

**AVIVASA EMEKLİLİK VE HAYAT
ANONİM ŞİRKETİ**

FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2016 AND INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Avivasa Emeklilik ve Hayat A.Ş.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Avivasa Emeklilik ve Hayat A.Ş. (“the Company”), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Prior period financial statements have been restated as explained in Note 1.1.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Insurance Contract Liabilities

As explained in Note 21, the Company has gross insurance contract liabilities amounting to 499,8 million TL as of 31 December 2016. Assumptions for the valuation of life insurance contract liabilities involves complex judgements about future events, both internal and external to the business for which small changes in assumptions can result in material impacts to the valuation of the liabilities. The methodology used can also have a material impact on the valuation of the insurance contract liabilities.

The inputs with the most significant impact on these insurance contract liabilities are disclosed in Note 2.2.

Accordingly the valuation of insurance contract liabilities is considered to be a key audit matter due to the significance of the balance to the financial statements as a whole, combined with significant judgement.

Deferred Acquisition Cost (DAC) for Pension Business

As explained in Note 19, the acquisition costs amounting to 283,7 million TL are deferred as of 31 December 2016.

Incremental direct costs resulting from and essential to the contract transaction are subject to deferral.

Subsequent to initial recognition, DAC is amortised over the expected life of the contracts. Deferral periods can be the average life-time of the contracts (which are longer than the lapse assumptions). Deferral periods for the average life-time of the pension contracts include significant judgements.

Accordingly the carrying value of deferred acquisition cost on pension contracts is considered to be a key audit matter due to the significance of the balance to the financial statements as a whole, combined with significant judgment.

How the matter was addressed in the audit

The audit work to address the valuation of life insurance contract liabilities included the following procedures:

- We obtained audit evidence in respect of the key controls over the key actuarial methods and assumptions used by the management, and also the manually calculated components of the liability and tested the controls.
- We tested the Entity's whole data of insurance contract liabilities for completeness to source documentation.
- With the assist of our actuarial specialist team members, the reasonableness and validity of the methodology, models and assumptions used by the Entity are challenged and compared to general sector knowledge.
- With the assist of our actuarial specialist team members, key controls and projection over the key actuarial assumptions used by the management for the Liability Adequacy Test are tested.

For the valuation and completeness of the Deferred Acquisition Cost of Pension Business, we performed the following procedures;

- We obtained audit evidence in respect of the key actuarial assumptions used by the management.
- We tested the completeness of the acquisition cost data that was capitalized.
- We obtained audit evidence in respect of the key assumptions used for the determination of the amortization of the deferred acquisition cost in accordance with the average life-time of the pension business portfolio.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Müjde Şehsuvaroğlu.

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

Müjde Şehsuvaroğlu
Partner
İstanbul, 22 February 2017

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AvivaSA Emeklilik ve Hayat A.Ş.

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

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

Assets	Note	December 31, 2016	Restated (Note 1.1) December 31, 2015
Cash and cash equivalents	5	529,124,443	447,814,449
Financial assets	6	381,174,585	333,829,916
Premium and other insurance receivables	8	16,856,828	18,098,532
Reinsurance share of insurance liabilities	7	11,393,920	7,223,323
Deferred expenses	19	310,711,074	260,990,195
Other financial assets	13	838,932	838,932
Pension business receivables	9	97,165,390	8,069,213
Other assets	10	10,879,396	9,031,157
Current tax assets	17	989,413	-
Property and equipment, net	11	5,331,894	3,776,652
Intangible assets, net	12	17,442,634	15,162,619
Total assets		1,381,908,509	1,104,834,988
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Liabilities	Note	December 31, 2016	Restated (Note 1.1) December 31, 2015
Financial liabilities	14	2,248,924	-
Due to insurance and reinsurance companies	15	10,539,751	8,270,281
Pension business payables	9	329,990,885	209,719,083
Insurance contract liabilities	21	499,861,936	439,604,054
Provision for employment termination benefits	18	9,404,969	7,685,572
Deferred tax liabilities	17	46,759,764	28,494,701
Current tax liabilities	17	-	1,976,636
Other payables and liabilities	20	27,788,866	24,658,971
Other provisions	16	27,645,518	28,963,014
Total liabilities		954,240,613	749,372,312
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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	(3,270,313)	(2,210,446)
Other capital reserves	22	837,095	837,095
Profit reserves	22	29,180,281	24,648,038
Retained earnings		177,883,792	151,292,303
Profit for the year		105,037,041	62,895,686
Total shareholders' equity		427,667,896	355,462,676
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Total equity and liabilities		1,381,908,509	1,104,834,988

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

AvivaSA Emeklilik ve Hayat A.Ş.

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Statement of Income	Note	January 1 – December 31, 2016	Restated (Note 1.1) January 1 – December 31, 2015
Income:			
Gross written premiums	24	317,422,065	239,948,999
Premium ceded to reinsurers	24	(13,813,891)	(9,786,574)
Premium written net of reinsurance	24	303,608,174	230,162,425
Net change in provision for unearned premiums reserves	21	(14,726,222)	(7,150,457)
Net premiums earned		288,881,952	223,011,968
Net change in mathematical reserves	21	22,738,667	57,344,686
Income generated from pension business	25	239,093,288	208,060,188
Investment and other income/(expense), net	28	49,708,122	41,234,369
Commission income	27	4,042,573	2,781,127
Foreign exchange gains/(losses), net	26	5,198,933	10,836,200
Total income		609,663,535	543,268,538
Expenses:			
Claims paid and change in outstanding claims provisions	21	(120,471,664)	(119,000,276)
General and administrative expenses	30	(215,895,618)	(190,498,537)
Pension expenses including commission	29	(81,006,452)	(66,545,340)
Commission expense	27	(59,922,334)	(50,723,169)
Other income / (expense), net	31	(187,227)	(860,310)
Write-off of intangible assets, one-off	12	-	(36,343,684)
Total expenses		(477,483,295)	(463,971,316)
Profit before taxes		132,180,240	79,297,222
Income tax expense	17	(27,143,199)	(16,401,536)
Profit for the year		105,037,041	62,895,686
Earnings per share (TL 0.01 nominal value per share)	23	0.0089	0.0053

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

AvivaSA Emeklilik ve Hayat A.Ş.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

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

	Note	January 1 – December 31, 2016	January 1 – December 31, 2015
Profit for the year		105,037,041	62,895,686
Other comprehensive income:			
Items that may be reclassified subsequently to profit or (loss):			
Net gain/(loss) on available-for-sale assets		(1,324,834)	(1,543,469)
Deferred tax relating to components of other comprehensive income		264,967	16,154
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent years	22	(1,059,867)	(1,527,315)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/ (loss) on employee termination benefits		(1,069,942)	126,165
Deferred tax relating to actuarial gain/ (loss)		213,988	(25,233)
Net other comprehensive gain/ (loss) not being reclassified to profit or loss in subsequent years		(855,954)	100,932
Other comprehensive income / (loss), net of tax	22	(1,915,821)	(1,426,383)
Total comprehensive income, net of tax		103,121,220	61,469,303

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

AvivaSA Emeklilik ve Hayat A.Ş.

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

(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 year	Total
Balance at January 1, 2015		51,971,980	66,865,115	(683,131)	18,449,521	109,983,056	87,121,741	333,708,282
Profit for the year (as restated Note 1.1)		-	-	-	-	-	62,895,686	62,895,686
Other comprehensive loss	22	-	-	(1,527,315)	-	100,932	-	(1,426,383)
Total comprehensive income		-	-	(1,527,315)	-	100,932	62,895,686	61,469,303
Transfer	22	66,028,020	(66,028,020)	-	6,198,517	80,923,224	(87,121,741)	-
Dividend payment	22	-	-	-	-	(39,714,909)	-	(39,714,909)
Balance at December 31, 2015 (restated)		118,000,000	837,095	(2,210,446)	24,648,038	151,292,303	62,895,686	355,462,676

	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 year	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 year		-	-	-	-	-	105,037,041	105,037,041
Other comprehensive income	22	-	-	(1,059,867)	-	(855,958)	-	(1,915,825)
Total comprehensive income		-	-	(1,059,867)	-	(855,954)	105,037,041	103,121,220
Transfer	22	-	-	-	4,532,243	58,363,443	(62,895,686)	-
Dividend payment	22	-	-	-	-	(30,916,000)	-	(30,916,000)
Balance at December 31, 2016		118,000,000	837,095	(3,270,313)	29,180,281	177,883,792	105,037,041	427,667,896

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

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

AvivaSA Emeklilik ve Hayat A.Ş.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016

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

		Restated (Note 1.1)	
	Note	January 1 – December 31, 2016	January 1 – December 31, 2015
Cash flows from operating activities:			
Profit for the year		105,037,041	62,895,686
Income taxes	17	27,143,199	16,401,536
Depreciation and amortization	30	4,016,516	4,441,939
(Gains) / losses from sale of property and equipment		(10,137)	-
Interest income		(40,338,125)	(33,625,217)
Unrealized exchange rates (gains) / losses from cash and cash equivalents		(2,201,548)	714,366
Fair value changes in financial assets	6	661,023	222,382
Increase in claims provision	21	120,471,665	119,000,276
Change in life mathematical reserves	21	43,300,561	3,363,135
Change in provision for unearned premiums reserves	21	16,119,566	7,698,538
Change in provision for employment termination benefits	18	2,425,636	1,807,240
Personnel bonus provision expense		15,865,526	18,616,918
Sales personnel bonus provision expense		5,881,985	3,893,267
Pension business expense accruals		323,059	9,328,840
Write-off of intangible assets		-	36,343,684
Operating profit before changes in operating assets / liabilities		298,695,967	251,102,590
Changes in operating assets and liabilities:			
Change in premium and other insurance receivables		1,241,704	5,935,519
Change in other assets		(1,848,239)	(1,757,239)
Change in deferred expenses	19	(49,720,879)	(56,039,584)
Change in pension business receivables		(89,096,177)	1,659,584
Change in pension business payables		120,271,802	39,592,090
Withholding taxes paid		(54,717,134)	(46,595,476)
Corporate taxes paid		(11,137,335)	(13,267,926)
Cash paid for claims settled during the year, net	21	(107,315,955)	(109,149,724)
Employment termination benefits paid	18	(1,776,181)	(1,223,554)
Change in other provisions and other payables		9,505,714	7,781,379
Personnel and agency bonus paid		(21,747,510)	(22,756,258)
Change in insurance payables		(738,537)	(9,315,551)
Net cash provided by operating activities		91,617,240	45,965,850
Cash flows from investing activities:			
Acquisition of property and equipment	11	(3,589,345)	(366,488)
Proceeds from sale of property and equipment		10,877	-
Acquisition of intangible assets	12	(4,263,168)	(25,946,215)
Purchases of financial assets	6	(111,559,628)	(175,060,174)
Proceeds from sale of financial assets		95,221,422	217,284,478
Interest received		40,225,451	33,185,525
Net cash provided by investing activities		16,045,609	49,097,126
Cash flow from financing activities:			
Dividend payment	22	(30,916,000)	(39,714,909)
Proceeds from borrowings and repurchase agreement transactions		2,248,924	-
Repayment of borrowings and repurchase agreement transactions		-	(1,673,509)
Net cash used in financing activities		(28,667,076)	(41,388,418)
Effect of exchange rates on cash and cash equivalents		2,201,548	(714,366)
Net increase in cash and cash equivalents		81,197,321	52,960,192
Cash and cash equivalents at the beginning of the year		446,518,137	393,557,945
Cash and cash equivalents at the end of the year	5	527,715,458	446,518,137

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

AvivaSA Emeklilik ve Hayat A.Ş.

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

(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. Consequently the above 2015 comparative financial statements have been retrospectively restated to reflect the financial position and the net result in accordance with the amended accounting policy. The 2016 financial statements are in accordance with the current policy. The amendments to the 2015 financial statements 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 January – 31 December 2015	Previously Reported	Effect of Restatement	Restated
Gross written premiums	263,457,243	(23,508,244)	239,948,999
Commission expense	(52,208,650)	1,485,481	(50,723,169)
Income tax expense	(20,806,089)	4,404,553	(16,401,536)
Profit before taxes	101,319,985	(22,022,763)	79,297,222
Profit for the year	80,513,896	(17,618,210)	62,895,686
Earnings / (Loss) per Share	0.0068	(0.0015)	0.0053
Total comprehensive income, net of tax	79,087,513	(17,618,210)	61,469,303

AvivaSA Emeklilik ve Hayat A.Ş.

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

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

1. General Information (continued)

1.2. Corporate Information (continued)

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”.

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. After this transfer, the share of Aviva Europe SE decreased to %0, while share of Aviva International Holdings Ltd. increased to %41.28.

AvivaSA Emeklilik ve Hayat A.Ş.

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

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

1. General Information (continued)

1.2 Corporate Information (continued)

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 December 31, 2016 19.87% of the Company’s share have been listed on the Borsa Istanbul (“BIST”).

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

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 have been managed by Ak Portföy as of November 1, 2007. AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Performans Esnek Emeklilik Yatırım Fonu, established as of December 20, 2011, started to be managed by Ata 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 Emeklilik ve Hayat A.Ş.

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

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

1. General Information (continued)

1.2 Corporate Information (continued)

As of December 31, 2016, there are 23 pension investment funds established by the Company (December 31, 2015: 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. Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	21.10.2003
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. Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	08.11.2005
AvivaSA Emeklilik ve Hayat A.Ş. Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik ve Hayat A.Ş. Para Piyasası İkinci Likit Esnek 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. Büyüme Amaçlı Hisse Senedi Emeklilik Yatırım Fonu	28.12.2006
AvivaSA Emeklilik ve Hayat A.Ş. Para Piyasası Birinci Likit Esnek 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. Standart Emeklilik Yatırım Fonu	02.05.2013
AvivaSA Emeklilik ve Hayat A.Ş. Katkı 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. Özel Sektör Borçlanma Araçları EYF (*)	25.10.2013
AvivaSA Emeklilik ve Hayat A.Ş. BRIC Ülkeleri Esnek Emeklilik Yatırım Fonu (**)	10.05.2013

(*) On 5 April 2016, the resolution related to the establishments of AvivaSA Emeklilik ve Hayat A.Ş. Participation Contribution Pension Fund, AvivaSA Emeklilik ve Hayat A.Ş. Participation Flexible Pension Fund, AvivaSA Emeklilik ve Hayat A.Ş. Participation Standard Pension Fund was approved by the board of directors and the necessary application was made to the CMB. The approval is in process at the CMB.

(**) It has been decided to change the titles of 18 Pension Mutual Funds with the resolution of the Board of Directors dated 30 June 2016 in accordance with the guidelines of the pension investment funds approved by the Capital Markets Board dated 3 March 2016 and numbered 7/223. The necessary application was made to the CMB.

AvivaSA Emeklilik ve Hayat A.Ş.

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

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

1. General Information (continued)

1.2 Corporate Information (continued)

As at December 31, 2016 and December 31, 2015 units and amounts of share certificates in circulation are as follows:

Share certificates in circulation	December 31, 2016		December 31, 2015	
	Number of Share Certificates	Net Asset Value (TL)	Number of Share Certificates	Net Asset Value (TL)
AvivaSA Emeklilik ve Hayat A.Ş. Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	16,081,866,654	682,369,684	12,934,894,585	469,265,041
AvivaSA Emeklilik ve Hayat A.Ş. Dengeli Emeklilik Yatırım Fonu	1,825,027,098	79,160,550	2,086,849,238	81,397,555
AvivaSA Emeklilik ve Hayat A.Ş. Esnek Emeklilik Yatırım Fonu	2,912,770,944	133,900,080	3,536,171,446	145,566,498
AvivaSA Emeklilik ve Hayat A.Ş. Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	12,698,194,864	494,658,181	8,473,537,711	280,330,048
AvivaSA Emeklilik ve Hayat A.Ş. Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	5,834,735,406	275,580,388	6,947,295,154	302,964,594
AvivaSA Emeklilik ve Hayat A.Ş. Para Piyasası İkinci Likit Esnek Emeklilik Yatırım Fonu	3,339,541,946	125,676,982	3,076,912,615	105,464,257
AvivaSA Emeklilik ve Hayat A.Ş. İkinci Esnek Emeklilik Yatırım Fonu	2,612,238,033	64,903,666	2,423,958,052	50,966,142
AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Hisse Senedi Emeklilik Yatırım Fonu	3,324,935,586	78,877,447	3,888,766,256	82,441,845
AvivaSA Emeklilik ve Hayat A.Ş. Para Piyasası Birinci Likit Esnek Emeklilik Yatırım Fonu	32,292,033,497	1,292,876,145	23,274,198,858	848,600,565
AvivaSA Emeklilik ve Hayat A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	60,406,745,128	2,903,752,238	57,361,648,551	2,544,964,261
AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu	43,102,637,881	2,049,616,637	40,148,583,438	1,711,574,260
AvivaSA Emeklilik ve Hayat A.Ş. Birinci Esnek Emeklilik Yatırım Fonu	10,055,979,686	299,436,907	7,169,476,926	173,931,510
AvivaSA Emeklilik ve Hayat A.Ş. Hisse Senedi Emeklilik Yatırım Fonu	15,999,888,029	736,266,848	14,090,018,999	585,214,849
AvivaSA Emeklilik ve Hayat A.Ş. Kamu Borçlanma Araçları Emeklilik Yatırım Fonu – Grup	12,189,461,645	467,892,485	12,542,463,360	441,294,031
AvivaSA Emeklilik ve Hayat A.Ş. Gelir Amaçlı Esnek Emeklilik Yatırım Fonu	4,379,608,736	172,118,623	4,281,969,201	152,382,438
AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Hisse Senedi Grup Emeklilik Yatırım Fonu	2,131,598,795	79,205,948	2,199,847,804	72,671,972
AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Esnek Grup Emeklilik Yatırım Fonu	2,289,320,312	37,281,581	2,289,541,924	33,200,647
AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Performans Esnek Emeklilik Yatırım Fonu	97,125,669	1,456,399	71,898,742	966,750
AvivaSA Emeklilik ve Hayat A.Ş. Standart Emeklilik Yatırım Fonu	8,688,522,721	103,402,109	7,652,997,229	83,471,241
AvivaSA Emeklilik ve Hayat A.Ş. Katkı Emeklilik Yatırım Fonu	110,950,391,988	1,354,704,286	81,322,232,123	908,125,366
AvivaSA Emeklilik ve Hayat A.Ş. Altın Emeklilik Yatırım Fonu	23,839,674,804	348,965,160	11,791,920,797	132,871,364
AvivaSA Emeklilik ve Hayat A.Ş. Özel Sektör Borçlanma Araçları EYF	81,689,336	1,074,378	54,651,309	650,351
AvivaSA Emeklilik ve Hayat A.Ş. BRIC Ülkeleri Esnek Emeklilik Yatırım Fonu	191,686,192	3,101,099	35,757,848	414,719
	375,325,674,950	11,786,277,822	307,655,592,166	9,208,730,304

AvivaSA Emeklilik ve Hayat A.Ş.

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

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

1. General Information (continued)

1.2. Corporate Information (continued)

There are no entities controlled or jointly controlled by the Company (December 31, 2015: None). The Company’s management analysed their relationship with the pension investment funds under IFRS 10, 11, and 12, and concluded the Company has no control over the pension investment funds.

The average personnel number of the Company is 1,492 employees as of December 31, 2016 (December 31, 2015: 1,590).

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

The accompanying financial statements of AvivaSA Hayat ve Emeklilik Anonim Şirketi for the year ended December 31, 2016 were authorised for issue in accordance with a resolution of the directors on February 22, 2016.

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.

AvivaSA Emeklilik ve Hayat A.Ş.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies

a) 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.

b) 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.

c) 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.

d) 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.

e) 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.

AvivaSA Emeklilik ve Hayat A.Ş.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

e) Income generated from pension business (continued)

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. Since, 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 agreed with auditors. The account 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.

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; there can reduce “Deferred Entrance Fee“ in the first five years, exit without mandatory reasons in case of leaving provided that defined to the product from the accumulation of the participant within the limits of regulation and rules.

f) Investment and other income (expense), net

Investment and other income (expense), net 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.

AvivaSA Emeklilik ve Hayat A.Ş.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

f) Investment and other income (expense), net (continued)

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.

g) 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.

h) 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.

i) 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) and Takasbank, 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 Emeklilik ve Hayat A.Ş.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

j) 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.

k) 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:

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

AvivaSA Emeklilik ve Hayat A.Ş.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

k) Property and equipment (continued)

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.

l) 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 December 31, 2016 and December 31, 2015 details of the outstanding operational lease liability has been disclosed in Note 35.

m) Intangible assets

Intangible assets mainly comprise computer software. They are recorded at acquisition cost and amortized on a straight-line basis over their estimated useful lives for three 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.

n) 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.

AvivaSA Emeklilik ve Hayat A.Ş.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

n) Financial instruments (continued)

Classification (continued)

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.

AvivaSA Emeklilik ve Hayat A.Ş.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

n) Financial instruments (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.

o) 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 and 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.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

o) Impairment of financial assets (continued)

Premium and other insurance receivables (continued)

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its cost at the reversal date.

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

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.

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

o) Impairment of financial assets (continued)

Insurance contracts

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

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

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

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

Some policies (Saving Life Policies) of the 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.

p) 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.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

q) Deferred expenses

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 the following expenses met these criteria and thus 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.

r) 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, except for marine premiums issued before 14 June 2007. 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.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

s) 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.

t) 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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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

u) 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.

v) Pension business

The Company provides group and individual plans to customers.

The Company offers 23 pension investment funds (2015: 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 YEAR ENDED DECEMBER 31, 2016

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

w) 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 4,297 effective as of December 31, 2016 (December 31, 2015: TL 3,828) 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 December 31, 2016 and December 31, 2015 is as follows:

	December 31, 2016	December 31, 2015
	%	%
Expected rate of salary/limit increase	7.00	5.00
Discount rate	11.30	10.10

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.

x) 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.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

y) 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.

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.

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

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

z) 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).

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.

aa) 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:

	December 31, 2016		December 31, 2015	
	USD / TL	Euro / TL	USD / TL	Euro / TL
Bid Rates	3.5192	3.7099	2.9076	3.1776
Ask Rates	3.5308	3.7222	2.9172	3.1881

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

bb) 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) Amendments to IFRSs affecting amounts reported and/or disclosures in the financial statements

None.

b) New and revised IFRSs applied with no material effect on the financial statements

IFRS 14	<i>Regulatory Deferral Accounts</i> ¹
Amendments to IFRS 11	<i>Accounting for Acquisition of Interests in Joint Operations</i> ¹
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ¹
Annual Improvements to 2012-2014 Cycle	<i>IFRS 5, IFRS 7, IAS 19, IAS 34</i> ¹
Amendments to IAS 1	<i>Disclosure Initiative</i> ¹
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ¹

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

IFRS 14 Regulatory Deferral Accounts

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

IFRS 14 was 0 and is applied to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

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

2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

b) New and revised IFRSs applied with no material effect on the financial statements (continued)

Amendments to IFRS 11 *Accounting for Acquisition of Interests in Joint Operations*

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

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11,
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

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

Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*

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

Amendments to IAS 27 *Equity Method in Separate Financial Statements*

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Annual Improvements 2012-2014 Cycle

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

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

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2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

b) New and revised IFRSs applied with no material effect on the financial statements (continued)

Annual Improvements 2012-2014 Cycle (continued)

IAS 19: Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

IAS 34: Clarify the meaning of ‘elsewhere in the interim report’ and require a cross-reference.

Amendments to IAS 1 *Disclosure Initiative*

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

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

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

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

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

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

2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

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

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

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealized Losses</i> ¹
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
IFRS 9	<i>Financial Instruments</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 2	<i>Classification and Measurement of Share-Based Payment Transactions</i> ²
IFRS 16	<i>Leases</i> ³
Amendments to IFRS 4	<i>Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’</i>
	<i>Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ²
Amendments to IAS 40	<i>Transfers of Investment Property</i> ²
Annual Improvements to IFRS Standards 2014–2016 Cycle	<i>IFRS 1</i> ² , <i>IFRS 12</i> ¹ , <i>IAS 28</i> ²

¹ Effective for annual periods beginning on or after 1 January 2017.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

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

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

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

2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

c) New and revised IFRSs in issue but not yet effective (continued)

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

This amendment clarifies the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

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

This amendment clarifies the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Amendments to IAS 7 Disclosure Initiative

This amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 is amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 is issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income (“FVTOCI”) measurement category for certain simple debt instruments.

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

2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

c) New and revised IFRSs in issue but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:

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

Amendments to IFRS 15 Revenue from Contracts with Customers

This amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. This amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

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

This amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity settled.

IFRS 16 Leases

This new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 “Leases” and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Amendments to IFRS 4 Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’

This amendment provides optional approaches for entities that issue insurance contracts within the scope of IFRS 4, and the entities are permitted to stop applying them before the new insurance standard is applied.

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

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

2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

c) New and revised IFRSs in issue but not yet effective (continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Amendments to IAS 40 Transfers of Investment Property

The amendments to IAS 40 Investment Property:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- **IFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity’s interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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

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

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

2. Accounting policies (continued)

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.

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 determined the period 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 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 and agreed with auditors. 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.

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

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

2. Accounting policies (continued)

2.4 Critical accounting estimates and judgments in applying accounting policies

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.

Deferred taxes

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. It is necessary to evaluate and make predictions regarding taxable profits which may occur in future while determining the amount of deferred tax assets to be recorded (Note 17).

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.

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

(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

Live 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.

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

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

3. Segment information (continued)

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:

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

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

3. Segment information (continued)

January 1 - December 31, 2016	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	-	254,226,789	11,131,854	52,063,422	317,422,065	-	-	-	317,422,065
Premium ceded to reinsurers	-	(11,056,927)	(505,790)	(2,251,174)	(13,813,891)	-	-	-	(13,813,891)
Premium written net of reinsurance	-	243,169,862	10,626,064	49,812,248	303,608,174	-	-	-	303,608,174
Net change in mathematical reserves	-	(32,815,337)	55,559,137	-	22,743,800	-	(5,133)	(22,738,667)	-
Net change in provision for unearned premiums reserves	-	(13,892,305)	13,289	(847,206)	(14,726,222)	-	-	-	(14,726,222)
Net premiums earned	-	196,462,220	66,198,490	48,965,042	311,625,752	-	(5,133)	(22,738,667)	288,881,952
Net change in mathematical reserves	-	-	-	-	-	-	-	22,738,667	22,738,667
Claim paid and change in outstanding claims	-	(48,324,174)	(62,664,429)	(9,498,264)	(120,486,867)	-	15,203	-	(120,471,664)
Commission income	-	3,345,218	31,188	666,167	4,042,573	-	-	-	4,042,573
Commission expense	-	(39,505,670)	(7,965)	(23,179,630)	(62,693,265)	2,770,931	-	-	(59,922,334)
Other income / (expense), net	-	(222,663)	-	(221,791)	(444,454)	-	257,227	-	(187,227)
Life and personal accident technical profit	-	111,754,931	3,557,284	16,731,524	132,043,739	2,770,931	267,297	-	135,081,967
Fund management charge	160,959,943	-	-	-	160,959,943	-	-	-	160,959,943
Management fee	44,259,355	-	-	-	44,259,355	-	-	-	44,259,355
Management fee	39,530,170	-	-	-	39,530,170	-	-	-	39,530,170
DIR	4,729,185	-	-	-	4,729,185	-	-	-	4,729,185
Entry fee	1,389,487	-	-	-	1,389,487	-	-	-	1,389,487
Deferred fee	27,897,548	-	-	-	27,897,548	-	-	-	27,897,548
Premium holiday charge	4,586,955	-	-	-	4,586,955	-	-	-	4,586,955
Pension income	239,093,288	-	-	-	239,093,288	-	-	-	239,093,288
Fund management charge	(23,494,512)	-	-	-	(23,494,512)	-	-	-	(23,494,512)
Commission expense, net of DAC	(48,708,315)	-	-	-	(48,708,315)	2,336,657	-	-	(46,371,658)
Commission expense	(92,735,141)	-	-	-	(92,735,141)	2,336,657	-	-	(90,398,484)
DAC	44,026,826	-	-	-	44,026,826	-	-	-	44,026,826
Other income / (expense), net	(11,182,474)	-	-	-	(11,182,474)	-	42,192	-	(11,140,282)
Pension expenses including commission	(83,385,301)	-	-	-	(83,385,301)	2,336,657	42,192	-	(81,006,452)
Pension technical profit	155,707,987	-	-	-	155,707,987	-	-	-	155,707,987
Total technical profit	155,707,987	111,754,931	3,557,284	16,731,524	287,751,726	-	-	-	287,751,726
General and administrative expenses	-	-	-	-	(207,888,748)	-	-	-	(207,888,748)
Net technical profit after overhead expenses	-	-	-	-	79,862,978	-	-	-	79,862,978
Foreign exchange gain / (loss), net	-	-	-	-	5,198,933	-	-	-	5,198,933
Investment and other income / (expense), net	-	-	-	-	47,118,329	-	-	-	47,118,329
Net financial income	-	-	-	-	52,317,262	-	-	-	52,317,262
Profit before taxes	-	-	-	-	132,180,240	-	-	-	132,180,240
Income tax expense	-	-	-	-	(27,143,199)	-	-	-	(27,143,199)
Profit for the year	-	-	-	-	105,037,041	-	-	-	105,037,041

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

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

3. Segment information (continued)

January 1 - December 31, 2015	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	-	180,986,207	13,272,422	45,690,370	239,948,999	-	-	-	239,948,999
Premium ceded to reinsurers	-	(9,028,549)	(552,592)	(205,433)	(9,786,574)	-	-	-	(9,786,574)
Premium written net of reinsurance	-	171,957,658	12,719,830	45,484,937	230,162,425	-	-	-	230,162,425
Net change in mathematical reserves	-	(6,611,505)	63,961,552	-	57,350,047	-	(5,361)	(57,344,686)	-
Net change in provision for unearned premiums reserves	-	(7,233,235)	10,876	71,902	(7,150,457)	-	-	-	(7,150,457)
Net premiums earned	-	158,112,918	76,692,258	45,556,839	280,362,015	-	(5,361)	(57,344,686)	223,011,968
Net change in mathematical reserves	-	-	-	-	-	-	-	57,344,686	57,344,686
Claim paid and change in outstanding claims	-	(42,836,221)	(73,851,409)	(2,312,646)	(119,000,276)	-	-	-	(119,000,276)
Commission income	-	2,710,930	31,687	38,510	2,781,127	-	-	-	2,781,127
Commission expense	-	(30,969,530)	(7,720)	(20,978,790)	(51,956,040)	1,232,871	-	-	(50,723,169)
Other income / (expense), net	-	(917,531)	-	(68,936)	(986,467)	-	126,157	-	(860,310)
Life and personal accident technical profit	-	86,100,566	2,864,816	22,234,977	111,200,359	-	-	-	-
Fund management charge	129,225,637	-	-	-	129,225,637	-	-	-	129,225,637
Management fee	30,343,507	-	-	-	30,343,507	-	-	-	30,343,507
Entry fee	16,154,284	-	-	-	16,154,284	-	-	-	16,154,284
Deferred fee	25,801,497	-	-	-	25,801,497	-	-	-	25,801,497
Premium holiday charge	6,535,263	-	-	-	6,535,263	-	-	-	6,535,263
Pension income	208,060,188	-	-	-	208,060,188	-	-	-	208,060,188
Fund management charge	(17,957,371)	-	-	-	(17,957,371)	-	-	-	(17,957,371)
Commission expense, net of DAC	(42,664,483)	-	-	-	(42,664,483)	2,506,487	-	-	(40,157,996)
Commission expense	(89,264,238)	-	-	-	(89,264,238)	2,506,487	-	-	(86,757,751)
DAC	46,599,755	-	-	-	46,599,755	-	-	-	46,599,755
Other income / (expense), net	(8,788,240)	-	-	-	(8,788,240)	-	358,271	-	(8,429,969)
Pension expenses including commission	(69,410,094)	-	-	-	(69,410,094)	2,506,487	358,268	-	(66,545,339)
Pension technical profit	138,650,094	-	-	-	138,650,094	-	-	-	-
Total technical profit	138,650,094	86,100,570	2,864,815	22,234,980	249,850,459	-	-	-	-
General and administrative expenses	-	-	-	-	(184,032,361)	-	-	-	(184,032,361)
Net technical profit after overhead expenses	-	-	-	-	65,818,098	-	-	-	-
Foreign exchange gain / (loss), net	-	-	-	-	10,836,200	-	-	-	10,836,200
Investment income / (expense), net	-	-	-	-	38,986,608	-	-	-	38,986,608
Net financial income	-	-	-	-	49,822,808	-	-	-	-
Write-off of intangible assets, one-off	-	-	-	-	(36,343,684)	-	-	-	(36,343,684)
Profit before taxes	-	-	-	-	79,297,222	-	-	-	-
Income tax expense	-	-	-	-	(16,401,536)	-	-	-	(16,401,536)
Profit for the year	-	-	-	-	62,895,686	-	-	-	-

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

(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.

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4. Insurance and financial risk management (continued)

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.

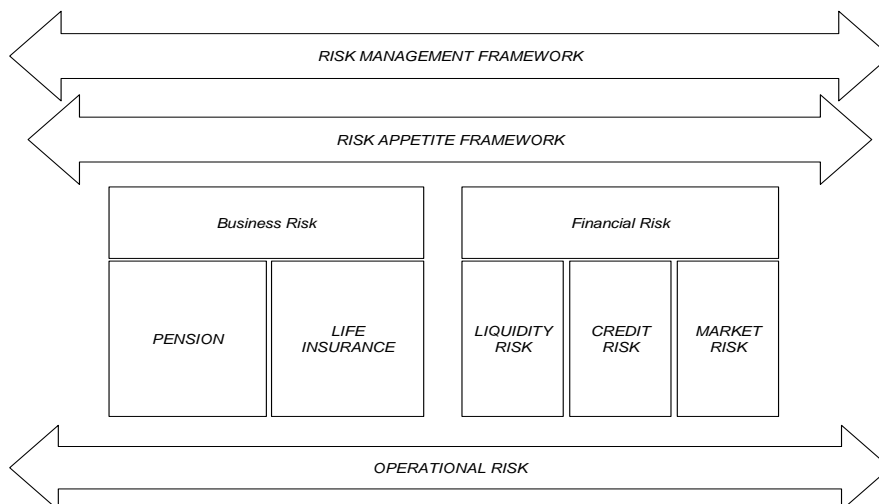
AvivaSA Emeklilik ve Hayat A.Ş.’s risk management framework “(RMF)” forms an integral part of the management and Board processes and decision making framework. The key elements of our risk management framework comprise risk appetite, risk governance including risk policies and business standards, risk 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.

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:



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

4. Insurance and financial risk management (continued)

Risk Management Framework (continued)

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).

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, Munich Re and Gen Re. The company has signed reinsurance agreements with Scor Global Life ve RGA against catastrophic loss risks.

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4. Insurance and financial risk management (continued)

Insurance Risk (continued)

a) Life insurance (continued)

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. Further, the Company has underwriting at the claim stage specifically for critical illness claims.

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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 December 31, 2016 and December 31, 2015, 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	December 31, 2016	December 31, 2015
Life	17%	19%
Personal Accident (Casualty)	19%	5%

As at December 31, 2016 and December 31, 2015 that part of total risk which is ceded to reinsurers is given below on a risk coverage basis.

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%				
December 31, 2015							
Life							
Natural death	Accidental Death	Accidental disability	Sickness disability	Dangerous Sickness	Public Transport	Unemployment	Accidental Treatment Cost
5.91%	17.27%	6.65%	6.11%	50.89%	17.37%	100.00%	-
Personal Accident							
Accidental death	Accidental disability	Accidental treatment cost	Unemployment				
0.85%	1.25%	-	100.00%				

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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 31 December 2016 and 31 December 2015 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):

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

December 31, 2015	Total gross risk liability	Share of reinsurer in total risk liability	Net risk liability
Life	33,952,686,141	2,008,115,435	31,944,570,705
Personal Accident	32,506,272,378	334,229,847	32,172,042,531
Total	66,458,958,519	2,342,345,282	64,116,613,236

The Company's gross provision for outstanding claims at December 31, 2016 and December 31, 2015 are as follows:

Outstanding Claims	December 31, 2016	December 31, 2015
Life	57,036,344	47,164,173
Personal Accident	11,850,433	7,404,310
Total	68,886,777	54,568,483

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4. Insurance and financial risk management (continued)

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.

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 31 December 2016 and 31 December 2015 are as follows:

At December 31, 2016, on condition that all variables remain constant, effect of a 10% appreciation/ devaluation of Eurobonds against TL on owners' equity is TL 824,641.

December 31, 2016:

Liabilities and assets in foreign currency	Effect on income/expense		
	USD	EUR	GBP
Exchange rate variation (*)			
10%	2,306,116	44,218	(10,829)
-10%	(2,306,116)	(44,218)	10,829

As at December 31, 2015, on condition that all variables remain constant, effect of a 10% appreciation/ devaluation of Eurobonds against TL on owners' equity is TL 21,506.

December 31, 2015:

Liabilities and assets in foreign currency	Effect on income/expense		
	USD	EUR	GBP
Exchange rate variation (*)			
10%	875,561	14,661	(11,091)
-10%	(875,561)	(14,661)	11,091

(*) All amounts are presented in TL.

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4. Insurance and financial risk management (continued)

Financial Risk (continued)

a) Market Risk (continued)

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 31 December 2016:

Total of trading and available for sale financial assets	Effect Profit and Loss		
	TL	USD (*)	EUR (*)
Market interest increase / (decrease) (**)			
5%	(12,036,203)	(2,664,231)	(5,418)
-5%	11,541,978	2,113,314	4,379

Trading financial assets (company)	Effect Profit and Loss		
	TL	USD (*)	EUR (*)
Market interest increase / (decrease) (**)			
%5	(477,420)	-	-
-%5	523,357	-	-

Available for sale financial assets	Effect Profit and Loss		
	TL	USD (*)	EUR (*)
Market interest increase / (decrease) (**)			
5% Asset backing investment contacts	(10,111,141)	(2,664,231)	(5,418)
5% Available for sale financial assets (company)	(1,447,642)	-	-
-5% Asset backing investment contacts	9,637,732	2,113,314	4,379
-5% Available for sale financial assets (company)	1,380,889	-	-

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

(**) Amounts are shown in relevant currency.

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4. Insurance and financial risk management (continued)

Financial Risk (continued)

a) Market Risk (continued)

ii) Interest Risk (continued)

December 31, 2015:

Total of trading and available for sale financial assets	Effect Profit and Loss		
	TL	USD (*)	EUR (*)
Market interest increase / (decrease) (**)			
5%	(11,872,121)	(5,857,469)	(8,013)
-5%	11,146,289	4,635,940	6,427
Trading financial assets (company)			
Market interest increase / (decrease) (**)	TL	USD (*)	EUR (*)
5%	(1,140,841)	-	-
-5%	1,249,276	-	-
Available for sale financial assets			
Market interest increase / (decrease) (**)	TL	USD (*)	EUR (*)
5% Asset backing insurance contracts	(9,379,802)	(3,568,683)	(8,013)
5% Available for sale financial assets (Company)	(1,351,478)	(2,288,786)	-
-5% Asset backing insurance contracts	8,647,904	2,670,926	6,427
-5% Available for sale financial assets (Company)	1,249,109	1,965,014	-

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

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

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4. Insurance and financial risk management (continued)

Financial Risk (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:

	December 31, 2016	December 31, 2015
Cash and cash equivalents	529,124,443	447,814,449
Financial assets	381,174,585	333,829,916
Premium and other insurance receivables	16,856,828	18,098,532
Reinsurance share of insurance liabilities	11,393,920	7,223,323
Other financial assets	838,932	838,932
Pension business receivables	97,165,390	8,069,213
Total	1,036,554,098	815,874,365

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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4. Insurance and financial risk management (continued)

Financial Risk (continued)

c) Liquidity Risk (continued)

As at December 31, 2016, 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.

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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4. Insurance and financial risk management (continued)

Financial Risk (continued)

c) Liquidity Risk (continued)

As at December 31, 2015, table of liquidity risk is as follows:

December 31, 2015	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	447,814,449	40,881,542	408,601,741	-	-	-	-	449,483,283
Financial assets	333,829,916	66,858,277	4,438,655	4,664,363	-	279,483,113	-	355,444,408
- Available for sale financial investments	48,668,542	-	-	-	-	49,449,354	-	49,449,354
- Financial assets at fair value through profit or loss	62,090,728	53,003,106	4,438,655	4,664,363	-	-	-	62,106,124
- Available for sale asset backing financial investments, Policyholders’ portfolio	223,070,646	13,855,171	-	-	-	230,033,759	-	243,888,930
Premium and other insurance receivables	18,098,532	139,093	11,282,065	6,375,673	301,701	-	-	18,098,532
Pension business receivables	8,069,213	7,038,641	-	-	-	-	1,030,572	8,069,213
Other financial assets	838,932	-	-	-	-	-	838,932	838,932
Total	808,651,042	114,917,553	424,322,461	11,040,036	301,701	279,483,113	1,869,504	831,934,368
Financial liabilities								
Financial liabilities	-	-	-	-	-	-	-	-
Due to insurance and reinsurance companies	8,270,281	87,569	8,182,712	-	-	-	-	8,270,281
Pension business payables	209,719,083	183,538,222	26,180,861	-	-	-	-	209,719,083
Other payables and liabilities	24,658,971	10,074,752	9,927,578	-	4,656,641	-	-	24,658,971
Total	242,648,335	193,700,543	44,291,151	-	4,656,641	-	-	242,648,335
Liquidity surplus/(deficit)	566,002,707	(78,782,990)	380,031,310	11,040,036	(4,354,940)	279,483,113	1,869,504	589,286,033

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4. Insurance and financial risk management (continued)

Financial Risk (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).

	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.

	December 31, 2015			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Available for sale financial assets (Note 6)	48,668,542	-	-	48,668,542
Financial assets held for trading (Note 6)	62,090,728	-	-	62,090,728
Financial investments with risks on policyholders classified as available for sale (Note 6) (**)	209,215,476	-	-	209,215,476
Total financial assets	319,974,746	-	-	319,974,746

(**) Time deposits amounting to TL 13,855,170 are not included. Carrying values of time deposits approximate their fair values due to their short term nature.

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4. Insurance and financial risk management (continued)

Financial Risk (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 June 30, 2016 and December 31, 2015, the Company has a sufficient amount of equity for losses which may arise from current liabilities and potential risks of the Company. As of June 30, 2016 and December 31, 2015, the required capital reserves (calculated in accordance with the above-mentioned local regulation) and current capital adequacy analysis is as follows:

	June 30, 2016	December 31, 2015
Total owners’ equity (*)	176,231,222	166,361,681
Required minimum capital reserves	123,867,600	119,647,069
Capital surplus	52,363,622	46,714,612

* Includes equalization reserve.

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5. Cash and cash equivalents

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

	December 31, 2016	December 31, 2015
Cash	-	-
Banks (*)	306,518,142	261,688,873
Cheques given and payment orders	(108,692)	(32,581)
Other cash and cash equivalents (**)	222,714,993	186,158,157
Total cash and cash equivalents	529,124,443	447,814,449
Accrued interest	(1,408,985)	(1,296,312)
Total cash and cash equivalents per statement of cash flow	527,715,458	446,518,137

(*) Note 32 presents the details about the blockage on cash and cash equivalents 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:

	December 31, 2016	December 31, 2015
	Interest Rate	Interest Rate
	(%)	(%)
USD	3.01	1.08
TL	11.11	12.86

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

As of December 31, 2015, TL deposit maturity varies between January 5, 2016 and February 2, 2016, foreign currency deposits maturity varies between January 4, 2016 and January 25, 2016.

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5. Cash and cash equivalents (continued)

As at December 31, 2016 and December 31, 2015; detail of cash and cash equivalents are as follows:

	December 31, 2016	December 31, 2015
Foreign currency cash and cash equivalents	12,672,255	6,934,748
- demand deposits	680,006	318,293
- time deposits	11,991,564	6,547,151
- credit card receivables	685	69,304
TL cash and cash equivalents	516,452,188	440,879,701
- demand deposits	42,905,259	5,100,253
- time deposits	250,941,313	249,723,176
- cheques given and payment orders	(108,692)	(32,581)
- credit card receivables	222,714,308	186,088,853
Total	529,124,443	447,814,449

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6. Financial assets

As at December 31, 2016 and December 31, 2015; the securities portfolio of the Company is as follows:

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss	54,916,845	62,090,728
Total available for sale financial assets	326,257,740	271,739,188
Available for sale financial investments	9,295,188	48,668,542
Available for sale asset backing financial investments, policyholders' portfolio	316,962,552	223,070,646
Total securities portfolio	381,174,585	333,829,916

As at December 31, 2016 and December 31, 2015; financial assets as fair value through profit or loss are as follows:

	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

	December 31, 2015		
	Cost	Fair value	Carrying value
Investment funds	31,287,247	35,803,458	35,803,458
Private sector bonds	15,732,466	15,898,074	15,898,074
Treasury bills and Government bonds -TL	10,284,672	10,389,196	10,389,196
Total financial assets at fair value through profit or loss	57,304,385	62,090,728	62,090,728

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6. Financial assets (continued)

As at December 31, 2016 and December 31, 2015; available for sale financial assets owned by the Company are as follows:

	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

	December 31, 2015		
	Cost	Fair value	Carrying value
Treasury bills and Government bonds – TL	10,772,000	9,319,663	9,319,663
Eurobonds – USD	38,784,561	39,348,879	39,348,879
Total available for sale financial investments	49,556,561	48,668,542	48,668,542

As at December 31, 2016 and December 31, 2015; available for sale financial assets backing insurance contracts are as follows:

	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

	December 31, 2015		
	Cost	Fair value	Carrying value
Treasury bills and Government bonds – TL	75,550,796	63,299,410	63,299,410
Eurobonds – USD	156,920,887	144,559,909	144,559,909
Eurobonds – EUR	1,221,392	1,356,157	1,356,157
Time deposits – TL	13,700,000	13,855,170	13,855,170
Total available for sale asset backing financial investments, policyholders’ portfolio	247,393,075	223,070,646	223,070,646

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

6. Financial assets (continued)

As at December 31, 2016 and December 31, 2015; financial assets at fair value through profit or loss and available for sale financial assets movement table are as follows:

	2016	2015
Opening, January 1	333,829,916	358,396,058
Purchases	111,559,628	175,060,180
Disposals	(83,479,857)	(193,441,548)
Change in the valuation - unrealized gain and losses	(661,023)	(222,382)
Disposals through the redemption	(11,741,565)	(23,842,930)
Unrealized exchange rate gains/(losses)	46,382,809	35,302,281
Change in balance recognized under equity	(7,906,548)	(1,909,144)
Change in balance recognized under life mathematical reserves	(6,808,775)	(15,512,599)
Closing, December 31	381,174,585	333,829,916

The maturity analysis of financial assets is as follows:

As at December 31, 2016 and December 31, 2015; the remaining contractual maturities of financial assets are as follows:

	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
Total	44,038,355	1,533,029	-	7,101,060	3,777,430	324,724,712	381,174,585

	December 31, 2015						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	-	-	3,468,360	6,920,830	-	72,619,079	83,008,269
Eurobonds	-	-	-	-	-	185,264,945	185,264,945
Private sector bonds	-	-	7,360,359	4,482,675	-	4,055,040	15,898,074
Time deposits	-	13,855,170	-	-	-	-	13,855,170
Investment funds	35,803,458	-	-	-	-	-	35,803,458
Total	35,803,458	13,855,170	10,828,719	11,403,505	-	261,939,064	333,829,916

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

6. Financial assets (continued)

The currency analysis of financial assets is as follows:

December 31, 2016				
	Currency Type	Currency Amount	Rate	Amount TL
Financial assets available-for-sale	TL			9,295,188
Total				9,295,188
Financial assets at fair value through profit or loss	TL			54,916,845
Total				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
Total				316,962,552
Total securities portfolio				381,174,585
December 31, 2015				
	Currency Type	Currency Amount	Rate	Amount TL
Financial assets available-for-sale	USD	13,533,113	2.9076	39,348,879
	TL			9,319,663
Total				48,668,542
Financial assets at fair value through profit or loss	TL			62,090,728
Total				62,090,728
Financial investments with risks on policy holders	USD	49,717,949	2.9076	144,559,909
	EUR	426,787	3.1776	1,356,157
	TL			77,154,580
Total				223,070,646
Total securities portfolio				333,829,916

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7. Reinsurance share of insurance liabilities

As at December 31, 2016 and December 31, 2015; reinsurance share of insurance liabilities are as follows:

	December 31, 2016	December 31, 2015
Reinsurers' share of outstanding claims	4,923,163	3,760,578
Reinsurers' share of unearned premiums reserve	4,856,089	3,462,745
Reinsurers' share of life mathematical reserve	1,614,668	-
Total	11,393,920	7,223,323

8. Premium and other insurance receivables

As at December 31, 2016 and December 31, 2015; premium and other insurance receivables are as follows:

	December 31, 2016	December 31, 2015
Policyholders and reinsurance companies	16,667,157	17,939,560
Loans to policyholders	189,671	158,972
Total premium and other insurance receivables	16,856,828	18,098,532

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

As at December 31, 2016 and December 31, 2015; maturity distribution of neither past due nor impaired insurance operations receivables is as follows:

	December 31, 2016	December 31, 2015
Receivables from policyholders and reinsurance companies		
Up to 3 months	5,684,249	7,220,361
3 to 6 months	2,910,942	2,638,893
6 to 9 months	1,754,653	1,599,007
9 to 12 months	645,170	589,194
Total	10,995,014	12,047,455

As at December 31, 2016 and December 31, 2015; an analysis of the aging of overdue but not impaired insurance operations receivables is as follows:

	December 31, 2016	December 31, 2015
Overdue 0-3 months	4,846,023	4,876,488
Overdue 3-6 months	185,744	125,600
Overdue 6-9 months	118,923	178,916
Overdue 9-12 months	60,981	74,620
Overdue 1 year	297,105	301,701
Total	5,508,776	5,557,325
Grand total	16,503,790	17,604,780

As of December 31, 2016, total of receivables from reinsurance companies are TL 163,367 (31 December 2015: TL 334,780).

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

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

8. Premium and other insurance receivables (continued)

As at December 31, 2016 and December 31, 2015; maturity distribution of neither past due nor impaired loans to the policyholders is as follows:

	December 31, 2016	December 31, 2015
Up to 3 months	167,755	139,093
3 to 6 months	-	-
6 to 9 months	21,916	19,879
9 to 12 months	-	-
Total	189,671	158,972

As at December 31, 2016 and December 31, 2015; the collateral held by the Company as security for its receivables are as follows:

	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
Total	578,496	21,825	10,817,620	11,417,940

	December 31, 2015			
	USD	EURO	TL	Total (TL)
Guarantees received				
Letter of guarantees	116,304	-	10,312,623	10,428,927
Mortgage deed	-	-	315,200	315,200
Other guarantees	344,608	13,864	121,100	479,572
Total	460,912	13,864	10,748,923	11,223,699

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

9. Pension business receivables and payables

As at December 31, 2016 and December 31, 2015; pension business receivables are as follows:

	December 31, 2016	December 31, 2015
Due from pension operations	11,282,864	8,069,213
Pension business receivables - deferred income reserves (*)	85,882,526	-
Total individual pension business receivables, net	97,165,390	8,069,213

As at December 31, 2016 and December 31, 2015; pension business payables are as follows:

	December 31, 2016	December 31, 2015
Temporary account of participants	237,477,141	199,376,407
Pension business payables - deferred income reserves (*)	81,153,341	-
Other payables from pension operations	11,360,403	10,342,676
Total pension business payables	329,990,885	209,719,083

*Reserve for account management fee deferred over years due to the contract terms.

10. Other assets

As at December 31, 2016 and December 31, 2015; other assets are as follows:

	December 31, 2016	December 31, 2015
Prepaid expenses	4,387,383	4,918,849
Other receivables from other related parties (Note 33)	4,048,695	3,038,173
Other receivables from third parties	2,068,956	783,985
Advances given	62,679	33,581
Deposits and guarantees given	125,852	141,535
Receivables from shareholders (Note 33)	83,775	8,050
Other	102,056	106,984
Total other assets	10,879,396	9,031,157

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

11. Property and equipment, net

As of December 31, 2016 and December 31, 2015; tangible assets movement and its accumulated depreciation is as follows:

Cost	1 January 2016	Additions	Disposals	31 December 2016
Machinery and equipment	7,649,793	2,553,264	(3,974,462)	6,228,595
Furniture and fixtures	10,561,534	173,209	(134,597)	10,600,146
Other tangible assets	11,100,068	862,872	-	11,962,940
Leased assets	1,175,521	-	-	1,175,521
Total	30,486,916	3,589,345	(4,109,059)	29,967,202
Accumulated depreciation	1 January 2016	Period charge	Disposals	31 December 2016
Machinery and equipment	6,773,762	814,142	(3,974,462)	3,613,442
Furniture and fixtures	8,821,235	620,390	(133,857)	9,307,768
Other tangible assets	9,939,746	598,831	-	10,538,577
Leased assets	1,175,521	-	-	1,175,521
Total	26,710,264	2,033,363	(4,108,319)	24,635,308
Net book value	3,776,652			5,331,894
Cost	1 January 2015	Additions	Disposals	31 December 2015
Machinery and equipment	7,433,981	215,812	-	7,649,793
Furniture and fixtures	10,480,846	80,688	-	10,561,534
Other tangible assets	11,030,080	69,988	-	11,100,068
Leased assets	1,175,521	-	-	1,175,521
Total	30,120,428	366,488	-	30,486,916
Accumulated depreciation	1 January 2015	Period charge	Disposals	31 December 2015
Machinery and equipment	6,314,736	459,026	-	6,773,762
Furniture and fixtures	8,120,011	701,224	-	8,821,235
Other tangible assets	8,736,706	1,203,040	-	9,939,746
Leased assets	1,175,521	-	-	1,175,521
Total	24,346,974	2,363,290	-	26,710,264
Net book value	5,773,454			3,776,652

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

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12. Intangible assets, net

As of December 31, 2016 and December 31, 2015; intangible assets movement and its accumulated amortization are as follows:

Cost	1 January 2016	Additions	Adjustment	31 December 2016
Software	31,805,967	1,227,200	1,045,495	34,078,662
Capitalized software development costs	12,413,962	3,035,968	(1,045,495)	14,404,435
Total	44,219,929	4,263,168	-	48,483,097

Accumulated amortization	1 January 2016	Additions	Adjustment	31 December 2016
Software	29,057,310	1,983,153	-	31,040,463
Total	29,057,310	1,983,153	-	31,040,463

Net book value	15,162,619			17,442,634
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Cost	1 January 2015	Additions	Write-off(*)	31 December 2015
Software	30,331,081	1,474,886	-	31,805,967
Capitalized software development costs	24,286,317	24,471,329	(36,343,684)	12,413,962
Total	54,617,398	25,946,215	(36,343,684)	44,219,929

Accumulated amortization	1 January 2015	Period charge	Disposals	31 December 2015
Software	26,978,661	2,078,649	-	29,057,310
Total	26,978,661	2,078,649	-	29,057,310

Net book value	27,638,737			15,162,619
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(*)Information technologies infrastructure project has been commenced on 2012 in order to standardize all core insurance applications within the Company and integration of this core system with other peripheral systems.

The project still continues, however the Company management decided to stop the development of the new core insurance system but to continue the efforts on modernizing the existing system with the decision of Board of Directors dated February 24, 2016.

As of December 31, 2015 total capitalized costs related to this project is TL 48,757,646 (December 31, 2014; TL 24,286,317) and TL 36,343,684 of this amount has been written off in the prior period in accordance with the Board of Directors’ decision referred to above.

The write off amount of TL 36,343,684 is recognized as “write-off of intangible assets” in the statement of profit or loss for the year ended December 31, 2015.

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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 December 31, 2016 and December 31, 2015; the details of other financial assets are as follows:

	December 31, 2016		December 31, 2015	
	Participation rate %	Amount	Participation rate %	Amount
Milli Reasürans A.Ş.	0.1494	575,082	0.1494	575,082
Emeklilik Gözetim Merkezi A.Ş.	5.2629	263,222	5.2629	263,222
Enternasyonel Turizm Yatırım A.Ş.	0.0001	2	0.0001	2
Endüstri Holding A.Ş.	0.0001	626	0.0001	626
Total		838,932		838,932

14. Financial liabilities

	December 31, 2016	December 31, 2015
Short-term bank loans	2,248,924	-
Total	2,248,924	-

As at December 31, 2016, short-term bank loan consists of interest-free loan.

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15. Due to insurance and reinsurance companies

As at December 31, 2016 and December 31, 2015; due to insurance and reinsurance companies are as follows:

	December 31, 2016	December 31, 2015
Due to the intermediaries	9,916,451	7,722,565
Due to the reinsurance companies	518,495	460,147
Due to the policyholders	104,805	87,569
Total	10,539,751	8,270,281

16. Other provisions

As at December 31, 2016 and December 31, 2015; provision for expenses and lawsuit provisions are as follows:

	December 31, 2016	December 31, 2015
Personnel bonus provision	12,702,261	15,155,173
Commission provision	3,163,265	3,461,745
Bonus provision for sales personnel	5,881,985	3,893,267
Provision for lawsuit against the Company (Note 34)	5,898,007	6,452,829
Total	27,645,518	28,963,014

17. Taxes

Corporate taxes

Statutory income is subject to corporate tax at 20% (2015: 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.

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 2016 is 20%. (2015: 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.

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17. Taxes (continued)

Corporate taxes (continued)

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

Transfer pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing, dated 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 December 31, 2016 and December 31, 2015; prepaid income taxes are netted off with the current income tax payable as stated below:

	December 31, 2016	December 31, 2015
Income taxes payable	10,147,922	18,320,833
Prepaid income taxes	(11,137,335)	(16,344,197)
Current tax (assets) / liabilities	(989,413)	1,976,636

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.

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.

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17. Taxes (continued)

Deferred taxes (continued)

	Cumulative temporary Differences		Deferred tax assets / (liabilities)	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Provision for employee termination benefit	9,404,969	7,685,572	1,880,994	1,537,114
Unused vacation provision	3,543,038	3,787,836	708,608	757,567
Provision for lawsuits	5,472,465	6,214,443	1,094,493	1,242,889
Deposits internal rate of return-linear interest rate difference	1,448,303	97,208	289,661	19,442
Provision for loans to policyholders Banking Insurance				
Transaction Tax	270	171	54	34
Trading portfolio valuation difference	79,760	14,034	155,92	2,807
Incentive commission	18,155,080	1,030,480	3,631,016	206,096
Net difference between the carrying values and tax base values of tangible assets and intangible assets	17,252,284	34,496,515	3,450,457	6,899,303
Expense accruals	4,108	22,685,030	822	4,537,006
Deferred income reserves	81,153,341	-	16,230,668	-
Change in the recognition of premium income	-	22,022,761	-	4,404,553
Total deferred tax assets	136,513,619	98,034,051	27,302,724	19,606,811
Eurobond valuation difference	(2,300,340)	(1,481,814)	(460,068)	(296,363)
Pension business receivables	(85,882,526)	-	(17,176,505)	-
Profit commission	-	-	-	-
Deferred acquisition cost	(283,773,202)	(239,231,920)	(56,754,640)	(47,846,385)
Total deferred tax liabilities	(371,956,068)	(240,713,734)	(74,391,214)	(48,142,748)
Deferred tax assets/ (liabilities) accounted for under equity over the fair value reserve for available for sale financial assets	1,643,631	206,179	328,726	41,236
Deferred tax liabilities, net	(233,798,818)	(141,104,308)	(46,759,764)	(28,494,701)

Movement of deferred tax liabilities for the period ended December 31, 2016 and December 31, 2015; are as follows:

	2016	2015
Opening balance, 1 January	(28,494,701)	(30,036,082)
Reversal of deferred tax liability recognized in other comprehensive income due to fair value losses on available for sale financial assets	(41,236)	(25,082)
Charged to profit or loss	(18,766,541)	(2,854,094)
RoP premium recognition change effect	-	4,404,553
Deferred tax asset /(liability) recognized in other comprehensive income due to fair value losses on available for sale financial assets	328,726	41,236
Deferred tax asset of actuarial loss on employment termination provision	213,988	(25,233)
Closing balance, December 31	(46,759,764)	(28,494,701)

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17. Taxes (continued)

Deferred taxes (continued)

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.

Income tax expenses for the period ended December 31, 2016 and December 31, 2015; are as follows:

	January 1 – December 31, 2016	January 1 – December 31, 2015
Income tax expense recognized in profit or loss:		
- Current tax charge	(10,035,348)	(20,095,687)
- Deferred tax charge	(18,766,541)	1,550,459
Adjustments recognized in the period for current tax of prior periods	1,658,690	2,143,692
Income tax expense	(27,143,199)	(16,401,536)

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 – December 31, 2016	January 1 – December 31, 2015
Profit before taxes	132,180,240	79,297,222
Tax rate	20%	20%
Taxes on income per statutory tax rate	(26,436,049)	(15,859,445)
Revenue that is exempt from taxation	2,524,416	2,636,990
Non-deductible expenses	(3,231,566)	(3,179,081)
Income tax expense	(27,143,199)	(16,401,536)

18. Employment termination benefits

	December 31, 2016	December 31, 2015
Provision for employment termination benefits	9,404,969	7,685,572
Total	9,404,969	7,685,572

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.

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18. Employment termination benefit (continued)

The amount payable consists of one month's salary limited to a maximum of TL 4,297 (December 31, 2015: TL 3,828) for each year of service as of December 31, 2016.

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:

	December 31, 2016	December 31, 2015
Estimated salary increase rate	7.00%	5.00%
Discount rate	11.30%	10.10%

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

	2016	2015
Opening balance, January 1	7,685,572	7,228,051
Paid during the period	(1,776,181)	(1,223,554)
Service cost	1,409,732	1,204,912
Interest cost	1,015,904	602,328
Actuarial loss (*)	1,069,942	(126,165)
Closing balance, December 31	9,404,969	7,685,572

19. Deferred expenses

As at December 31, 2016 and December 31, 2015; movements of deferred expenses are as follows:

	January 1- December 31, 2016	January 1- December 31, 2015
Deferred acquisition costs, gross January 1	239,231,920	185,216,176
Acquisition costs deferred during the period	85,692,842	85,655,791
Amortization	(41,151,561)	(31,640,047)
Deferred acquisition costs	283,773,201	239,231,920
Deferred commission costs, gross January 1	21,758,275	19,734,435
Commission cost deferred during the period	5,179,598	2,023,840
Deferred commission costs	26,937,873	21,758,275
Total deferred expenses	310,711,074	260,990,195

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

20. Other payables and liabilities

As at December 31, 2016 and December 31, 2015; other payables and liabilities are as follows:

	December 31, 2016	December 31, 2015
Payables to suppliers	9,133,552	10,310,050
Taxes and funds payable	8,059,846	7,119,247
Unused vacation provision	3,543,038	3,787,836
Payables to related parties (Note 33)	1,584,623	1,732,305
Deferred commission income	3,035,806	868,805
Other deferred income	1,232,516	-
Payables to personnel	1,070,757	722,548
Payables to shareholders (Note 33)	126,405	116,261
Deposits and guarantees	2,323	1,919
Total	27,788,866	24,658,971

21. Insurance contract liabilities

Insurance contract liabilities as at December 31, 2016 and December 31, 2015; are as follows:

	December 31, 2016	December 31, 2015
Gross insurance contract liabilities		
Reserve for unearned premiums	79,114,836	62,995,270
Claims provision	68,886,777	54,568,483
Life mathematical reserves	351,860,323	322,040,301
Total	499,861,952	439,604,054
Reinsurance share of insurance contract liabilities		
Reserve for unearned premiums, ceded (Note 7)	4,856,089	3,462,745
Claims provision, ceded (Note 7)	4,923,163	3,760,578
Mathematical reserves, ceded (Note 7)	1,614,668	-
Total	11,393,920	7,223,323
Net insurance contract liabilities		
Reserve for unearned premiums	74,258,747	59,532,525
Claims provision	63,963,614	50,807,905
Life mathematical reserves	350,245,655	322,040,301
Net insurance liabilities	488,468,016	432,380,731

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21. Insurance contract liabilities (continued)

Movements in insurance liabilities and reinsurance assets

Claims:

December 31, 2016	Gross	Ceded	Net
Total at the beginning of the year	54,568,483	(3,760,578)	50,807,905
Change during period	14,318,294	(1,162,585)	13,155,709
Total at the end of the year	68,886,777	(4,923,163)	63,963,614
December 31, 2016			
Reported claims	57,262,641	(4,332,308)	52,930,333
Incurred but not reported	11,624,136	(590,855)	11,033,281
Total at the end of the year	68,886,777	(4,923,163)	63,963,614
December 31, 2015			
Total at the beginning of the year	44,514,351	(3,556,998)	40,957,353
Change during period	10,054,132	(203,580)	9,850,552
Total at the end of the year	54,568,483	(3,760,578)	50,807,905
December 31, 2015			
Reported claims	46,477,818	(2,671,711)	43,806,107
Incurred but not reported	8,090,665	(1,088,867)	7,001,798
Total at the end of the year	54,568,483	(3,760,578)	50,807,905

Claims paid and change in outstanding claims provision for the period ended December 31, 2016 and December 31, 2015 are as follows:

	January 1 – December 31, 2016	January 1 – December 31, 2015
Cash paid for claims settled during the period	107,315,955	109,149,724
- Surrender and maturity from life savings	63,814,116	73,281,139
- Death and disability claims (*)	35,211,639	28,235,700
- Surrender from life protection	8,290,200	7,632,885
Change in outstanding claims provision	13,155,709	9,850,552
Claims paid and change in outstanding claims provision	120,471,664	119,000,276

(*) The amounts are netted-off reinsurance.

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21. Insurance contract liabilities (continued)

Reserve for unearned premiums:

December 31, 2016	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the year	62,995,270	(3,462,745)	59,532,525
Premiums written during the period	317,422,065	(13,813,891)	303,608,174
Premiums earned during the period	(301,302,499)	12,420,547	(288,881,952)
Reserve for unearned premiums at the end of the year	79,114,836	4,856,089	74,258,747
December 31, 2015	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the year	55,296,732	(2,914,664)	52,382,068
Premiums written during the period	263,457,243	(9,786,574)	253,670,669
Premiums earned during the period	(255,758,705)	9,238,493	(246,520,212)
Reserve for unearned premiums at the end of the year	62,995,270	(3,462,745)	59,532,525

Life mathematical reserves

	2016	2015
	Mathematical reserve TL	Mathematical reserve TL
Total at the beginning of the year, January 1	338,750,725	335,387,590
Additions	96,433,604	58,568,080
Disposals	(53,133,042)	(55,204,945)
Total at the end of the year, December 31	382,051,287	338,750,725

As of December 31, 2016, the negative fair value difference of financial assets at inseree's risk amounting to TL 30,100,913 (December 31, 2015: negative fair value difference of financial asstes at inseree's risk amounting to TL 18,119,603), deferred taxes on the fair value difference of financial assets at inseree's risk amounting to TL (90,051) (December 31, 2015: TL 1,409,178) and reinsurers share of TL 1,614,668 (December 31, 2015: None) have not been included in the above mentioned mathematical reserve table.

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

21. Insurance contract liabilities (continued)

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 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									
Accident year	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
1 year later	215,409	185,433	147,237	396,320	1,597,030	1,766,485	1,197,864	-	5,505,777
2 year later	-	161,258	220,078	133,604	55,339	167,604	-	-	737,882
3 year later	31,510	-	12,729	56,299	37,590	-	-	-	138,127
4 year later	-	92,632	15,200	315,741	-	-	-	-	423,573
5 year later	-	-	39,817	-	-	-	-	-	39,817
6 year later	108,500	-	-	-	-	-	-	-	108,500
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
Incurring but not reported									11,624,135
Total gross provision for outstanding claims as at 31 December 2016									68,886,777

As at December 31, 2015, claim development table of the Company is as follows:

Accident year	2008 and earlier	2009	2010	2011	2012	2013	2014	2015	Total
Current estimate of claims									
Accident year	1,953,012	1,292,057	1,372,558	1,787,897	2,935,688	7,541,684	6,857,599	16,876,488	40,616,983
1 year later	299,641	207,024	392,616	171,067	484,256	1,603,094	1,813,646	-	4,971,344
2 year later	-	-	106,400	227,236	133,604	75,192	-	-	542,432
3 year later	-	-	38,146	15,564	58,110	-	-	-	111,820
4 year later	-	-	145,206	29,700	-	-	-	-	174,906
5 year later	-	-	3,000	-	-	-	-	-	3,000
6 year later	-	30,958	-	-	-	-	-	-	30,958
7 year later	26,375	-	-	-	-	-	-	-	26,375
Total	2,279,028	1,530,039	2,057,926	2,231,464	3,611,658	9,219,970	8,671,245	16,876,488	46,477,818
Incurring but not reported									8,090,665
Total gross provision for outstanding claims as at 31 December 2015									54,568,483

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

22. Equity

Share capital of the Company as at December 31, 2016 and December 31, 2015; are as follows:

	December 31, 2016		December 31, 2015	
	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	0.10	112,524	0.13	150,885
Publicly Traded	19.90	23,487,465	19.87	23,449,105
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:

	December 31, 2016	December 31, 2015
Profit reserves	29,180,281	24,648,038
Other capital reserves	837,095	837,095
Total	30,017,376	25,485,133

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 YEAR ENDED DECEMBER 31, 2016

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

22. Equity (continued)

Profit reserves

As at December 31, 2016 and December 31, 2015; details of profit reserves is as follows:

	December 31, 2016	December 31, 2015
Legal reserves	22,950,753	18,676,741
Statutory reserves	11,494	11,494
Extraordinary reserves	6,218,034	5,959,803
Total	29,180,281	24,648,038

Movement of profit reserves is presented below:

	2016	2015
Opening balance, January 1	24,648,038	18,449,521
Transfers	4,532,243	6,198,517
Closing balance, December 31	29,180,281	24,648,038

Other capital reserves

As of December 31, 2016 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:

	2016	2015
Opening balance, January 1	(2,210,446)	(683,131)
Unrealized gains and losses due to changes in the fair values of available for sale financial assets net of taxes	(1,059,867)	(2,457,768)
Closing balance, December 31	(3,270,313)	(3,140,899)

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

22. Equity (continued)

Dividend per share

In 2016, the Company has distributed dividend to shareholders with respect to 2015 net distributable profit after appropriation of legal reserves amounting to TL 30,916,000 (TL 0.0026 per share) (2015: TL 39,714,909 and TL 0.0034).

23. Earnings per share

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

	January 1- December 31, 2016	January 1- December 31, 2015
Profit for the period	105,037,041	62,895,686
Weighted average number of shares with nominal value of TL 0.01 nominal value per share (*)	11,800,000,000	11,800,000,000
Earnings per share	0.0089	0.0053

As of December 31, 2016 capital of the Company consists of 11,800,000,000 shares with nominal value of TL 0.01 (December, 2015: 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- December 31, 2016		
	Gross	Reinsurer share	Net
Non-life	52,063,422	(2,251,174)	49,812,248
Life (Life protection + savings)	265,358,643	(11,562,717)	253,795,926
Total premium income	317,422,065	(13,813,891)	303,608,174

	January 1- December 31, 2015		
	Gross	Reinsurer Share	Net
Non-life	45,690,370	(205,434)	45,484,936
Life (Life protection + savings)	194,258,629	(9,581,140)	184,677,489
Total premium income	239,948,999	(9,786,574)	230,162,425

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25. Income generated from pension business

Inome generated from pension business for the periods ended December 31, 2016 and December 31, 2015; are as follows:

	January 1- December 31, 2016	January 1- December 31, 2015
Fund management income	160,959,943	129,225,637
Management fee	44,259,355	30,343,507
Premium holiday charges	4,586,955	6,535,263
Entry and deferred entry fees income	29,287,035	41,955,782
Total	239,093,288	208,060,189

26. Foreign exchange gains / (losses), net

Foreign exchange gains / (losses) for the periods ended December 31, 2016 and December 31, 2015; are as follows:

	January 1- December 31, 2016	January 1- December 31, 2015
Foreign exchange gains	64,307,900	44,396,953
Foreign exchange losses	(59,108,967)	(33,560,753)
Total	5,198,933	10,836,200

27. Commission income and commission expense

Commission income for the periods ended December 31, 2016 and December 31, 2015; are as follows:

	January 1- December 31, 2016	January 1- December 31, 2015
Commission income from reinsurance companies (net)	4,042,573	2,781,127
Total	4,042,573	2,781,127

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27. Commission income and commission expense (continued)

Commission expense for the periods ended December 31, 2016 and December 31, 2015; are as follows:

	January 1- December 31, 2016	January 1- December 31, 2015
Commission expenses due to personal accident insurance	(22,108,745)	(20,798,077)
-Change in commission expenses	(22,568,041)	(20,849,068)
-Change in deferred acquisition cost (Note 19)	459,296	50,991
Commission expenses due to life insurance	(37,813,589)	(29,925,092)
-Change in commission expenses	(42,533,891)	(31,897,939)
-Change in deferred acquisition cost (Note 19)	4,720,302	1,972,847
Total	(59,922,334)	(50,723,169)

28. Investment and other income/(expense), net

Investment income for the periods ended December 31, 2016 and December 31, 2015; are as follows:

	January 1- December 31, 2016	January 1- December 31, 2015
Interest income	35,958,929	28,857,514
-Income from financial assets at fair value through profit or loss	20,758,591	14,422,249
-Income from available for sale financial assets	15,200,338	14,435,265
Net income from sale of financial assets	4,266,522	4,328,011
-Income from financial assets at fair value through profit or loss	4,656,268	4,540,240
-Income/ (loss) from available for sale financial assets	(389,746)	(212,229)
Dividend and realization income from other financial assets	691,625	3,168,487
Investment management expenses	(183,015)	(339,310)
Other income / (expense), net	8,974,061	5,219,667
Total investment and other income/(expense), net	49,708,122	41,234,369

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29. Pension expenses including commission

Pension expenses including commission for the periods ended December 31, 2016 and December 31, 2015; are as follows:

	January 1- December 31, 2016	January 1- December 31, 2015
Fund management charge	(23,494,511)	(17,957,375)
Commission expense, net of DAC	(46,371,659)	(40,157,996)
- Commission expense	(90,398,485)	(86,757,751)
- Change in deferred acquisition cost (Note 19)	44,026,826	46,599,755
Takasbank commission expense	(3,692,119)	(3,231,176)
Other income/ (expense), net	(7,448,163)	(5,198,793)
Total pension expenses	(81,006,452)	(66,545,340)

30. General and administrative expenses

General and administrative expenses for the periods ended December 31, 2016 and December 31, 2015; are as follows:

	January 1- December 31, 2016	January 1- December 31, 2015
Personnel expenses	(125,134,655)	(118,722,073)
Outsourced expenses including IT services	(40,101,039)	(28,463,065)
Travelling and transportation expenses	(10,008,325)	(10,282,465)
Management expenses	(11,696,819)	(11,128,294)
Communication expenses	(5,408,344)	(6,133,986)
Depreciation and amortization	(4,016,516)	(4,441,939)
Office supplies expenses	(3,629,539)	(3,256,811)
Broker expenses	(2,812,741)	(3,166,554)
Advertising and marketing expenses	(4,964,371)	(2,915,242)
Representation and hosting expenses	(3,926,311)	(4,653,582)
Other marketing, sales and distribution expenses	(807,589)	(1,249,093)
Change in deferred acquisition cost (Note 19)	515,519	7,415,989
Other expenses	(3,904,888)	(3,501,422)
Total	(215,895,618)	(190,498,537)

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30. General and administrative expenses (continued)

Personnel expenses for the period ended December 31, 2016 and December 31, 2015; are as follows:

	January 1 – December 31, 2016	January 1 – December 31, 2015
Salaries	(74,465,074)	(60,984,024)
Commission and promotion expenses	(17,156,754)	(22,396,362)
Social security expenses	(13,256,781)	(11,379,858)
Other salary expenses	(9,355,792)	(14,125,556)
Other personnel expenses	(7,559,432)	(7,315,047)
Employee termination benefit expenses	(2,425,636)	(1,807,239)
Unused vacation expenses	(492,421)	(503,152)
Notice pay expense	(422,765)	(210,835)
Total	(125,134,655)	(118,722,073)

31. Other income / (expense), net

Other income and expenses for the periods ended December 31, 2016 and December 31, 2015 are as follows:

	January 1- December 31, 2016	January 1- December 31, 2015
Other income:		
Other income	5,133	5,361
Accrued subrogation income	-	39,657
Other expense:		
Other operating expense	(73,534)	(744,511)
Other expense	(103,624)	(160,817)
Accrued subrogation expense	(15,202)	-
Total other income / (expense), net	(187,227)	(860,310)

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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:

	December 31, 2016	December 31, 2015
Blocked bank deposits	114,659,245	143,936,996
Blocked securities	296,494,130	232,364,964
Total	411,153,375	376,301,960

33. Related party balances and transactions

As at December 31, 2016 and December 31, 2015 balances with related parties are as follows:

	December 31, 2016	December 31, 2015
Akbank T.A.Ş. – Credit card receivables	220,956,774	184,701,944
Other cash and cash equivalents	220,956,774	184,701,944
Akbank T.A.Ş.– Bank deposit	101,158,968	98,819,810
Banks	101,158,968	98,819,810

As of 30 September 2016 and 31 December 2015, 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:

	December 31, 2016			
	Nominal	Cost	Fair Value	Book Value
<i>Private Sector bonds</i>				
Başkent Elektrik Dağıtım A.Ş.	-	-	-	-
	-	-	-	-
	December 31, 2015			
	Nominal	Cost	Fair Value	Book Value
<i>Private Sector bonds</i>				
Başkent Elektrik Dağıtım A.Ş.	4,500,000	4,500,000	4,604,760	4,604,760
	4,500,000	4,500,000	4,604,760	4,604,760
	December 31, 2016		December 31, 2015	
Other receivables from related parties				
Akbank T.A.Ş.		4,041,975		3,038,173
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.		6,720		-
		4,048,695		3,038,173

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33. Related party balances and transactions (continued)

	December 31, 2016	December 31, 2015
Receivables from main operations		
Sabancı Üniversitesi	17,346	23,296
Enerjisa Elektrik Dağıtım A.Ş. ve iştirakleri	16,137	231,230
Diğer	161,145	184,143
	194,628	438,668
Other payables to related parties		
Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş.	1,236,684	753,336
Ak Portföy Yönetimi A.Ş.	183,015	339,310
Vista Turizm ve Seyahat A.Ş.	78,436	408,870
EnerjiSA A.Ş.	51,114	50,542
Ak Sigorta A.Ş.	21,372	81,823
TeknoSA İç ve Dış Tic. A.Ş.	14,002	34,634
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	-	10,569
Akbank – T.A.Ş	-	53,221
	1,584,623	1,732,305
Financial liabilities		
Akbank - T.A.Ş. (spot loan)	2,248,924	-
	2,248,924	-
Payables from main operations		
Ak Potrföy Yönetimi A.Ş.	8,352,101	5,680,023
Emeklilik Gözetim Merkezi A.Ş.	457,476	71,433
Akbank T.A.Ş.	14,010,625	11,693,960
	22,820,202	17,445,416

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33. Related party balances and transactions (continued)

	December 31, 2016	December 31, 2015
Expense accruals		
Akbank T.A.Ş	34,291	-
Aviva International Holdings Ltd.	164,598	54,107
	198,889	54,107

	December 31, 2016	December 31, 2015
Income accruals		
Akbank T.A.Ş	1,304,025	-
Aviva International Holdings Ltd.	76,100	
	1,380,125	-

	December 31, 2016	December 31, 2015
Shareholders:		
Hacı Ömer Sabancı Holding	5,374	17,783
Other	121,031	98,478
Payables to shareholders	126,405	116,261

Shareholders:		
Aviva International Holdings Ltd.	83,775	8,050
Receivables from shareholders	83,775	8,050

Transactions with related parties for the period ended December 31, 2016 and December 31, 2015 are as follows:

	1 January– 31 December 2016	1 January– 31 December 2015
Services Purchased		
Akbank T.A.Ş.	114,444,738	104,975,117
- Paid administrative expenses	1,889,591	1,664,131
- Commission paid	112,555,147	103,310,986
Ak Portföy Yönetimi A.Ş.	23,676,749	18,286,716
BimSA (accounting and computing machinery)	12,787,992	9,673,035
AkSigorta A.Ş.	3,060,664	2,729,922
Vista (administrative expenses)	2,874,548	3,576,010
Emeklilik Gözetim Merkezi A.Ş. (examination fee, pension costs, joint promotion services)	1,783,074	1,105,456
EnerjiSA Doğal Gaz Toptan Satış A.Ş.	655,415	652,858
Other	754,682	775,370
	160,037,862	141,774,483

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

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

33. Related party balances and transactions (continued)

	1 January– 31 December 2016	1 January– 31 December 2015
Financial expenses		
Akbank T.A.Ş (interest expense)	1,009,754	270,608
	1,009,754	270,608

Financial income		
Akbank (interest income)	13,900,779	10,884,312
	13,900,779	10,884,312

	1 January– 31 December 2016	1 January– 31 December 2015
Services Provided		
Akbank T.A.Ş and subsidiaries	9,664,126	9,476,724
Brisa Bridgestone Sabancı Lastik San. Ve Tic. A.Ş.	467,782	424,689
Kordsa Global Endüstriyel İplik ve Kord Bezi San.Tic. A.Ş.	461,491	452,006
Temsa Global Sanayi ve Ticaret A.Ş. and subsidiaries	360,575	309,084
Enerjisa Enerji Üretim A.Ş. and subsidiaries	297,570	289,908
Çimsa Çimento Sanayi ve Ticaret A.Ş. and subsidiaries	284,404	253,884
Akçansa Çimento Sanayi ve Ticaret A.Ş. and subsidiaries	222,672	215,864
Aksigorta A.Ş.	187,410	193,944
Bımsa Uluslararası İş. Bilgi ve Yönetim Sistemleri A.Ş.	143,140	124,702
Teknosan İç ve Dış Ticaret A.Ş. and subsidiaries	129,122	168,910
Sabancı Üniversitesi	102,717	85,197
Yünsa Yünlü San. Tic. A.Ş.	95,659	96,255
Exsa Satış Araştırma	4,834	4,201
Other	1,090,382	1,103,423
	13,511,884	13,198,791

Benefits provided to executive management

For the year ended December 31, 2016 and 2015, 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 5,750,439 and TL 6,285,948 respectively.

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

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

34. Contingencies

Provision for lawsuits

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

As at December 31, 2016 and December 31, 2015; provisions for lawsuits against the Company are as follows:

	December 31, 2016	December 31, 2015
Lawsuits provision under other provision:	5,898,007	6,452,829
Business lawsuits against the Company	943,961	1,041,242
Insurance lawsuits against the Company	4,528,503	5,173,201
Other lawsuits against the Company	425,543	238,386
Lawsuits provision under claims provision	21,517,412	17,747,463
Total lawsuits provision	27,415,419	24,200,292

35. Commitments

As at December 31, 2016 and December 31, 2015, total insurance risk accepted by the Company under normal courses of the insurance business is detailed in Note 4.

As at December 31, 2016 and December 31, 2015, letters of guarantee given to suppliers and government institutions are as follows:

	December 31, 2016	December 31, 2015
Letters of guarantee	5,995,676	3,314,668
Total	5,995,676	3,314,668

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

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

35. Commitments (continued)

Operational leases

Future minimum rentals payable under operational leases as at December 31, 2016 and December 31, 2015 are as follows:

	December 31, 2016			
	TL	USD	EUR	Total
Within one year	866,428	5,174,662	2,626,938	8,668,027
After one year but not more than five years	-	30,547,501	428,619	30,976,119
More than five years	-	18,518,762	-	18,518,762
Total operational lease rental payable	866,428	54,240,925	3,055,556	58,162,909

	December 31, 2015			
	TL	USD	EUR	Total
Within one year	830,989	5,122,969	2,846,020	8,799,978
After one year but not more than five years	-	19,938,158	5,088,580	25,026,738
More than five years	-	26,023,985	-	26,023,985
Total operational lease rental payable	830,989	51,085,112	7,934,600	59,850,701

36. Subsequent events

The decision of the Board of Directors dated December 15, 2016 and the related announcement of the The New Public Disclosure Platform have been amended with the Board of Directors of AvivaSA Emeklilik ve Hayat A.Ş. effective from January 2017. With the decision of the Board of Directors, Mustafa Fırat Kuruca has been appointed as General Manager as of 1 January 2017 subject to the approval of Undersecretariat of Treasury and appointed as a Board Member with the administrative responsibility in accordance with insurance legislation and also it has been decided that Meral Kurdaş, General Manager of the Company, will continue to be a member of the Board of Directors of the Company, which will be effective as of January 1, 2017, without administrative responsibilities.