 30, 2017	December 31, 2016
Temporary account of participants	242,084,837	237,477,141
Pension business payables - deferred income reserves (*)	132,614,379	81,153,341
Other payables from pension operations	5,118,780	11,360,403
Total pension business payables	379,817,996	329,990,885

(*) Reserve for account management fee deferred over 9 years based on the average deviation of the contract terms of pension portfolio.

10. OTHER ASSETS

As at September 30, 2017 and December 31, 2016; other assets are as follows:

	September 30, 2017	December 31, 2016
Prepaid expenses	6,244,997	4,387,383
Other receivables from other related parties	6,057,272	4,048,695
Other receivables from third parties	1,745,160	2,068,956
Advances given	113,893	62,679
Deposits and guarantees given	115,955	125,852
Advances to personnel	48,731	-
Receivables from shareholders (Note 33)	-	83,775
Other accrual	-	-
Other	249,543	102,056
Total other assets	14,575,551	10,879,396

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

11. PROPERTY AND EQUIPMENT, NET

As of September 30, 2017 and September 30, 2016; tangible assets movement and its accumulated depreciation is as follows:

Cost	January 1, 2017	Additions	Disposals	September 30, 2017
Machinery and equipment	6,228,595	3,689,930	-	9,918,525
Furniture and fixtures	10,600,146	4,525,127	-	15,125,273
Other tangible assets	11,962,940	754,718	-	12,717,658
Leased assets	1,175,521	-	-	1,175,521
Advances given for tangible assets	-	1,786,787	-	1,786,787
	29,967,202	10,756,562	-	40,723,764

Accumulated depreciation	January 1, 2017	Period charge	Disposals	September 30, 2017
Machinery and equipment	3,613,442	1,208,744	-	4,822,186
Furniture and fixtures	9,307,768	437,295	-	9,745,063
Other tangible assets	10,538,577	374,083	-	10,912,660
Leased assets	1,175,521	-	-	1,175,521
	24,635,308	2,020,122	-	26,655,430

Net book value	5,331,894			14,068,334
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Cost	January 1, 2016	Additions	Disposals	September 30, 2016
Machinery and equipment	7,649,793	2,448,501	(3,974,462)	6,123,832
Furniture and fixtures	10,561,534	148,332	(134,597)	10,575,269
Other tangible assets	11,100,068	648,312	-	11,748,380
Leased assets	1,175,521	-	-	1,175,521
	30,486,916	3,245,145	(4,109,059)	29,623,002

Accumulated depreciation	January 1, 2016	Period charge	Disposals	September 30, 2016
Machineryand equipment	6,773,762	557,835	(3,974,462)	3,357,135
Furniture and fixtures	8,821,235	478,812	(133,857)	9,166,190
Other tangible assets	9,939,746	451,219	-	10,390,965
Leased assets	1,175,521	-	-	1,175,521
	26,710,264	1,487,866	(4,108,319)	24,089,811

Net book value	3,776,652			5,533,191
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AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

12. INTANGIBLE ASSETS, NET

As of September 30, 2017 and September 30, 2016; intangible assets movement and its accumulated amortization are as follows:

Cost	January 1, 2017	Additions	Transfer	September 30, 2017
Software	34,078,662	8,258,189	3,165,112	45,501,963
Capitalized software development costs	14,404,435	5,577,305	(3,165,112)	16,816,628
	48,483,097	13,835,494	-	62,318,591

Accumulated amortization	January 1, 2017	Period charge	Disposals	September 30, 2017
Software	31,040,463	2,752,314	-	33,792,777
	31,040,463	2,752,314	-	33,792,777

Net book value	17,442,634			28,525,814
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Cost	January 1, 2016	Additions	Transfer	September 30, 2016
Software	31,805,967	443,055	1,045,495	33,294,517
Capitalized software development costs	12,413,962	1,747,057	(1,045,495)	13,115,524
	44,219,929	2,190,112	-	46,410,041

Accumulated amortization	January 1, 2016	Additions	Transfer	September 30, 2016
Software	29,057,310	1,481,263	-	30,538,573
	29,057,310	1,481,263	-	30,538,573

Net book value	15,162,619			15,871,468
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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 September 30, 2017 and December 31, 2016; the details of other financial assets are as follows:

	September 30, 2017		December 31, 2016	
	Participation rate %	Amount	Participation rate %	Amount
Milli Reasürans A.Ş.	0.1494	575,082	0.1494	575,082
Emeklilik Gözetim Merkezi A.Ş.	5.5553	292,303	5.2629	263,222
Enternasyonal Turizm Yatırım A.Ş.	0.0001	2	0.0001	2
Endüstri Holding A.Ş.	0.0000	625	0.0001	626
Total		868,012		838,932

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

14. FINANCIAL LIABILITIES

	September 30, 2017	December 31, 2016
Short-term bank loans	-	2,248,924
	-	2,248,924

15. DUE TO INSURANCE AND REINSURANCE COMPANIES

As at September 30, 2017 and December 31, 2016; due to insurance and reinsurance companies are as follows:

	September 30, 2017	December 31, 2016
Due to the intermediaries	14,071,520	9,916,451
Due to the reinsurance companies	1,204,308	518,495
Due to the policyholders	334,463	104,805
	15,610,291	10,539,751

16. OTHER PROVISIONS

As at September 30, 2017 and December 31, 2016; provision for expenses and lawsuit provisions are as follows:

	September 30, 2017	December 31, 2016
Personnel bonus provision	13,347,850	12,702,261
Provision for lawsuit against the Company (Note 34)	8,859,811	5,898,007
Bonus provision for sales personnel	3,864,310	5,881,987
Commission provision	3,071,000	3,163,265
	29,142,971	27,645,520

17. TAXES

Corporate taxes

Statutory income is subject to corporate tax at 20% (2016: 20%). 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.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

17. TAXES (Continued)

Transfer pricing

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 2017 is 20%. (2016: 20%). 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.

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 18 November 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.

Income tax

As at September 30, 2017 and December 31, 2016; prepaid income taxes are netted off with the current income tax payable as stated below:

	September 30, 2017	December 31, 2016
Income taxes payable	23,607,977	10,147,922
Prepaid income taxes (-)	(15,457,025)	(11,137,335)
Current tax liabilities / (assets)	8,150,952	(989,413)

Deferred taxes

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

17. TAXES (Continued)

Deferred taxes (Continued)

Tax rate is applied as 20% for the calculation of deferred tax asset and liabilities. The details of deferred taxes are presented in the following tables.

	Cumulative temporary Differences		Deferred tax assets / (liabilities)	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Deferred income reserves	132,614,379	81,153,341	26,522,876	16,230,668
Incentive commission	980,143	18,155,080	196,029	3,631,016
Net difference between the carrying values and tax base values of tangible assets and intangible assets	15,447,600	17,252,284	3,089,520	3,450,457
Provision for employee termination benefit	9,676,088	9,404,969	1,935,218	1,880,994
Provision for lawsuits	8,326,378	5,472,465	1,665,276	1,094,493
Unused vacation provision	3,497,270	3,543,038	699,454	708,608
Annual incentive commission	1,449,042	-	289,808	-
Deposits internal rate of return-linear interest rate difference	137,886	1,448,303	27,577	289,661
Social Security Institution deferred debt	851,975	-	170,395	-
Trading portfolio valuation difference	23,141	79,760	4,628	15,952
Expense accruals	29,615,424	4,108	5,923,085	822
Provision for loans to policyholders Banking Insurance Transaction Tax	62	270	12	54
Total deferred tax assets	202,619,388	136,513,618	40,523,878	27,302,725
Eurobond valuation difference	(3,833,370)	(2,300,340)	(766,674)	(460,068)
Pension business receivables	(142,179,681)	(85,882,526)	(28,435,936)	(17,176,505)
Profit commission	(501,929)	-	(100,386)	-
Deferred acquisition cost	(315,624,249)	(283,773,202)	(63,124,850)	(56,754,640)
Total deferred tax liabilities	(462,139,229)	(371,956,068)	(92,427,846)	(74,391,213)
Deferred tax assets/ (liabilities) accounted for under equity over the fair value reserve for available for sale financial assets	(611,343)	1,643,631	(122,269)	328,726
Deferred tax liabilities, net	(260,131,186)	(233,798,819)	(52,026,237)	(46,759,762)

Movement of deferred tax liabilities for the period ended September 30, 2017 and 2016 are as follows:

	2017	2016
Opening balance, 1 January	(46,759,762)	(28,494,701)
Charged to profit or loss	(4,815,478)	(12,033,702)
Reversal of deferred tax liability recognized in other comprehensive income due to fair value losses on available for sale financial assets	(328,728)	(41,236)
Deferred tax asset /(liability) recognized in other comprehensive income due to fair value losses on available for sale financial assets (*)	(122,269)	(48,681)
Closing balance, September 30	(52,026,237)	(40,618,320)

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 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.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

17. TAXES (Continued)

Deferred taxes (Continued)

Income tax expenses for the period ended September 30, 2017 and September 30, 2016; are as follows:

	January 1 - September 30, 2017	January 1 - September 30, 2016
Income tax expense recognized in profit or loss:		
- Current tax charge	(23,272,905)	(9,719,389)
- Deferred tax charge	(4,815,478)	(12,033,702)
Adjustments recognized in the period for current tax of prior periods	1,463,946	1,658,691
Income tax expense	(26,624,437)	(20,094,400)

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate of 20% to income before provision for taxes as shown in the following reconciliation:

	January 1 - September 30, 2017	January 1 - September 30, 2016
Profit before taxes	132,760,124	98,688,470
Tax rate	20%	20%
Taxes on income per statutory tax rate	(26,552,026)	(19,737,695)
Revenue that is exempt from taxation	2,189,344	1,552,905
Non-deductible expenses	(2,261,755)	(1,909,610)
Income tax expense	(26,624,437)	(20,094,400)

18. EMPLOYMENT TERMINATION BENEFITS

	September 30, 2017	December 31, 2016
Provision for employment termination benefits	9,676,088	9,404,969
Total	9,676,088	9,404,969

Under Turkish Labour Law, the Company 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 4,732 (December 31, 2016: TL 4,297) for each year of service as of September 30, 2017.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

18. EMPLOYMENT TERMINATION BENEFITS (Continued)

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 Company arising from the retirement of the employees. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	September 30, 2017	December 31, 2016
Estimated salary increase rate	7.00%	7.00%
Discount rate	11.30%	11.30%

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

	2017	2016
Opening balance, January 1	9,404,969	7,685,572
Paid during the period	(1,169,648)	(1,174,777)
Service cost	700,992	527,434
Interest cost	739,775	529,865
Closing balance, September 30	9,676,088	7,568,094

19. DEFERRED EXPENSES

As at September 30, 2017 and 2016; movements of deferred expenses are as follows:

	January 1- September 30 2017	January 1- September 30 2016
Deferred acquisition costs, gross January 1	283,773,202	239,231,921
Acquisition costs deferred during the period	69,546,410	61,023,174
Amortization	(37,695,363)	(29,944,459)
Deferred acquisition costs - September 30	315,624,249	270,310,636
Deferred commission costs, gross January 1	26,937,873	21,758,274
Commission cost deferred during the period	11,729,815	2,418,397
Deferred commission costs - September 30	38,667,688	24,176,671
Total deferred expenses	354,291,937	294,487,307

20. OTHER PAYABLES AND LIABILITIES

As at September 30, 2017 and December 31, 2016; other payables and liabilities are as follows:

	September 30, 2017	December 31, 2016
Payables to suppliers	23,929,395	9,133,552
Taxes and funds payable	13,687,549	8,059,846
Unused vacation provision	3,497,270	3,543,038
Deferred commission income	3,304,350	3,035,806
Payables to related parties (Note 33)	3,106,628	1,584,623
Other deferred income	566,523	1,232,516
Payables to personnel	298,990	1,070,757
Payables to shareholders (Note 33)	146,467	126,405
Deposits and guarantees	2,344	2,323
Total	48,539,516	27,788,866

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

21. INSURANCE CONTRACT LIABILITIES

Insurance contract liabilities as at September 30, 2017 and December 31, 2016; are as follows:

	September 30, 2017	December 31, 2016
Gross insurance contract liabilities		
Life mathematical reserves (*)	415,292,831	351,860,323
Reserve for unearned premiums	116,804,638	79,114,836
Claims provision	73,327,699	68,886,777
	605,425,168	499,861,936
Reinsurance share of insurance contract liabilities		
Mathematical reserves, ceded (Note 7)	2,256,867	1,614,668
Reserve for unearned premiums, ceded (Note 7)	5,117,330	4,856,089
Claims provision, ceded (Note 7)	6,139,926	4,923,163
	13,514,123	11,393,920
Net insurance contract liabilities		
Life mathematical reserves	413,035,964	350,245,655
Reserve for unearned premiums	111,687,308	74,258,747
Claims provision	67,187,773	63,963,614
	591,911,045	488,468,016

(*) As of September 30, 2017, the negative fair value difference of financial assets at insuree’s risk amounting to TL 10,637,838 (December 31, 2016: negative fair value difference of financial assets at insuree’s risk amounting to TL 30,100,913), deferred taxes on the fair value difference of financial assets at insuree’s risk amounting to TL 528,972 (December 31, 2016: TL 90,051) and reinsurers share of TL 2,256,867 (December 31, 2016: 1,614,668) have been included in the above mentioned mathematical reserve table.

Movements in insurance liabilities and reinsurance assets

Claims:

September 30, 2017	Gross	Ceded	Net
Total at the beginning of the year	68,886,777	4,923,163	63,963,614
Change during period	4,440,915	1,216,756	3,224,159
	73,327,692	6,139,919	67,187,773
September 30, 2017			
Reported claims	60,565,348	4,973,723	55,591,625
Incurred but not reported	12,762,344	1,166,196	11,596,148
Total at the end of the period	73,327,692	6,139,919	67,187,773

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

21. INSURANCE CONTRACT LIABILITIES (Continued)

Claims (Continued):

September 30, 2016	Gross	Ceded	Net
Total at the beginning of the year	54,568,483	3,760,578	50,807,905
Change during period	3,048,880	314,119	2,734,761
Total at the end of the period	57,617,363	4,074,697	53,542,666
September 30, 2016			
Reported claims	50,507,879	3,018,668	47,489,211
Incurred but not reported	7,109,484	1,056,029	6,053,455
	57,617,363	4,074,697	53,542,666

Claims paid and change in outstanding claims provision for the period ended September 30, 2017 and 2016 are as follows:

	January 1 - September 30, 2017	January 1 - September 30, 2016
Cash paid for claims settled during the period	72,102,438	79,974,704
- Surrender and maturity from life savings	38,005,240	48,082,390
- Death and disability claims (*)	28,398,063	26,353,221
- Surrender from life protection	5,699,135	5,539,093
Change in outstanding claims provision	3,224,159	2,734,761
Claims paid and change in outstanding claims provision	75,326,597	82,709,465

(*) The amounts are presented net off reinsurance.

Reserve for unearned premiums:

September 30, 2017	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the year	79,114,836	(4,856,089)	74,258,747
Premiums written during the period	344,693,160	(12,338,406)	332,354,754
Premiums earned during the period	(307,003,358)	12,077,165	(294,926,193)
Reserve for unearned premiums at the end of the period	116,804,638	(5,117,330)	111,687,308
September 30, 2016			
Reserve for unearned premiums at the beginning of the year	62,995,270	(3,462,745)	59,532,525
Premiums written during the period	220,338,007	(10,619,506)	209,718,501
Premiums earned during the period	(213,303,909)	9,223,643	(204,080,266)
Reserve for unearned premiums at the end of the period	70,029,368	(4,858,608)	65,170,760

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

21. INSURANCE CONTRACT LIABILITIES (Continued)

Life mathematical reserves

	2017	2016
	Mathematical reserve TL	Mathematical reserve TL
Total at the beginning of the year, January 1	382,051,287	338,750,726
Additions	79,140,351	44,024,872
Disposals	(34,731,998)	(40,363,458)
Total at the end of the period, September 30 (*)	426,459,640	342,412,140

(*) As of September 30, 2017, the negative fair value difference of financial assets at insuree's risk amounting to TL 10,637,838 (September 30, 2016: negative fair value difference of financial assets at insuree's risk amounting to TL 10,017,693), deferred taxes on the fair value difference of financial assets at insuree's risk amounting to TL 528,972 (September 30, 2016: TL 142,719) 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 financial statements.

As at September 30, 2017; claim development table of the Company is as follows:

Accident year	2010 and earlier	2011	2012	2013	2014	2015	2016	2017	Total
Current estimate of claims									
Accident year	3,823,065	1,297,589	2,488,003	7,101,829	6,464,251	6,470,134	8,957,591	15,027,650	51,630,112
1 year later	185,461	87,960	396,320	1,530,480	1,706,872	1,143,747	2,513,660	-	7,564,500
2 year later	200,931	224,264	133,604	46,162	187,166	237,980	-	-	1,030,107
3 year later	-	10,000	51,051	37,590	29,743	-	-	-	128,384
4 year later	57,877	-	-	26,250	-	-	-	-	84,127
5 year later	114,771	11,505	1,848	-	-	-	-	-	128,124
6 year later	-	-	-	-	-	-	-	-	-
7 year later	-	-	-	-	-	-	-	-	-
Total	4,382,105	1,631,318	3,070,826	8,742,311	8,388,032	7,851,861	11,471,251	15,027,650	60,565,354
Incurred but not reported	-	-	-	-	-	-	-	-	12,762,344
Total gross provision for outstanding claims as at September 30, 2017	-	-	-	-	-	-	-	-	73,327,692

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

21. INSURANCE CONTRACT LIABILITIES (Continued)

Claims development tables (Continued)

As at December 31, 2016, claim development table of the Company is as follows:

Accident year	2009 and earlier	2010	2011	2012	2013	2014	2015	2016	Total
Current estimate of claims	3,129,534	635,063	1,863,401	2,799,235	6,901,514	6,713,193	6,793,095	21,473,930	50,308,965
Accident year	215,409	185,433	147,237	396,320	1,597,030	1,766,485	1,197,864	-	5,505,777
1 year later	-	161,258	220,078	133,604	55,339	167,604	-	-	737,882
2 year later	31,510	-	12,729	56,299	37,590	-	-	-	138,127
3 year later	-	92,632	15,200	315,741	-	-	-	-	423,573
4 year later	-	-	39,817	-	-	-	-	-	39,817
5 year later	108,500	-	-	-	-	-	-	-	108,500
6 year later	-	-	-	-	-	-	-	-	-
7 year later	-	-	-	-	-	-	-	-	-
Total	3,484,953	1,074,385	2,298,462	3,701,199	8,591,473	8,647,282	7,990,959	21,473,930	57,262,642
Incurred but not reported									11,624,135
Total gross provision for outstanding claims as at December 31, 2016									68,886,777

22. EQUITY

Share capital of the Company as at September 30, 2017 and December 31, 2016; are as follows:

	September 30, 2017		December 31, 2016	
	Shareholding %	TL	Shareholding %	TL
Hacı Ömer Sabancı Holding A.Ş. (Sabancı Holding)	40.00	47,200,005	40.00	47,200,005
Aviva International Holdings Ltd.	40.00	47,200,005	40.00	47,200,005
Other	0.09	108,837	0.10	112,525
Publicly Traded	19.91	23,491,153	19.90	23,487,465
Total share capital	100.00	118,000,000	100.00	118,000,000

Profit and other capital reserves:

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

	September 30, 2017	December 31, 2016
Profit reserves	53,117,686	29,180,281
Other capital reserves	837,095	837,095
Total	53,954,781	30,017,376

Retained earnings as per the statutory 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 Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

22. EQUITY (Continued)

Profit reserves

As at September 30, 2017 and December 31, 2016; details of profit reserves is as follows:

	September 30, 2017	December 31, 2016
Legal reserves	26,807,346	22,950,753
Extraordinary reserves	26,298,846	6,218,034
Statutory reserves	11,494	11,494
Total	53,117,686	29,180,281

Movement of profit reserves is presented below:

	2017	2016
Opening balance, January 1	29,180,281	24,648,038
Transfers	23,937,405	4,532,243
Closing balance, September 30	53,117,686	29,180,281

Other capital reserves

As of September 30, 2017 capital reserves of the Company 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 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:

	2017	2016
Opening balance, January 1	(3,270,313)	(2,210,446)
Unrealized gains and losses due to changes in the fair values of available for sale financial assets net of taxes	1,028,378	1,239,290
Closing balance, September 30	(2,241,935)	(971,156)

Dividend per share

In 2017, the Company has distributed dividend to shareholders with respect to 2016 gross distributable profit after appropriation of legal reserves amounting to TL 21,664,800 (TL 0.0018 per share) (2016: TL 30,916,000 and TL 0.0026).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

23. EARNINGS PER SHARE

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

	January 1- September 30, 2017	July 1- June 30, 2017	January 1- September 30, 2016	July 1- September 30, 2016
Profit for the period	106,135,687	40,340,084	78,594,070	24,549,819
Weighted average number of shares with nominal value of TL 0.01 nominal value per share (*)	11,800,000,000	11,800,000,000	11,800,000,000	11,800,000,000
Earnings per share	0.0090	0.0034	0.0067	0.0021

As of September 30, 2017 capital of the Company consists of 11,800,000,000 shares with nominal value of TL 0.01 (December, 2016: 11,800,000,000 shares with nominal value of TL 0.01).

(*) As the share issuance in the prior period occurred without any changes in shareholders' equity, earnings per share calculation for the prior year was adjusted as if the share issue had taken place at the start of the prior year.

24. WRITTEN PREMIUMS

The distribution of written premiums is as follows:

	January 1- September 30, 2017			July 1- September 30, 2017		
	Gross	Reinsurer share	Net	Gross	Reinsurer share	Net
Non-life	52,824,361	(617,097)	52,207,264	16,014,798	(176,258)	15,838,540
Life (Life protection + savings)	291,868,799	(11,721,309)	280,147,490	97,564,509	(3,101,244)	94,463,265
Total premium income	344,693,160	(12,338,406)	332,354,754	113,579,307	(3,277,502)	110,301,805
	January 1- September 30, 2016			July 1- September 30, 2016		
	Gross	Reinsurer Share	Net	Gross	Reinsurer Share	Net
Non-life	39,677,180	(1,724,702)	37,952,478	12,160,107	(447,599)	11,712,508
Life (Life protection + savings)	180,660,827	(8,894,804)	171,766,023	60,992,560	(1,893,191)	59,099,369
Total premium income	220,338,007	(10,619,506)	209,718,501	73,152,667	(2,340,790)	70,811,877

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

25. INCOME GENERATED FROM PENSION BUSINESS

Income generated from pension business for the periods ended September 30, 2017 and September 30, 2016; are as follows:

	January 1- September 30, 2017	July 1- September 30, 2017	January 1- September 30, 2016	July 1- September 30, 2016
Fund management income	146,092,554	51,856,663	117,527,942	41,873,631
Management fee	40,700,491	12,498,808	28,748,448	10,413,804
Entry and deferred entry fees income	24,136,444	8,077,802	21,865,895	6,697,710
Premium holiday charges	3,121,476	980,554	3,474,729	1,130,517
Total	214,050,965	73,413,827	171,617,014	60,115,662

26. FOREIGN EXCHANGE GAINS / (LOSSES), NET

Foreign exchange gains / (losses) for the periods ended September 30, 2017 and 2016; are as follows:

	January 1- September 30, 2017	July 1- September 30, 2017	January 1- September 30, 2016	July 1- September 30, 2016
Foreign exchange gains	12,828,618	2,092,178	11,610,638	4,704,455
Foreign exchange losses	(12,489,059)	(2,086,937)	(11,543,363)	(3,019,008)
	339,559	5,241	67,275	1,685,447

27. COMMISSION INCOME AND COMMISSION EXPENSE

Commission income for the periods ended September 30, 2017 and September 30, 2016; are as follows:

	January 1- September 30, 2017	July 1- September 30, 2017	January 1- September 30, 2016	July 1- September 30, 2016
Commission income from reinsurance companies (net)	5,003,358	1,492,042	4,634,442	1,179,426
	5,003,358	1,492,042	4,634,442	1,179,426

Commission expense for the periods ended September 30, 2017 and September 30, 2016; are as follows:

	January 1- September 30, 2017	July 1- September 30, 2017	January 1- September 30, 2016	July 1- September 30, 2016
Commission expenses due to personal accident insurance	(19,083,099)	(7,157,802)	(16,550,553)	(5,935,444)
-Change in commission expenses	(23,687,574)	(7,244,331)	(17,522,732)	(5,491,892)
-Change in deferred acquisition cost	4,604,475	86,529	972,179	(443,552)
Commission expenses due to life insurance	(51,272,896)	(17,853,461)	(25,278,439)	(9,691,709)
-Change in commission expenses	(58,398,237)	(18,853,859)	(26,724,658)	(9,944,296)
-Change in deferred acquisition cost	7,125,341	1,000,398	1,446,219	252,587
	(70,355,995)	(25,011,263)	(41,828,992)	(15,627,153)

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

28. INVESTMENT AND OTHER INCOME

Investment income for the periods ended September 30, 2017 and September 30, 2016; are as follows:

	January 1- September 30, 2017	July 1- September 30, 2017	January 1- September 30, 2016	July 1- September 30, 2016
Interest income	37,352,977	16,475,163	28,099,240	8,712,188
-Income from financial assets at fair value through profit or loss	14,740,981	5,372,866	16,151,564	4,451,748
-Income from available for sale financial assets	22,611,996	11,102,297	11,947,676	4,260,440
Net income from sale of financial assets	2,718,895	-672,334	2,599,844	999,557
-Income from financial assets at fair value through profit or loss	6,045,818	2,314,596	3,909,712	1,608,960
-Income/ (loss) from available for sale financial assets	(3,326,923)	(2,986,930)	-1,309,868	-609,403
Dividend and realization income from other financial assets	900,054	-	161,547	101,798
Investment management expenses	(78,402)	12,882	-139,228	-40,820
Other income, net	6,604,788	88,324	6,111,128	1,547,238
Total investment and other income/(expense), net	47,498,312	15,904,035	36,832,531	11,319,961

29. PENSION EXPENSES INCLUDING COMMISSION

Pension expenses including commission for the periods ended September 30, 2017 and September 30, 2016; are as follows:

	January 1- September 30, 2017	July 1- September 30, 2017	January 1- September 30, 2016	July 1- September 30, 2016
Fund management charge	(16,419,994)	(4,442,167)	(15,989,507)	(6,926,501)
Commission expense, net of DAC	(32,579,203)	(9,583,513)	(33,638,368)	(11,807,736)
- Commission expense	(55,044,204)	(15,883,486)	(64,904,246)	(21,702,687)
- Change in deferred acquisition cost	22,465,001	6,299,973	31,265,878	9,894,951
Other expense	(9,200,014)	(3,173,744)	(6,849,997)	(2,451,721)
Total pension expenses	(58,199,211)	(17,199,424)	(56,477,872)	(21,185,958)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

30. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the periods ended September 30, 2017 and September 30, 2016; are as follows:

	January 1- September 30, 2017	July 1- September 30, 2017	January 1- September 30, 2016	July 1- September 30, 2016
Personnel expenses	(113,188,955)	(37,704,141)	(93,391,032)	(31,608,310)
Outsourced expenses including IT services	(37,051,687)	(12,337,541)	(28,644,630)	(8,799,288)
Travelling and transportation expenses	(9,529,004)	(3,149,030)	(6,936,516)	(2,044,708)
Management expenses	(9,534,013)	(3,370,346)	(8,572,185)	(2,981,511)
Communication expenses	(4,129,256)	(1,372,359)	(4,187,326)	(1,543,866)
Depreciation and amortization	(4,772,436)	(4,538,150)	(2,969,129)	(1,017,400)
Office supplies expenses	(2,907,273)	(977,532)	(2,568,922)	(908,155)
Broker expenses	(4,684,161)	(1,005,941)	(2,067,464)	(1,168,473)
Advertising and marketing expenses	(7,517,138)	(1,488,428)	(1,729,025)	(568,950)
Representation and hosting expenses	(3,782,841)	(1,083,900)	(2,671,270)	(411,857)
Other marketing, sales and distribution expenses	(1,835,786)	(949,992)	(455,522)	(155,047)
Change in deferred acquisition cost	2,260,707	1,040,941	(187,162)	(59,701)
Other expenses	(3,502,385)	508,246	(2,786,884)	(735,443)
Total	(200,174,228)	(66,428,173)	(157,167,067)	(52,002,709)

Personnel expenses for the period ended September 30, 2017 and September 30, 2016; are as follows:

	January 1- September 30, 2017	July 1- September 30, 2017	January 1- September 30, 2016	July 1- September 30, 2016
Salaries	(65,860,051)	(23,952,732)	(54,909,229)	(19,482,290)
Commission and promotion expenses	(19,109,715)	(6,004,742)	(12,147,070)	(5,118,684)
Other salary expenses	(8,872,382)	(2,092,151)	(9,439,929)	(2,346,045)
Social security expenses	(11,980,212)	(4,002,283)	(10,140,953)	(3,271,222)
Other personnel expenses	(5,293,392)	(1,629,720)	(5,191,898)	(1,729,143)
Unused vacation expenses	(365,948)	538,173	(233,460)	759,370
Employee termination benefit expenses	(1,440,767)	(480,255)	(1,057,298)	(352,433)
Notice pay expense	(266,488)	(80,431)	(271,195)	(67,863)
Total	(113,188,955)	(37,704,141)	(93,391,032)	(31,608,310)

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31. OTHER INCOME/(EXPENSE), NET

Other income and expenses for the periods ended September 30, 2017 and 2016 are as follows:

	January 1- September 30, 2017	July 1- September 30, 2017	January 1- September 30, 2016	July 1- September 30, 2016
Other income:				
Other income	2,120	737	3,638	1,450
Other expense:				
Other operating expense	(298,795)	14,314	28,818	(6,501)
Other expense	(169,025)	(42,041)	(70,586)	(53,075)
Accrued subrogation expense	(24,456)	-	(39,657)	-
Total other income / (expense), net	(490,156)	(26,990)	(77,787)	(58,126)

32. BLOCKED SECURITIES AND BANK DEPOSITS

Under Insurance Law, insurance companies are obliged to deposit investments within two months in a blocked account with a state bank in favour of Undersecretariat of Treasury. Accordingly the following guarantees have been issued to the Turkish Treasury based on the financial results:

	September 30, 2017	December 31, 2016
Blocked bank deposits	112,480,383	132,098,939
Blocked securities	316,711,557	248,997,216
Total	429,191,940	381,096,155

33. RELATED PARTY BALANCES AND TRANSACTIONS

As at September 30, 2017 and December 31, 2016 balances with related parties are as follows:

	September 30, 2017	December 31, 2016
Akbank T.A.Ş. - Credit card receivables	233,004,170	220,956,774
Other cash and cash equivalents	233,004,170	220,956,774
Akbank T.A.Ş.- Bank deposit	111,099,008	101,158,968
Banks	111,099,008	101,158,968

As of 30 September 2017 and 31 December 2016, The Company’s portfolio of financial assets classified as held for trading and financial assets issued by related parties of the Company are as follows:

	September 30, 2017	December 31, 2016
Other receivables from related parties		
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	8,160	6,720
Akbank T.A.Ş.	-	2,661,850
Aksigorta A.Ş.	46,364	-
	54,524	2,668,570

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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

33. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	September 30, 2017	December 31, 2016
Receivables from main operations		
Sabancı Üniversitesi	140,419	17,346
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	130,079	3,139
Other	52,550	174,143
	323,048	194,628
	September 30, 2017	December 31, 2016
Other payables to related parties		
Ak Portföy Yönetimi A.Ş.	-	183,015
Ak Sigorta A.Ş.	89	21,372
Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş.	2,316,597	1,236,684
TeknoSA İç ve Dış Tic. A.Ş.	26,033	14,002
Vista Turizm ve Seyahat A.Ş.	762,203	78,436
EnerjiSA A.Ş.	266	51,114
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	1,440	-
	3,106,628	1,584,623
	September 30, 2017	December 31, 2016
Financial liabilities		
Akbank - T.A.Ş. (spot loan)	-	2,248,924
	-	2,248,924
	September 30, 2017	December 31, 2016
Payables from main operations		
Akbank T.A.Ş.	13,421,449	14,010,625
Ak Portföy Yönetimi A.Ş.	1,543,093	8,352,101
Emeklilik Gözetim Merkezi A.Ş.	135,321	457,476
	15,099,863	22,820,202
	September 30, 2017	December 31, 2016
Expense accruals		
Ak Portföy Yönetimi A.Ş.	1,376,606	-
Hacı Ömer Sabancı Vakfı	2,695,662	-
Akbank T.A.Ş.	34,291	34,291
Aviva International Holdings Ltd	-	164,598
	4,106,559	198,889

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33. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	September 30, 2017	December 31, 2016
Income accruals		
Akbank T.A.Ş.	5,471,243	1,304,025
Aviva International Holdings Ltd.	-	76,100
	5,471,243	1,380,125
	September 30, 2017	December 31, 2016
Shareholders:		
Hacı Ömer Sabancı Holding	20,393	5,374
Other	126,074	121,031
Payables to shareholders	146,467	126,405
Shareholders:		
Aviva International Holdings Ltd.	-	83,775
Receivables from shareholders	-	83,775

Transactions with related parties for the period ended September 30, 2017 and December 31, 2016 are as follows:

	1 January– 30 September 2017	1 July– 30 September 2017	1 January– 30 September 2016	1 July– 30 September 2016
Services Purchased				
Akbank T.A.Ş.	107,853,476	35,159,858	79,853,918	27,608,387
- Paid administrative expenses	106,427,174	34,726,940	78,444,909	27,133,778
- Commission paid	1,426,302	432,918	1,409,009	474,609
Ak Portföy Yönetimi A.Ş.	15,173,227	5,417,589	12,278,589	4,406,059
Vista Turizm ve Seyahat A.Ş.	2,867,641	1,280,699	2,377,462	614,121
Bimsa Uluslararası İletişim ve Bilgi Sistemleri A.Ş.	13,147,060	4,945,014	9,060,872	3,301,957
Emeklilik Gözetim Merkezi A.Ş.	1,556,136	364,111	985,386	372,399
AkSigorta A.Ş.	2,622,680	912,230	2,234,279	800,920
EnerjiSA Elektrik Enerjisi Toptan Satış	61,639	-	505,790	172,546
Anadolu Yakası Elektrik Dağıtım A.Ş.	366,538	161,998	5,697	1,762
Other	244,228	72,658	452,157	200,639
	143,892,625	48,314,157	107,754,150	37,478,790
	1 January– 30 September 2017	1 July– 30 September 2017	1 January– 30 September 2016	1 July– 30 September 2016
Financial expenses				
Akbank T.A.Ş (interest expense)	113,273	-	863,380	193,641
	113,273	-	863,380	193,641
Financial income				
Akbank (interest income)	10,329,571	3,012,468	10,368,044	3,526,363
	10,329,571	3,012,468	10,368,044	3,526,363

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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33. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	1 January– 30 September 2017	1 July- 30 September 2017	1 January– 30 September 2016	1 July- 30 September 2016
Services Provided				
Akbank T.A.Ş. and subsidiaries	7,535,706	2,399,391	6,179,988	2,642,682
Kordsa Global Endüstriyel İplik ve Kordbezi San. ve Tic A.Ş.	503,616	(2,366)	460,666	730
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş.	489,332	(11,071)	468,051	(9,376)
Temsa Global Sanayi and Ticaret A.Ş. and subsidiaries	406,884	4,017	360,098	783
Enerjisa Enerji Üretim A.Ş. and subsidiaries	271,138	(309)	297,483	(9,337)
Enerjisa Enerji A.Ş.	1,270,951	23,075	1,016,848	7,916
Çimsa Çimento Sanayi ve Ticaret A.Ş. and subsidiaries	279,818	(3,752)	284,203	1,217
Akçansa Çimento Sanayi ve Ticaret A.Ş. and subsidiaries	247,098	(556)	221,065	(27)
Aksigorta A.Ş.	195,452	1,931	190,592	5
Teknosa İç ve Dış Ticaret A.Ş. and subsidiaries	141,586	7,755	128,141	(6,866)
Bimsa Uluslararası İş. Bilgi ve Yönetim Sistemleri A.Ş.	116,496	(439)	144,042	(2,499)
Yünsa Yünlü Sanayi ve Ticaret A.Ş.	100,221	5,352	96,517	(4,233)
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	5,566	-	4,834	-
Sabancı Üniversitesi	140,419	1,101	102,479	1,091
Other	189,405	150,855	69,975	19,500
	11,893,688	2,574,984	10,024,982	2,641,586

Benefits provided to executive management

For the period ended September 30, 2017 and 2016, 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 5,175,759 and TL 4,205,590 respectively.

34. CONTINGENCIES

Provision for lawsuits

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

As at September 30, 2017 and December 31, 2016; provisions for lawsuits against the Company are as follows:

	September 30, 2017	December 31, 2016
Lawsuits provision under other provision:	8,859,811	5,898,007
Insurance lawsuits against the Company	5,372,933	4,528,503
Business lawsuits against the Company	1,065,428	943,961
Other lawsuits against the Company	2,421,450	425,543
Lawsuits provision under claims provision	26,184,396	21,517,412
Total lawsuits provision	35,044,207	27,415,419

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35. COMMITMENTS

As at September 30, 2017 and December 31, 2016, total insurance risk accepted by the Company under normal courses of the insurance business is detailed in Note 4.

As at September 30, 2017 and December 31, 2016, letters of guarantee given to suppliers and government institutions are as follows:

	September 30, 2017	December 31, 2016
Letters of guarantee	6,292,344	5,995,676
Total	6,292,344	5,995,676

Operational leases

Future minimum rentals payable under operational leases as at September 30, 2017 and December 31, 2016 are as follows:

	September 30, 2017			
	USD		EUR	
	TL	(TL equivalent)	(TL equivalent)	Total
Within one year	1,187,364	6,578,472	1,204,532	8,970,368
After one year but not more than five years	122,500	30,048,833	35,173	30,206,506
More than five years	-	13,188,237	-	13,188,237
Total operational lease rental payable	1,309,864	49,815,542	1,239,705	52,365,111

	December 31, 2016			
	USD		EUR	
	TL	(TL equivalent)	(TL equivalent)	Total
Within one year	866,428	5,174,662	2,626,937	8,668,027
After one year but not more than five years	-	30,547,501	428,618	30,976,119
More than five years	-	18,518,762	-	18,518,762
Total operational lease rental payable	866,428	54,240,925	3,055,555	58,162,908

36. SUBSEQUENT EVENTS

None.