AVİVASA EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AvivaSA Emeklilik ve Hayat A.Ş. ("the Company") as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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

Independence

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 "Independence Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA") and independent auditing requirements referred to in Article 400 of the Turkish Commercial Code ("TCC") (collectively referred to as "Turkish Local Independence Rules"). We have fulfilled our other ethical responsibilities in accordance with IESBA Code and Turkish Local Independence Rules.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and industry in which the Company operates.

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	***How our audit addressed the key audit matter***
Developments and advances given with regard to intangible assets As explained in Notes 2, 3 and 8, as of 31 December 2018 capitalized costs amounting to TL 50 million attributable to projects which were accounted for under intangible assets consist of mainly costs that were incurred for the modernization of core insurance information technology systems. Such costs include both internal personnel costs and externally provided services/licenses. Since the measurement of the carrying value of these intangible assets requires advanced technical assessment and judgement based on IFRS we identified this subject as a key audit matter.	Design and operational effectiveness of the key controls for the processes of internal development and external purchase of intangible assets were tested. Mathematical accuracy of these project based intangible assets was controlled. We performed inquiries with the Management, evaluated the methods and assumptions used by them, assessed by using project based sampling methods whether these costs can be capitalized under IFRS and if there is need for impairment. Completeness and accuracy of internally developed intangible assets were tested through the test of the internal development process. In addition to that, we have obtained the detailed listing of all internally developed projects including capitalized personnel expenses and validated the timesheets and respective salary costs of employees for the projects sampled. Financial statement disclosures relating to these intangible assets were controlled.

Key audit matter	***How our audit addressed the key audit matter***
Estimates and assumptions used in the calculation of liabilities arising from insurance contracts As explained in Notes 2 and 17, as of 31 December 2017 the Company's liabilities arising from insurance contracts (technical reserves) amounted to TL 919 million constituting a significant portion of its total liabilities. Calculation of liabilities arising from insurance contracts includes significant assumptions and estimates regarding outcomes of future events resulting in losses in order to calculate the future guaranteed benefits to be paid to the policy holders. Liabilities relating to life insurance products consist of the actuarial mathematical reserves calculated in accordance with the formulas and principles specified in the approved technical basis of the underlying insurance contracts and the accumulated profit share reserves of previous years together with the technical interest income (including the guaranteed portion) calculated in accordance with the approved profit sharing distribution system for the contracts that the Company promised for profit share. From the financial statements materiality and involvement of significant judgement and estimate standpoints we considered liabilities arising from insurance contracts" a key audit matter for our audit.	Financially relevant key controls of the calculation methods and assumptions used concerning the technical reserves as of 31 December 2018 were tested. Tariffs, profit share reserves and other technical reserves which are components of insurance technical reserves were recalculated by our actuary specialists using non-statistical sampling method and disclosures relating to insurance technical reserves were examined as to their compliance with the requirements of IFRS.

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 IFRS, 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 scepticism 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.

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

Adnan Akan, SMMM
Partner

Istanbul, 8 February 2019

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STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD JANUARY 1 - DECEMBER 31, 2018

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

Assets	Note	Audited December 31, 2018	Audited December 31, 2017
Cash and cash equivalents	5	631,233,563	589,738,443
Financial assets	6	843,339,644	547,825,900
Premium and other insurance receivables	8	33,872,232	23,552,172
Reinsurance share of insurance liabilities	7	11,884,286	13,836,779
Deferred expenses	18	381,296,390	368,483,852
Other financial assets	13	2,868,012	868,012
Pension business receivables	9	196,178,322	166,619,441
Other assets	10	12,501,920	16,194,026
Property and equipment, net	11	29,677,879	19,421,582
Intangible assets, net	12	49,560,983	32,602,134
Total assets		**2,192,413,231**	**1,779,142,341**
Liabilities			
Due to insurance and reinsurance companies	14	21,131,197	18,067,007
Pension business payables	9	495,513,386	410,190,961
Insurance contract liabilities	20	919,998,149	654,138,902
Provision for employment termination benefits	17	11,934,859	12,440,746
Deferred tax liabilities	16	38,640,075	56,076,964
Current tax liabilities	16	9,874,332	3,967,813
Other payables and liabilities	19	37,785,767	43,360,095
Other provisions	15	36,394,665	31,484,357
Total liabilities		**1,571,272,430**	**1,229,726,845**
Share capital	21	180,000,000	118,000,000
Items that may be reclassified to profit or loss			
Fair value reserves from available for sale assets	21	(39,141,204)	(3,130,948)
Other capital reserves	21	837,095	837,095
Profit reserves	21	44,498,235	53,117,686
Retained earnings		234,363,000	235,872,981
Profit for the period		200,583,675	144,718,682
Total shareholders' equity		**621,140,801**	**549,415,496**
Total equity and liabilities		**2,192,413,231**	**1,779,142,341**

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

STATEMENT OF INCOME
FOR THE PERIOD JANUARY 1 - DECEMBER 31, 2018

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

Statement of Income	Note	Audited January 1 - December 31, 2018	Audited January 1 - December 31, 2017
Income:			
Gross written premiums	23	565,370,523	471,451,926
Premium ceded to reinsurers	23	(18,067,922)	(16,573,053)
Premium written net of reinsurance	23	**547,302,601**	**454,878,873**
Net change in provision for unearned premiums reserves		2,690,364	(43,044,823)
Net premiums earned		**549,992,965**	**411,834,050**
Net change in mathematical reserves		(94,414,205)	(46,908,340)
Income generated from pension business	24	329,723,616	289,837,582
Investment and other income	27	104,815,753	63,850,181
Commission income	26	9,744,614	7,213,098
Foreign exchange gains/(losses), net	25	2,236,578	2,855,418
Total income		**902,099,321**	**728,681,989**
Expenses:			
Claims paid and change in outstanding claims provisions	20	(109,812,550)	(98,238,961)
General and administrative expenses	29	(306,043,255)	(272,746,117)
Pension expenses including commission	28	(94,376,245)	(77,824,395)
Commission expense	26	(123,521,440)	(98,151,788)
Other (expense)/income, net	30	(9,465,520)	(493,563)
Total expenses		**(643,219,010)**	**(547,454,824)**
Profit before taxes		**258,880,311**	**181,227,165**
Income tax expense (-)	16	(58,296,636)	(36,508,483)
Profit for the period		**200,583,675**	**144,718,682**
Earnings per share (TL 0.01 nominal value per share)	22	0.0111	0.0123

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD JANUARY 1 - DECEMBER 31, 2018

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

	Note	Audited January 1 - December 31, 2018	Audited January 1 - December 31, 2017
Profit for the year		**200,583,675**	**144,718,682**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or (loss):			
Net gain/(loss) on available-for-sale assets	6	(46,166,995)	443,851
Deferred tax relating to components of other comprehensive income		10,156,739	(304,486)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent years	21	**(36,010,256)**	**139,365**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/ (loss) on employee termination benefits	17	(826,831)	(1,807,059)
Deferred tax relating to actuarial gain/ (loss)		181,903	361,412
Net other comprehensive gain/ (loss) not being reclassified to profit or loss in subsequent years		**(644,928)**	**(1,445,647)**
Other comprehensive income / (loss), net of tax		**(36,655,184)**	**(1,306,282)**
Total comprehensive income, net of tax		**163,928,491**	**143,412,400**

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

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD JANUARY 1 - DECEMBER 31, 2018
(Amounts expressed in Turkish Lira (“TL”) unless otherwise indicated.)

				Audited				
	Note	**Share capital**	**Other capital reserves**	**Items that may be reclassified to profit or loss/ Fair value reserves for available for - sale financial assets**	**Profit reserves**	**Retained earnings**	**Profit for the period**	**Total**
Balance at January 1, 2017		**118,000,000**	**837,095**	**(3,270,313)**	**29,180,281**	**177,883,792**	**105,037,041**	**427,667,896**
Profit for the period		-	-	-	-	-	144,718,682	144,718,682
Other comprehensive loss	21	-	-	139,365	-	(1,445,647)	-	(1,306,282)
Total comprehensive income		**-**	**-**	**139,365**	**-**	**(1,445,647)**	**144,718,682**	**143,412,400**
Transfer	21	-	-	-	23,937,405	81,099,636	(105,037,041)	-
Dividend payment	21	-	-	-	-	(21,664,800)	-	(21,664,800)
Balance at December 31, 2017		**118,000,000**	**837,095**	**(3,130,948)**	**53,117,686**	**235,872,981**	**144,718,682**	**549,415,496**

	Note	**Share capital**	**Other capital reserves**	**Items that may be reclassified to profit or loss/ Fair value reserves for available for - sale financial assets**	**Profit reserves**	**Retained earnings**	**Profit for the period**	**Total**
Balance at January 1, 2018		**118,000,000**	**837,095**	**(3,130,948)**	**53,117,686**	**235,872,981**	**144,718,682**	**549,415,496**
IFRS 15 impact (*)		-	-	-	-	(43,893,986)	-	(43,893,986)
Balance at January 1, 2018 (restated)		**118,000,000**	**837,095**	**(3,130,948)**	**53,117,686**	**191,978,995**	**144,718,682**	**505,521,510**
Profit for the period		-	-	-	-	-	200,583,675	200,583,675
Other comprehensive income	21	-	-	(36,010,256)	-	(644,928)	-	(36,655,184)
Total comprehensive income		**-**	**-**	**(36,010,256)**	**-**	**(644,928)**	**200,583,675**	**163,928,491**
Transfer	21	62,000,000	-	-	(8,619,451)	91,338,133	(144,718,682)	-
Dividend payment	21	-	-	-	-	(48,309,200)	-	(48,309,200)
Balance at December 31, 2018		**180,000,000**	**837,095**	**(39,141,204)**	**44,498,235**	**234,363,000**	**200,583,675**	**621,140,801**

(*) Effects of IFRS 15 has been explained in Note 2.5.

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

STATEMENT OF CASH FLOWS
FOR THE YEAR PERIOD JANUARY 1 - DECEMBER 31, 2018
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Note	January 1 - December 31, 2018	January 1 - December 31, 2017
Cash flows from operating activities:			
Profit for the period		**200,583,675**	**144,718,682**
Income taxes	16	58,296,636	(36,508,483)
Depreciation and amortization	29	14,308,589	7,060,422
Interest income		(91,874,652)	(56,953,571)
Unrealized exchange rates (gains) / losses from cash and cash equivalents		(228,886,743)	(2,062,434)
Unrealized Exchange rates (gains) / losses from financial assets	6	(165,965,457)	(19,954,381)
Fair value changes in financial assets	6	(939,435)	(3,081,985)
Change in claims provision	20	109,961,535	99,453,154
Change in life mathematical reserves	20	269,834,461	107,061,856
Change in provision for unearned premiums reserves	20	(2,984,493)	43,019,166
Change in provision for employment termination benefits	17	3,560,607	4,586,989
Change in blockage		(93,456,164)	(26,527,537)
Operating profit before changes in operating assets / liabilities		**72,438,559**	**260,811,878**
Changes in operating assets and liabilities:			
Change in premium and other insurance receivables		(10,320,060)	(6,695,344)
Change in other assets		3,692,110	(5,314,630)
Change in deferred expenses	18	(12,812,538)	(57,772,779)
Change in pension business receivables		(29,493,039)	(69,454,051)
Change in pension business payables		30,385,706	80,200,076
Corporate taxes paid		(43,976,358)	(18.537.433)
Cash paid for claims settled during the year, net	20	(110,952,240)	(95,257,226)
Change in other liabilities		14,142,315	12,829,470
Employment termination benefits paid	17	(4,066,494)	(1,551,212)
Net cash provided from / (used in) operating activities		**(90,962,040)**	**117,796,182**
Cash flows from investing activities:			
Acquisition of property and equipment	11	(17,678,142)	(17,172,313)
Acquisition of intangible assets	12	(25,148,880)	(19,206,206)
Proceeds from sale of property and equipment	11	1,303,287	68,910
Purchases of financial assets	6	(805,071,897)	(268,222,389)
Proceeds from sale of financial assets	6	608,454,013	142,028,983
Interest received		91,874,652	56,953,571
Net cash provided by investing activities		**(146,266,967)**	**(105,549,444)**
Dividend payment		(44,098,751)	(19,844,623)
Other financing activities		(2,000,000)	-
Repayment of borrowings and repurchase agreement transactions		-	(2,248,924)
Net cash provided by/(used in) financing activities		**(46,098,751)**	**(22,093,547)**
Effect of exchange rates on cash and cash equivalents		228,886,743	2,062,434
Net increase in cash and cash equivalents		(54,441,015)	(7,784,375)
Cash and cash equivalents at the beginning of the year		438,733,762	446,518,137
Cash and cash equivalents at the end of the period		**384,292,747**	**438,733,762**

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

1. GENERAL INFORMATION

1.1 Corporate Information

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

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

Akhayat Sigorta Anonim Şirketi was transformed into a pension company with the official letter of the Republic of Turkey Prime Ministry of Treasury and Finance (the "Ministry of Finance and 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 July 16, 2007 based on balance sheets of Ak Emeklilik and Aviva Emeklilik as of May 31, 2007 together with other information. This merger has been published on Trade Registry Gazette No. 6930 dated on November 6, 2007 and new title of the Company was announced as "AvivaSA Emeklilik ve Hayat Anonim Şirketi".

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

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

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

1. GENERAL INFORMATION (Continued)

1.1 Corporate Information (Continued)

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

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

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

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

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

With the Board of Directors' decision dated October 26, 2018, it has been decided to get permission from the Prime Ministry Capital Markets Board, Treasury and Finance Ministry and Ministry of Commerce to increase the paid-in capital of the Company by 52.54% and increase from TL 118,000,000 to TL 180,000,000 and to provide the entire increase of TL 62,000,000 from Extraordinary Reserves and to give 52,54% of the shares to each share held by the shareholders.

As of December 31, 2018 19.91% 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 accident.

On July 7, 2003, Ak Emeklilik acquired a pension operating license from the Ministry of Finance and 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 Ministry of Finance and Treasury to operate also in the pension branch. The individual pension investment funds were registered by the Capital Market Board (CMB) on October 27, 2003, the individual retirement plans were approved on December 12, 2003 and the sale of pension products started as of December 15, 2003. In accordance with the decree of the Board of Directors dated October 8, 2007 and numbered 15, it was decided that the pension investment funds of Aviva Emeklilik shall be transferred to Ak Emeklilik as of October 31, 2007. The pension funds of the Company are managed by Ak Portföy, Garanti Portföy, HSBC Portföy, İş Portföy, TEB Portföy and Yapı Kredi 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.

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

1. GENERAL INFORMATION (Continued)

1.1 Corporate Information (Continued)

As of December 31, 2018, there are 35 pension investment funds established by the Company (December 31, 2017: 35 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. Karma Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Agresif Değişken Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Uzun Vadeli Borçlanma Araçları Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. İkinci Para Piyasası Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. İkinci Değişken Emeklilik Yatırım Fonu	21.10.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Uzun Vadeli Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	08.11.2005
AvivaSA Emeklilik Ve Hayat A.Ş. Temettü Ödeyen Şirketler Hisse Senedi Emeklilik Yatırım Fonu	28.12.2006
AvivaSA Emeklilik Ve Hayat A.Ş. Birinci Para Piyasası Emeklilik Yatırım Fonu	20.08.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Borçlanma Araçları Emeklilik Yatırım Fonu	20.08.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Dinamik Değişken Emeklilik Yatırım Fonu	20.08.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Birinci Değişken Emeklilik Yatırım Fonu	20.08.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Hisse Senedi Emeklilik Yatırım Fonu	20.08.2003
AvivaSA Emeklilik Ve Hayat A.Ş. Borçlanma Araçları Grup Emeklilik Yatırım Fonu	05.01.2005
AvivaSA Emeklilik Ve Hayat A.Ş. Muhafazakar Değişken Emeklilik Yatırım Fonu	05.01.2005
AvivaSA Emeklilik Ve Hayat A.Ş. Hisse Senedi Grup Emeklilik Yatırım Fonu	05.01.2005
AvivaSA Emeklilik Ve Hayat A.Ş. Karma Grup Emeklilik Yatırım Fonu	17.08.2010
AvivaSA Emeklilik Ve Hayat A.Ş. Dengeli Değişken Emeklilik Yatırım Fonu	20.12.2011
AvivaSA Emeklilik Ve Hayat A.Ş. Katkı Emeklilik Yatırım Fonu	02.05.2013
AvivaSA Emeklilik Ve Hayat A.Ş. Standart Emeklilik Yatırım Fonu	02.05.2013
AvivaSA Emeklilik Ve Hayat A.Ş. Altın Emeklilik Yatırım Fonu	20.06.2013
AvivaSA Emeklilik Ve Hayat A.Ş. B.R.I.C Ülkeleri Yabancı Değişken Emeklilik Yatırım Fonu	10.05.2013
AvivaSA Emeklilik Ve Hayat A.Ş. Özel Sektör Borçlanma Araçları Emeklilik Yatırım Fonu	25.10.2013
AvivaSA Emeklilik Ve Hayat A.Ş. Başlangıç Emeklilik Yatırım Fonu	12.01.2017
AvivaSA Emeklilik Ve Hayat A.Ş. Başlangıç Katılım Emeklilik Yatırım Fonu	12.01.2017
AvivaSA Emeklilik Ve Hayat A.Ş. Katılım Standart EYF	26.05.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dinamik Katılım Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Katılım Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Muhafazakar Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dengeli Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dinamik Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Değişken EYF	25.12.2017
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Katkı Emeklilik Yatırım Fonu	26.05.2017
AvivaSA Emeklilik ve Hayat A.Ş. OKS Standart Emeklilik Yatırım Fonu	02.01.2018
AvivaSA Emeklilik ve Hayat A.Ş. OKS Katılım Standart Emeklilik Yatırım Fonu	02.01.2018

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

1. GENERAL INFORMATION (Continued)

1.1 Corporate Information (Continued)

As at December 31, 2018 and December 31, 2017 units and amounts of share certificates in circulation are as follows:

	December 31, 2018		December 31, 2017	
Share certificates in circulation	**Number of Share Certificates**	**Net Asset Value (TL)**	**Number of Share Certificates**	**Net Asset Value (TL)**
AvivaSA Emeklilik ve Hayat A.Ş.Karma Emeklilik Yatırım Fonu	1,112,312,204	59,540,960	1,527,278,007	79,048,855
AvivaSA Emeklilik ve Hayat A.Ş.Agresif Değişken Emeklilik Yatırım Fonu	1,633,053,388	86,827,816	2,397,435,257	131,808,593
AvivaSA Emeklilik ve Hayat A.Ş..Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	23,045,685,443	1,529,219,503	20,876,724,725	1,056,925,943
AvivaSA Emeklilik ve Hayat A.Ş..Uzun Vadeli Borçlanma Araçları Emeklilik Yatırım Fonu	2,997,914,114	163,323,363	4,325,466,858	220,274,400
AvivaSA Emeklilik ve Hayat A.Ş..İkinci Para Piyasası Emeklilik Yatırım Fonu	2,788,370,446	139,175,934	2,762,961,365	116,511,318
AvivaSA Emeklilik ve Hayat A.Ş..İkinci Değişken Emeklilik Yatırım Fonu	2,637,389,550	96,847,582	2,599,431,134	72,147,211
AvivaSA Emeklilik ve Hayat A.Ş..Uzun Vadeli Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	21,194,457,875	1,289,873,512	19,080,253,281	894,348,712
AvivaSA Emeklilik ve Hayat A.Ş.Temettü Ödeyen Şirketler Hisse Senedi Emeklilik Yatırım Fonu	1,912,998,808	57,192,925	2,356,662,001	82,895,586
AvivaSA Emeklilik ve Hayat A.Ş.Birinci Para Piyasası Emeklilik Yatırım Fonu	43,916,937,084	2,329,486,094	37,820,193,287	1,696,954,253
AvivaSA Emeklilik ve Hayat A.Ş..Borçlanma Araçları Emeklilik Yatırım Fonu	50,393,102,031	2,690,890,862	60,490,964,383	3,129,500,042
AvivaSA Emeklilik ve Hayat A.Ş..Dinamik Değişken Emeklilik Yatırım Fonu	37,552,350,630	2,170,000,134	44,796,255,227	2,453,804,473
AvivaSA Emeklilik ve Hayat A.Ş.Birinci Değişken Emeklilik Yatırım Fonu	20,616,171,803	885,011,023	17,895,695,167	648,432,619
AvivaSA Emeklilik ve Hayat A.Ş.Hisse Senedi Emeklilik Yatırım Fonu	15,936,445,122	891,596,295	16,131,204,600	1,105,697,288
AvivaSA Emeklilik ve Hayat A.Ş.Borçlanma Araçları Grup Emeklilik Yatırım Fonu	7,061,381,300	316,236,900	8,829,489,225	368,737,129
AvivaSA Emeklilik ve Hayat A.Ş..Muhafazakar Değişken Emeklilik Yatırım Fonu	3,204,378,926	164,554,471	3,965,949,240	173,494,415
AvivaSA Emeklilik ve Hayat A.Ş..Hisse Senedi Grup Emeklilik Yatırım Fonu	1,640,160,741	87,696,114	1,779,046,371	102,391,235
AvivaSA Emeklilik ve Hayat A.Ş.Karma Grup Emeklilik Yatırım Fonu	1,407,631,834	28,936,688	1,843,580,955	36,237,427
AvivaSA Emeklilik ve Hayat A.Ş.Dengeli Değişken Emeklilik Yatırım Fonu	259,788,054	4,627,864	123,785,813	2,044,818
AvivaSA Emeklilik ve Hayat A.Ş..Katkı Emeklilik Yatırım Fonu	157,881,142,351	2,087,504,464	138,071,579,407	1,856,786,600
AvivaSA Emeklilik ve Hayat A.Ş..Standart Emeklilik Yatırım Fonu	8,793,260,075	116,739,321	9,075,561,001	116,366,843
AvivaSA Emeklilik ve Hayat A.Ş.Altın Emeklilik Yatırım Fonu	73,892,577,497	1,754,431,468	45,815,526,987	793,845,636
AvivaSA Emeklilik ve Hayat A.Ş.B.R.I.C Ülkeleri Yabancı Değişken Emeklilik Yatırım Fonu	1,790,444,978	48,401,099	638,869,804	13,840,475
AvivaSA Emeklilik ve Hayat A.Ş.Özel Sektör Borçlanma Araçları Emeklilik Yatırım Fonu	390,396,356	6,915,871	124,166,208	1,844,365
AvivaSA Emeklilik ve Hayat A.Ş.Başlangıç Emeklilik Yatırım Fonu	7,459,442,479	98,084,209	10,149,349,160	112,789,717
AvivaSA Emeklilik ve Hayat A.Ş..Başlangıç Katılım Emeklilik Yatırım Fonu	4,849,170,832	61,051,061	4,815,220,610	52,587,024
AvivaSA Emeklilik ve Hayat A.Ş.OKS Dinamik Katılım Değişken EYF	89,315,513	1,015,696	-	-
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Katılım Değişken EYF	79,639,898	862,500	-	-
AvivaSA Emeklilik ve Hayat A.Ş.OKS Muhafazakar Değişken EYF	121,200,231	1,378,410	-	-
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dengeli Değişken EYF	104,242,667	1,103,096	-	-
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dinamik Değişken EYF	125,651,917	1,291,702	-	-
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Değişken EYF	174,297,685	1,660,360	-	-
AvivaSA Emeklilik ve Hayat A.Ş. OKS Standart Emeklilik Yatırım Fonu	17,402,949,120	187,760,418	-	-
AvivaSA Emeklilik ve Hayat A.Ş. OKS Katılım Standart Emeklilik Yatırım Fonu	7,429,543,250	81,635,821	-	-
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Katkı Emeklilik Yatırım Fonu	1,134,107	11,752	-	-
AvivaSA Emeklilik ve Hayat A,Ş, Katılım Standart Emeklilik Yatırım Fonu	32,647	389	-	-
	519,894,970,956	**17,440,885,677**	**458,292,650,073**	**15,319,314,977**

	December 31, 2018		December 31, 2017	
Participation certificates at the Company	**Number of Share Certificates**	**Net Asset Value (TL)**	**Number of Share Certificates**	**Net Asset Value (TL)**
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Standart EYF	39,356,595	468,815	40,000,000	419,362
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dinamik Katılım Değişken EYF (*)	-	-	40,000,000	403,115
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Katılım Değişken EYF (*)	-	-	40,000,000	404,221
AvivaSA Emeklilik ve Hayat A.Ş. OKS Muhafazakar Değişken EYF (*)	-	-	40,000,000	400,987
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dengeli Değişken EYF (*)	-	-	20,000,000	201,719
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dinamik Değişken EYF (*)	-	-	10,000,000	101,353
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Değişken EYF (*)	-	-	10,000,000	102,055
	39,356,595	**468,815**	**200,000,000**	**2,032,812**

(*) The CMB application was made in lieu of the decision of the board of directors dated January 3, 2017 regarding the related fund institutions. In the course of the establishment process, the title of the related funds was added to the title of the OKS and the fund foundation procedure was completed on December 27, 2017, the foundation capital was transferred and the public offering process started on January 2, 2018.

1. GENERAL INFORMATION (Continued)

1.1 Corporate Information (Continued)

There are no entities controlled or jointly controlled by the Company (December 31, 2017: None). The Company's management analysed their relationship with the pension investment funds under IFRS 10, 11 and 12 and concluded that the Company has no control over the pension investment funds.

The average personnel number of the Company is 1,440 employees for the period ended December 31, 2018 (1 January - December 31, 2017: 1,501).

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

The accompanying financial statements of the Company for the year ended December 31, 2018 were authorised for issue in accordance with a resolution of the directors on October 26, 2018.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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

2.2 Summary of significant accounting policies

Gross written premiums

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

Premiums ceded to reinsurers

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Net change in provision for unearned premium reserves

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

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

Net change in mathematical reserves

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

Income generated from pension business

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

Fund management fees, which are calculated with reference to assets under management, are attributable to the hardware, software, personnel and accounting services provided to pension funds. Management fees from contributions are attributable to the operational costs of the services rendered to customers by the Company and can be deducted from the participants' contributions. Premium holiday charges may be received when the participant does not pay his or her regular premium within three months of being due. Entry fees are fees received from the participant when he or she first enters the pension system and from any participants who have already entered into the system but create a new account in another pension company. Deferred entry fees may be charged to the participant and recorded as income in the event that he or she exits, merges or transfers accounts within the context of conditions defined in the contract as of the effective date of contract. Account management fees and deferred account management fees, which is effective with the BES 3.0 legislation that entered into force on January 1, 2016, the reduction from contracts established in 2016 and beyond are tracked through this item. Effective from January 1, 2018 IAS 18 revenue recognition principle was replaced by IFRS 15 Revenue from contracts and also requires the deferral of upfront fees over the life time of contracts. Management fees starting from 2016 are capped to 5 years according to new legislation, total of management fees are subject to deferral regarding IFRS 15. Also the entry fees recognized as revenue between the years 2013-2015 are deferred under IFRS 15. The Company applied 9 years for the average duration of the portfolio in line with the 9 years DAC amortization period estimate.

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

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

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

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

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

Investment and other income (expense), net

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

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

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

Interest income presented in the statement of comprehensive income includes:

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

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

Commission income and commission expenses

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

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

Claims paid and change in outstanding claims provisions

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

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Pension expenses including commission

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

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

Cash and cash equivalents

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

Property and equipment

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

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

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

Leases as lessee

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

The payment of the operational lease is charged to profit or loss on a straight-line basis over the lease period. The incentives received or to be received from the lessor and payments made to intermediaries to acquire the lease contract are also charged to profit or loss on a straight-line basis over the lease period. As at December 31, 2018 and December 31, 2017 details of the outstanding operational lease liability has been disclosed in Note 34.

Intangible assets

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

Construction in progress refers to the Company's software development projects 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.

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Financial instruments

Recognition

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

Classification

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

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

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

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

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

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

Measurement

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

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

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

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Fair value measurement principles

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

Derecognition

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

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

Offsetting

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

Impairment of financial assets

Premium and other insurance receivables

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

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

    (i) adverse changes in the payment status of agencies; or
    (ii) national or local economic conditions that correlate with defaults on the assets in the group.

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

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

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

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

Available-for-sale financial assets

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

Reinsurance assets

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

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

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

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

Insurance contracts

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

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

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

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

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

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

Liability adequacy test

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

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

Deferred acquisition costs (DAC)

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

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

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

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

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Provision for unearned premiums

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

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

Provision for outstanding claims/IBNR

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

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

Mathematical reserves

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

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

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

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Reinsurance contracts held

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

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

Pension business

The Company provides group and individual plans to customers.

The Company offers 35 pension investment funds (2017: 35). These pension funds are in different risk profiles according to the portfolio composition of the funds. The participants choose from among different pension funds within legal limitations and determine allocation rates for contributions and additional contributions according to the contract provisions. The participants gain right for retirement provided that they remain in the pension system for at least 10 years, pay contributions for at least 10 years and attain 56 years of age.

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

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

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 5,434 effective as of December 31, 2018 (December 31, 2017:TL 4,732) has been taken into consideration during calculation of provision from employment termination benefits.

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Employee benefits (Continued)

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, 2018 and December 31, 2017 is as follows:

	December 31, 2018 %	December 31, 2017 %
Expected rate of salary/limit increase	10.00	7.00
Discount rate	15.40	12.00

Other benefits to employees

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

Provisions

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

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

Taxes on income

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

Current tax

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

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.

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Taxes on income (Continued)

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.

Since the tax rate effective from 1 January 2018 has been changed to 22% as valid for 3 years , in the calculation of deferred tax as of December 31, 2018, 22% tax rate is used for temporary differences expected to be realized within 3 years.

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.

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.

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

2. ACCOUNTING POLICIES (Continued)

2.2 Summary of significant accounting policies (Continued)

Foreign currency transactions (Continued)

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

	December 31, 2018		December 31, 2017	
	USD / TL	**Euro / TL**	**USD / TL**	**Euro / TL**
Bid Rates	5.2609	6.0280	3.7719	4.5155
Ask Rates	5.2783	6.0479	3.7843	4.5305

Segment reporting

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

2.3 Changes in accounting policy and disclosures

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

a) Standards, amendments and interpretations applicable as at 31 December 2018:

- **IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- **IFRS 15, 'Revenue from contracts with customers';** effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

- **Amendment to IFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

- **Amendments to IFRS 4, 'Insurance contracts'** regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

  - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
  - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.

2. ACCOUNTING POLICIES (Continued)

2.3 Changes in accounting policy and disclosures (Continued)

a) Standards, amendments and interpretations applicable as at 31 December 2018 (Continued):

- **Amendment to IAS 40, 'Investment property'** relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- **Amendments to IFRS 2, 'Share based payments'** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- **Annual improvements 2014-2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

    - IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
    - IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

- **IFRIC 22, 'Foreign currency transactions and advance consideration';** effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

b) Standards, amendments and interpretations that are issued but not effective as at 30 September 2018:

- **Amendment to IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

- **Amendment to IAS 28, 'Investments in associates and joint venture';** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.

- **IFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Type of change

- IFRS 16, published in January 2016. According to this standard, as the difference between operating leases and leasing is eliminated, all leasing transactions will be shown in the balance sheet by the lessee. In accordance with the new standard, the financial liability for the asset (use right) and rent payment is recognized. The only exception is short-term and low-value leasing.

Effect

- As at the reporting date, the Company's operating lease commitments amount to TL 66,376,430.
- On 1 January 2019, the Company plans to recognize approximately TL 38,109,661 of the Group's right to use assets and lease payables (after the accrued rental payments and advance payment adjustments recognized as at (31 December 2018) and TL 382,854 deferred tax asset.
- The Company expects net profit after tax to decrease by TL 1,357,393 in 2019 due to the implementation of the new rules.

Mandatory application date / Group's application date

- The Group will apply this standard from 1 January 2019, the mandatory application date. The group is planned not to use the simplified transition application and to re-express comparable amounts for the year prior to the first implementation.

IFRIC 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or afteJanuary 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

- **IFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

- **Annual improvements 2015-2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

  - IFRS 3, 'Business combinations', - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
  - IFRS 11, 'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
  - IAS 12, 'Income taxes' - a company accounts for all income tax consequences of dividend payments in the same way.
  - IAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

- **Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement';** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

  - use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
  - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements',and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:
- i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- ii) clarify the explanation of the definition of material; and
- iii) incorporate some of the guidance in IAS 1 about immaterial information.

- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

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.

2. ACCOUNTING POLICIES (Continued)

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

Deferred acquisition costs (DAC)

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

Deferral periods can be the average life-time of the contracts (which are longer than the lapse assumptions). The Company management has estimated the period as nine years based on historical contracts lapse development and amount of DAC is subject to Liability Adequacy Test each year. The Company has applied straight line method for the amortisation of DAC which is nine years.

Deferred income reserve (DIR)

IFRS 15 Revenue from Contracts with Customers requires the recognition of revenue over the life time of contracts. The company believes that first year of fees should be recognized as entry fee. The management fees after the first year could be classified as investment management fees and recognized as revenue in accordance with the duration while the services are provided. The Company applied nine 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, four parameters have significant impacts:

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

Capitalized software development costs

As of December 31, 2018, investment costs amounting to TL 19,318,076 (December 31, 2017: TL 19,695,887), which are followed under "advances on intangible assets" account on a project basis, consist of expenditures related to modernisation of basic insurance application and existing environmental systems. On July 19, 2017, the Board of Directors has resolved to conduct the agile scrum methodology with Technology transformation of existing applications (called as the Modernisation and BAU program) and software developments in line with new business needs and, accordingly, the agreements have been signed with the service provider company. In the context of the Modernisation and BAU program, the system developments are estimated to be completed within one to two years and all costs of the related system development, including expenditures that are currently being followed as investment, will be subject to amortisation at the start date of the utilisation.

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

2. ACCOUNTING POLICIES (Continued)

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

Employee termination benefits

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In calculating the related liability to be recorded in the financial statements for these termination benefits, the Company makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 2.2 and Note 17 are reviewed regularly.

Doubtful receivables provisions

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

Provision for litigations

In determining the provision for litigations, the Management considers the probability of legal cases to be brought against the Company and in case it is brought against the Company considers its consequences based on the assessments of legal advisor. The Company management makes its best estimates using the available data provided (Note 15).

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.

The company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the company has adopted the simplified approach and adjusted the opening retained earnings to reflect the impact. As such comperative financial statements have not been restated. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

Retained earnings (before IFRS 15 impact)	**1 January 2018**
Retained earnings (before IFRS 15 impact)	**235,872,981**
Pension business receivable & payable	(54,870,877)
Deferred tax impact	10,976,891
Total impact of IFRS 15 on retained earnings	**(43,893,986)**
Retained earnings (after IFRS 15 Impact)	**191,978,995**

3. SEGMENT INFORMATION

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

Life Protection

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

- Credit-linked life insurance policies represent the largest group of products historically offered by the Company, both in terms of the number of valid insurance policies and by share of the gross written premiums in the total gross written premiums earned by the Company. The Company offers both long-term and short-term credit-linked life insurance. Long-term credit-linked life insurance includes insurance policies relating to mortgages or consumer loans for terms greater than one year. Short-term credit-linked life insurance includes yearly renewable insurance policies relating to consumer loans with accidental disability and optional unemployment covers check credit life and SME credit life.

- Non-credit-linked (term) life insurance policies provide life protection insurance for a certain period of time. The insurance covers the insuree's life. In the event of death, the beneficiary receives the amount insured. Individual protection insurance may be entered into only with regular premium installments in amounts pre-determined for the entire contract period. The Company offers customizable life insurance riders including involuntary unemployment, critical illness, accidental death, and disability due to accident or sickness in its non-credit-linked product portfolio.

Life Savings

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

Personal Accident

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

Pension

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

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

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

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

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

Other: Adjustments included in other represent individually insignificant reclassifications.

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

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

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

3. SEGMENT INFORMATION (Continued)

	Life Insurance					Reconciliation to statement of profit and loss			
January 1 - December 31, 2018	**Pension**	**Life protection**	**Life savings**	**Personal accident**	**Total**	**Commissions expenses**	**Other**	**Net change in mathematical reserves**	**Statement of profit or loss**
Gross written premiums	-	480,207,952	9,764,178	75,398,393	565,370,523	-	-	-	565,370,523
Premium ceded to reinsurers	-	(14,816,360)	(304,317)	(2,947,245)	(18,067,922)	-	-	-	(18,067,922)
Premium written net of reinsurance	**-**	**465,391,592**	**9,459,861**	**72,451,148**	**547,302,601**	**-**	**-**	**-**	**547,302,601**
Net change in mathematical reserves	-	(157,284,701)	62,870,496	-	(94,414,205)	-	-	94,414,204	-
Net change in provision for unearned premiums reserves	-	4,654,675	(6,607)	(1,957,704)	2,690,364	-	-	-	2,690,364
Net premiums earned	**-**	**312,761,566**	**72,323,750**	**70,493,444**	**455,578,760**	**-**	**-**	**94,414,204**	**549,992,964**
Net change in mathematical reserves	-	-		-	-	-	-	(94,414,205)	(94,414,205)
Claim paid and change in outstanding claims	-	(36,975,503)	(65,294,856)	(7,532,772)	(109,803,131)	-	(9,419)	-	(109,812,550)
Commission income	-	8,845,038	315,444	584,132	9,744,614	-	-	-	9,744,614
Commission expense	-	(90,544,929)	(1,250)	(34,468,341)	(125,014,520)	1,493,080	-	-	(123,521,440)
Commission expense	-	(97,090,780)	(1,250)	(34,468,341)	(131,560,371)	1,493,078	-	-	(130,067,293)
DAC	-	6,545,851	-	-	6,545,851	-	-	-	6,545,851
Other income / (expense), net	-	(9,489,801)	-	(803,842)	(10,293,643)	-	828,123	-	(9,465,520)
Life and personal accident technical profit	**-**	**184,596,371**	**7,343,088**	**28,272,621**	**220,212,080**				
Fund management charge	230,179,244	-	-	-	230,179,244	-	-	-	230,179,244
Management fee	11,421,321	-	-	-	11,421,321	-	-	-	11,421,321
Account management fee, net of DIR	44,115,795	-	-	-	44,115,795	-	-	-	44,115,795
Account management fee	52,301,068				52,301,068				52,301,068
DIR	(8,185,273)				(8,185,273)				(8,185,273)
Premium holiday charges	-	-	-	-	-	-	-	-	-
Deferred fee	41,100,284	-	-	-	41,100,284	-	-	-	41,100,284
Entry and deferred entry fees income	2,906,971	-	-	-	2,906,971	-	-	-	2,906,971
Pension income	**329,723,615**	**-**	**-**	**-**	**329,723,615**	**-**	**-**	**-**	**329,723,615**
Fund management charge	(21,547,287)	-	-	-	(21,547,287)	-	-	-	(21,547,287)
Commission expense, net of DAC	(60,804,687)	-	-	-	(60,804,687)	1,574,491	-	-	(59,230,196)
Commission expense	(72,487,102)	-	-	-	(72,487,102)	1,574,491	-	-	(70,912,611)
DAC	11,682,415	-	-	-	11,682,415	-	-	-	11,682,415
Other income / (expense), net	(13,613,601)	-	-	-	(13,613,601)	-	14,839	-	(13,598,762)
Pension expenses including commission	**(95,965,575)**	**-**	**-**	**-**	**(95,965,575)**	1,574,491	14,839	-	(94,376,245)
Pension technical profit	**233,758,040**	**-**	**-**	**-**	**233,758,040**				
Total technical profit	**233,758,040**	**184,596,371**	**7,343,088**	**28,272,621**	**453,970,120**				
General and administrative expenses					(297,648,155)				
Net technical profit after overhead expenses					**156,321,965**				
Foreign exchange gain/(loss), net					2,461,883				
Investment and other income/(expense), net					100,096,463				
Net financial income					**102,558,346**				
Profit before taxes					**258,880,311**				
Income tax expense					(58,296,636)				
Profit for the year					**200,583,675**				

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

3. SEGMENT INFORMATION (Continued)

	Life Insurance					Reconciliation to statement of profit or loss			
January 1 – December 31, 2017	**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	-	392,582,434	10,109,188	68,760,304	471,451,926	-	-	-	471,451,926
Premium ceded to reinsurers	-	(15,380,400)	(295,597)	(897,056)	(16,573,053)	-	-	-	(16,573,053)
Premium written net of reinsurance	**-**	**377,202,034**	**9,813,591**	**67,863,248**	**454,878,873**	**-**	**-**	**-**	**454,878,873**
Net change in mathematical reserves	-	(90,860,273)	43,954,894	-	(46,905,379)	-	(2,961)	46,908,340	-
Net change in provision for unearned premiums reserves	-	(33,719,880)	8,718	(9,333,661)	(43,044,823)	-	-	-	(43,044,823)
Net premiums earned	**-**	**252,621,881**	**53,777,203**	**58,529,587**	**364,928,671**	**-**	**(2,961)**	**46,908,340**	**411,834,050**
Net change in mathematical reserves	-	-	-	-	-	-	-	(46,908,340)	(46,908,340)
Claim paid and change in outstanding claims	-	(40,756,575)	(50,759,517)	(6,747,321)	(98,263,413)	-	24,452	-	(98,238,961)
Commission income	-	6,325,044	31,681	856,373	7,213,098	-	-	-	7,213,098
Commission expense	-	(73,303,768)	(2,697)	(27,566,552)	(100,873,017)	2,721,229	-	-	(98,151,788)
Commission expense	-	(83,527,970)	(2,697)	(27,566,552)	(111,097,219)	2,721,229	-	-	(108,375,990)
DAC	-	10,224,202	-	-	10,224,202	-	-	-	10,224,202
Other income / (expense), net	-	(823,360)	-	(1,134,852)	(1,958,212)	-	1,464,649	-	(493,563)
Life and personal accident technical profit	**-**	**144,063,222**	**3,046,670**	**23,937,235**	**171,047,127**				
Fund management charge	199,896,199	-	-	-	199,896,199	-	-	-	199,896,199
Management fee	15,737,005	-	-	-	15,737,005	-	-	-	15,737,005
Account management fee, net of DIR	37,103,291	-	-	-	37,103,291	-	-	-	37,103,291
Account management fee	32,562,076				32,562,076				32,562,076
DIR	4,541,215				4,541,215				4,541,215
Premium holiday charge	4,035,833	-	-	-	4,035,833	-	-	-	4,035,833
Entry and deferred entry fees income	33,065,254	-	-	-	33,065,254	-	-	-	33,065,254
Pension income	**289,837,582**	**-**	**-**	**-**	**289,837,582**	**-**	**-**	**-**	**289,837,582**
Fund management charge	(22,840,353)	-	-	-	(22,840,353)	-	-	-	(22,840,353)
Commission expense, net of DAC	(47,494,552)	-	-	-	(47,494,552)	4,978,795	-	-	(42,515,757)
Commission expense	*(78,121,940)*	-	-	-	(78,121,940)	4,978,795	-	-	(73,143,145)
DAC	*30,627,388*	-	-	-	30,627,388	-	-	-	30,627,388
Other income/(expense), net	(12,452,184)	-	-	-	(12,452,184)	-	(20,870)	-	(12,473,054)
Pension expenses including commission	**(82,787,089)**	**-**	**-**	**-**	**(82,787,089)**	**4,978,795**	**(20,870)**	**-**	**(77,829,164)**
Pension technical profit	**207,050,493**	**-**	**-**	**-**	**207,050,493**				
Total technical profit	**207,050,493**	**144,063,222**	**3,046,670**	**23,937,235**	**378,097,620**				
General and administrative expenses					(260,172,245)				
Net technical profit after overhead expenses					**117,925,375**				
Foreign exchange gain/(loss), net					2,855,418				
Investment income/(expense), net					60,446,372				
Net financial income					**63,301,790**				
Profit before taxes					**181,227,165**				
Income tax expense					(36,508,483)				
Profit for the year					**144,718,682**				

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 Communiqu´e, an early risk detection committee is to be responsible for the preliminary detection of risks that may endanger the existence, development and continuity of a public company. Such committee is also responsible for supervising the implementation of appropriate remedial measures and the performance of risk management activities, during the course of which it must monitor, at least once a year, the risk management systems of the Company.

Risk Management Framework

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

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

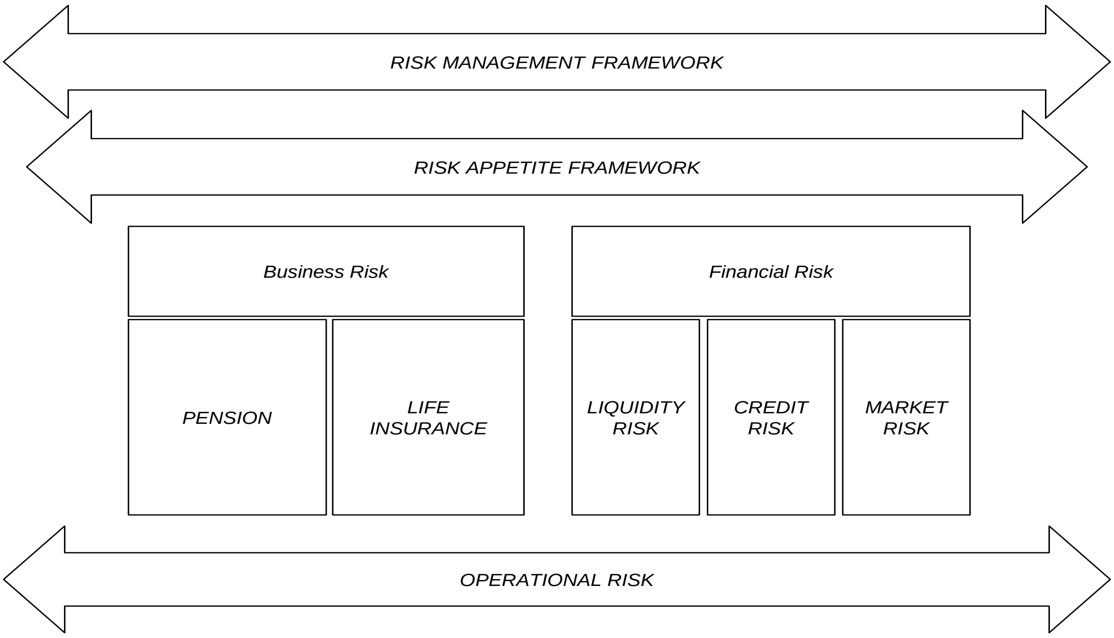
Roles and responsibilities for risk management are based around the "three lines of defence model" where ownership for risk is taken at all levels in the Company.

- *First line of defence (Management)*: Primary responsibility for risk identification, measurement, management, monitory 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.

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

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

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



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

Risk policies

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

Business standards

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

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

Insurance Risk

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

a) Life insurance

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

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

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

b) Personal accident (Non-Life)

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

c) Pensions

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

Assessment and claims settlement

In order to assess insurance risk, and accordingly manage the claim and premium balance, determine liabilities accurately and ensure sufficient provisioning to meet liabilities, the 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.

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

Insurance Risk Management

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

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

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

As at December 31, 2018 and December 31, 2017, 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, 2018	December 31, 2017
Life	10%	10%
Personal Accident (Casualty)	15.4%	12%

As at December 31, 2018 and December 31, 2017 that part of total risk which is ceded to reinsurers is given below on a risk coverage basis.

December 31, 2018

Life

Natural death	Accidental Death	Accidental disability	Sickness disability	Dangerous Sickness	Public Transport	Unemployment	Accidental Treatment Cost
7.31%	18.32%	25.33%	59.38%	50.00%	16.10%	100.00%	0.84%

Personal Accident

Accidental death	Accidental disability	Accidental treatment cost	Unemployment
6.70%	11.21%	0.02%	100.00%

December 31, 2017

Life

Natural death	Accidental Death	Accidental disability	Sickness disability	Dangerous Sickness	Public Transport	Unemployment	Accidental Treatment Cost
14.47%	17.72%	5.70%	6.25%	49.65%	16.68%	100.00%	0.91%

Personal Accident

Accidental death	Accidental disability	Accidental treatment cost	Unemployment
1.95%	2.30%	0.01%	100.00%

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 December 31, 2018 and December 31, 2017 the Company has both proportional and non-proportional reinsurance treaties.

Outstanding claims are reviewed and updated periodically by claims department.

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

Sensitivity to Insurance Risk (Continued)

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, 2018	Total gross risk liability	Share of reinsurer in total risk liability	Net risk liability
Life	40,816,692,690	2,983,296,647	37,833,396,043
Personal Accident	40,797,122,770	3,574,433,606	37,222,689,164
Total	**81,613,815,460**	**6,557,730,253**	**75,056,085,207**

December 31, 2017	Total gross risk liability	Share of reinsurer in total risk liability	Net risk liability
Life	37,703,193,577	5,455,399,683	32,247,793,895
Personal Accident	42,492,099,226	885,827,119	41,606,272,107
Total	**80,195,292,803**	**6,341,226,802**	**73,854,066,002**

The Company's gross provision for outstanding claims at December 31, 2018 and December 31, 2017 are as follows:

Outstanding Claims	December 31, 2018	December 31, 2017
Life	61,639,681	63,130,443
Personal Accident	10,452,319	9,952,262
Total	**72,092,000**	**73,082,705**

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.

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

a) Market Risk (Continued)

i) Foreign Currency Risk

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

Foreign currency sensitivity analysis as of December 31, 2018 and December 31, 2017 are as follows:

At December 31, 2018, on condition that all variables remain constant, effect of a 10% appreciation/devaluation of Eurobonds against TL on owners' equity is TL 4,352,244 / (4,352,244). As at December 31, 2017, on condition that all variables remain constant, effect of a 10% appreciation/devaluation of Eurobonds against TL on owners' equity is TL 23,576 / (23,576).

December 31, 2018:

Liabilities and assets in foreign currency	Effect on income/expense		
Exchange rate variation (*)	**USD (*)**	**EUR (*)**	**GBP (*)**
10%	1,058,583	14,099,786	(8,574)
-10%	(1,058,583)	(14,099,786)	8,574

December 31, 2017:

Liabilities and assets in foreign currency	Effect on income/expense		
Exchange rate variation (*)	**USD (*)**	**EUR (*)**	**GBP (*)**
10%	1,835,899	40,596	(1,317)
-10%	(1,835,899)	(40,596)	1,317

(*) All amounts are presented in TL.

ii) Interest Risk

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

In the following table, on condition that all other variables remain constant, it is disclosed that the effect on the statement of profit or loss of a 5% increase/(decrease) in market interest rates for TL securities, as well as of a 0,5 % increase/(decrease) for USD and EURO securities. The underlying logic used in this projection is that a discount interest rate applicable for each year with effect of the stresses set in different rates by respective years is found using the upward-downward variation which might occur in average market interest rates and that market value of securities are then discounted at such rate in connection with their respective maturity period.

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

ii) Interest Risk (Continued)

As at December 31, 2018 :

Total of trading and available for sale financial assets	Effect Profit and Loss		
Market interest increase / (decrease) (**)	**TL**	**USD (*)**	**EUR (*)**
5%	(10,942,408)	(4,256,785)	(2,252)
-5%	10,530,007	3,448,462	1,975

Trading financial assets (company)	Effect Profit and Loss		
Market interest increase / (decrease) (**)	**TL**	**USD (*)**	**EUR (*)**
%5	(1,384,086)	-	-
-%5	1,394,423	-	-

Available for sale financial assets	Effect Profit and Loss		
Market interest increase / (decrease) (**)	**TL**	**USD (*)**	**EUR (*)**
5% Asset backing investment contacts	(4,343,171)	(4,256,785)	(2,252)
5% Available for sale financial assets (company)	(5,215,151)	-	-
-5% Asset backing investment contacts	4,098,272	3,448,462	1,975
-5% Available for sale financial assets (company)	5,037,312	-	-

December 31, 2017:

Total of trading and available for sale financial assets	Effect Profit and Loss		
Market interest increase / (decrease) (**)	**TL**	**USD (*)**	**EUR (*)**
5%	(11,718,213)	(3,170,317)	(2,876)
-5%	11,056,777	2,505,501	2,383

Trading financial assets (company)			
Market interest increase / (decrease) (**)	**TL**	**USD (*)**	**EUR (*)**
5%	(1,580,261)	-	-
-5%	1,519,982	-	-

Available for sale financial assets			
Market interest increase / (decrease) (**)	**TL**	**USD (*)**	**EUR (*)**
5% Asset backing investment contacts	(6,533,357)	(3,170,317)	(2,876)
5% Available for sale financial assets (company)	(3,604,594)	-	-
-5% Asset backing investment contacts	6,143,015	2,505,501	2,383
-5% Available for sale financial assets (company)	3,393,780	-	-

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

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk

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

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

Maximum exposure to credit risk

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

	December 31, 2018	**December 31, 2017**
Cash and cash equivalents	631,233,567	589,738,443
Financial assets	843,339,644	547,825,900
Pension business receivables	196,178,322	166,619,441
Premium and other insurance receivables	33,872,232	23,552,172
Reinsurance share of insurance liabilities	11,884,286	13,836,779
Other financial assets	2,868,012	868,012
Total	**1,719,376,063**	**1,342,440,747**

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.

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk (Continued)

As at December 31, 2018, 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, 2018	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	631,233,567	12,150,726	512,689,227	117,343,030	-	-	-	642,182,983
Financial assets	843,339,644	-	21,087,698	8,992,785	45,546,219	712,997,650	64,836,643	853,460,995
- Available for sale financial investments	58,068,689	-	-	8,992,785	10,124,965	53,026,888	-	72,144,638
- Financial assets at fair value through profit or loss	89,878,939		21,087,698	-	-	-	64,836,643	85,924,341
-Available for sale asset backing financial investments, Policyholders' portfolio	695,392,016	-	-	-	35,421,254	659,970,762	-	695,392,016
Premium and other insurance receivables	33,872,232	-	24,275,353	9,349,382	247,497	-	-	33,872,232
Pension business receivables	196,178,322	14,218,500	-	29,046,139	152,707,635	206,048	-	196,178,322
Other financial assets	2,868,012	-	-	-	-	-	2,868,012	2,868,012
Total	**1,707,491,777**	**26,369,226**	**558,052,278**	**164,731,336**	**198,501,351**	**713,203,698**	**67,704,655**	**1,728,562,544**
Financial liabilities								
Due to insurance and reinsurance companies	21,131,197	596,831	20,534,366	-	-	-	-	21,131,197
Pension business payables	495,513,386	228,838,966	9,273,840	27,821,521	146,544,370	83,034,689	-	495,513,386
Other payables and liabilities	37,785,767	17,445,860	13,524,278	-	6,815,629	-	-	37,785,767
Total	**554,430,350**	**246,881,657**	**43,332,484**	**27,821,521**	**153,359,999**	**83,034,689**	**-**	**554,430,350**
Liquidity surplus/(deficit)	**1,153,061,427**	**(220,512,431)**	**514,719,794**	**136,909,815**	**45,141,352**	**630,169,009**	**67,704,655**	**1,174,132,194**

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk (Continued)

As at December 31, 2017, table of liquidity risk is as follows:

December 31, 2017	Carrying amount	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	5 years and over	No maturity date	Undiscounted Totals
Financial assets								
Cash and cash equivalents	589,738,443	40,540,218	506,132,216	37,240,247	-	-	-	583,912,681
Financial assets	547,825,900	(17,798,185)	-	8,503,902	55,709,333	413,477,945	67,844,190	527,737,185
- Available for sale financial investments	37,064,147	-	-	7,788,486	4,319,436	14,946,525	-	27,054,447
- Financial assets at fair value through profit or loss	85,044,018	(17,798,185)	-	715,416	21,727,396	12,555,201	67,844,190	85,044,018
- Available for sale asset backing financial investments, Policyholders' portfolio	425,717,735	-	-	-	29,662,501	385,976,219	-	415,638,720
Premium and other insurance receivables	23,552,172	20,782	16,919,301	6,431,149	180,940	-	-	23,552,172
Pension business receivables	166,619,441	14,883,346	2,507,453	5,513,885	64,931,852	51,840,258	26,942,647	166,619,441
Other financial assets	868,012	-	-	-	-	-	868,012	868,012
Total	**1,328,603,968**	**37,646,161**	**525,558,970**	**57,689,183**	**120,822,125**	**465,318,203**	**95,654,849**	**1,302,689,491**
Financial liabilities								
Due to insurance and reinsurance companies	18,067,007	380,520	17,686,487	-	-	-	-	18,067,007
Pension business payables	410,190,961	250,029,690	39,908,087	5,513,885	62,899,041	51,840,258	-	410,190,961
Other payables and liabilities	43,360,095	14,164,027	22,040,512	-	7,155,556	-	-	43,360,095
Total	**471,618,063**	**264,574,237**	**79,635,086**	**5,513,885**	**70,054,597**	**51,840,258**	**-**	**471,618,063**
Liquidity surplus/(deficit)	**856,985,905**	**(226,928,076)**	**445,923,884**	**52,175,298**	**50,767,528**	**413,477,945**	**95,654,849**	**831,071,428**

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk (Continued)

Fair value of the financial instruments

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

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

Fair value hierarchy

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

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

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

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

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Available for sale financial assets (Note 6)	58,068,689	-	-	58,068,689
Financial assets held for trading (Note 6)	89,878,939	-	-	89,878,939
Financial investments with risks on policyholders classified as available for sale (Note 6) (*)	652,469,569	-	-	652,469,569
Total financial assets	**800,417,197**	**-**	**-**	**800,417,197**

(*) Time deposits amounting to TL 42,922,447 are not included. Carrying values of time deposits approximate their fair values due to their short term nature.

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Available for sale financial assets (Note 6)	37,064,147	-	-	37,064,147
Financial assets held for trading (Note 6)	85,044,018	-	-	85,044,018
Financial investments with risks on policyholders classified as available for sale (Note 6) (*)	387,055,545	-	-	387,055,545
Total financial assets	**509,163,710**	**-**	**-**	**509,163,710**

(*) Time deposits amounting to TL 38,662,190 are not included. Carrying values of time deposits approximate their fair values due to their short term nature.

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

d) Operational Risk

Operational risks consist of all other risks that may cause financial loss or loss of reputation to the 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, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, the required capital reserves (calculated in accordance with the above-mentioned local regulation) and current capital adequacy analysis is as follows:

	June 30, 2018	**December 31, 2017**
Total shareholders' equity in the statutory financial statements (*)	288,808,911	283,165,793
Required minimum capital reserves	189,499,811	164,960,895
Capital surplus	**99,309,100**	**118,204,898**

(*) Excludes equalization reserve.

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

5. CASH AND CASH EQUIVALENTS

As at December 31, 2018 and December 31, 2017, cash and cash equivalents are as follows:

	December 31, 2018	December 31, 2017
Banks (*)	388,908,441	340,823,953
Other cash and cash equivalents (**)	242,325,122	249,013,989
Cheques given and payment orders	-	(99,499)
Total cash and cash equivalents	**631,233,563**	**589,738,443**
Blockage amount	(138,430,843)	(149,203,281)
Time deposits more than 3 months	(104,228,602)	-
Accrued interest	(4,281,371)	(1,801,400)
Total cash and cash equivalents per statement of cash flow	**384,292,747**	**438,733,762**

(*) Note 31 presents the details about the blockage on bank accounts in favour of Ministry of Finance and Treasury.

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

Interest rates of time deposits are stated below:

	December 31, 2018 Interest Rate (%)	December 31, 2017 Interest Rate (%)
EUR	2.23	-
USD	4.69	4.41
TL	24.39	15.08

As of December 31, 2018, TL deposit maturity varies between January 2, 2019 and November 7, 2019, foreign currency deposits maturity varies between January 2, 2019 and September 12, 2019.

As of December 31, 2017, TL deposit maturity varies between January 2, 2018 and June 25, 2018, foreign currency deposits maturity varies between January 8, 2018 and February 9, 2018.

As at December 31, 2018 and December 31, 2017; the detail of cash and cash equivalents are as follows:

	December 31, 2018	December 31, 2017
Foreign currency cash and cash equivalents	**156,029,348**	**12,148,343**
- demand deposits	224,336	812,783
- time deposits	155,802,616	11,333,989
- credit card receivables	2,396	1,571
TL cash and cash equivalents	**475,204,215**	**577,590,100**
- demand deposits	11,926,385	20,063,592
- time deposits	220,955,104	308,613,589
- credit card receivables	242,322,726	249,012,418
- cheques given and payment orders	-	(99,499)
Total	**631,233,563**	**589,738,443**

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

6. FINANCIAL ASSETS

As at December 31, 2018 and December 31, 2017; the securities portfolio of the Company is as follows:

	December 31, 2018	December 31, 2017
Financial assets at fair value through profit or loss	**89,878,939**	**85,044,018**
Total available for sale financial assets	**753,460,705**	**462,781,882**
Available for sale financial investments	58,068,689	37,064,147
Available for sale asset backing financial investments, policyholders' portfolio	695,392,016	425,717,735
Total securities portfolio	**843,339,644**	**547,825,900**

As at December 31, 2018 and December 31, 2017; financial assets as fair value through profit or loss are as follows:

	December 31, 2018		
	Cost	Fair value	Carrying value
Investment funds	46,983,493	64,836,640	64,836,640
Private sector bonds	19,509,809	21,087,697	21,087,697
Asset backed securities	3,954,602	3,954,602	3,954,602
Total financial assets at fair value through profit or loss	**70,447,904**	**89,878,939**	**89,878,939**

	December 31, 2017		
	Cost	Fair value	Carrying value
Investment funds	51,753,845	67,844,190	67,844,190
Private sector bonds	16,780,000	17,199,828	17,199,828
Total financial assets at fair value through profit or loss	**68,533,845**	**85,044,018**	**85,044,018**

As at December 31, 2018 and December 31, 2017; available for sale financial assets owned by the Company are as follows:

	December 31, 2018		
	Cost	Fair value	Carrying value
Treasury bills and government bonds - TL	32,734,900	23,996,049	23,996,049
Private Sector bonds	26,004,643	28,895,065	28,895,065
Asset backed securities	4,738,869	5,177,575	5,177,575
Total available for sale financial investments	**63,478,412**	**58,068,689**	**58,068,689**

	December 31, 2017		
	Cost	Fair value	Carrying value
Treasury bills and government bonds - TL	23,234,500	19,265,961	19,265,961
Private Sector bonds	17,500,000	17,798,186	17,798,186
Total available for sale financial investments	**40,734,500**	**37,064,147**	**37,064,147**

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

6. FINANCIAL ASSETS (Continued)

As at December 31, 2018 and December 31, 2017; available for sale financial assets backing insurance contracts are as follows:

	December 31, 2018		
	Cost	**Fair value**	**Carrying value**
Treasury bills and government bonds - TL	53,587,896	39,488,641	39,488,641
Eurobonds - USD	697,266,704	610,583,786	610,583,786
Eurobonds - EUR	2,317,016	2,397,142	2,397,142
Time deposits - TL	5,000,000	5,210,655	5,210,655
Time deposits - USD	37,562,826	37,711,792	37,711,792
Total available for sale asset backing financial investments, policyholders’ portfolio	**795,734,442**	**695,392,016**	**695,392,016**

	December 31, 2017		
	Cost	**Fair value**	**Carrying value**
Treasury bills and government bonds - TL	63,088,296	51,582,678	51,582,678
Eurobonds - USD	350,422,900	333,564,931	333,564,931
Eurobonds - EUR	1,735,648	1,907,936	1,907,936
Time deposits - TL	5,000,000	5,041,515	5,041,515
Time deposits - USD	33,607,629	33,620,675	33,620,675
Total available for sale asset backing financial investments, policyholders’ portfolio	**453,854,473**	**425,717,735**	**425,717,735**

As at December 31, 2018 and December 31, 2017; financial assets at fair value through profit or loss and available for sale financial assets movement table are as follows:

	2018	**2017**
Opening, January 1	547,825,900	381,174,585
Purchases	805,071,897	268,222,389
Disposals	(598,454,013)	(142,028,983)
Change in the valuation - unrealized gain and losses	(939,435)	3,081,985
Disposals through the redemption	(10,000,000)	-
Unrealized exchange rate gains/(losses)	165,965,457	19,954,382
Change in balance recognized under equity	(46,166,994)	73,856
Change in balance recognized under life mathematical reserves	(19,963,168)	17,347,686
Closing, December 31	**843,339,644**	**547,825,900**

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

6. FINANCIAL ASSETS (Continued)

The maturity analysis of financial assets is as follows:

As at December 31, 2018 and December 31, 2017; the remaining contractual maturities of financial assets are as follows:

	December 31, 2018						
	No stated maturity	**0-3 months**	**3-6 months**	**6 months to 1 year**	**1-3 years**	**More than 3 years**	**Total**
Eurobonds	-	-	-	-	25,886,659	587,094,269	612,980,928
Investment funds	64,836,640	-	-	-	-	-	64,836,640
Government bonds and treasury bills	-	-	-	-	13,675,878	49,808,812	63,484,690
Private sector bonds	-	13,343,292	2,453,571	7,900,215	20,308,785	5,976,899	49,982,762
Time deposits	-	37,711,792	-	5,210,655	-	-	42,922,447
Asset backed securities	-	-	1,711,920	3,465,655	-	-	5,177,575
Derivative security	-	1,525,556	2,429,046	-	-	-	3,954,602
	64,836,640	**52,580,640**	**6,594,537**	**16,576,525**	**59,871,322**	**642,879,980**	**843,339,644**

	December 31, 2017						
	No stated maturity	**0-3 months**	**3-6 months**	**6 months to 1 year**	**1-3 years**	**More than 3 years**	**Total**
Eurobonds	-	-	-	-	19,717,753	315,755,114	335,472,867
Government bonds and treasury bills	-	-	-	-	14,264,184	56,584,455	70,848,639
Investment funds	67,844,190	-	-	-	-	-	67,844,190
Time deposits	-	38,662,190	-	-	-	-	38,662,190
Private sector bonds	-	-	715,417	-	21,727,396	12,555,201	34,998,014
	67,844,190	**38,662,190**	**715,417**	**-**	**55,709,333**	**384,894,770**	**547,825,900**

The currency analysis of financial assets is as follows:

	December 31, 2018			
	Currency Type	**Currency Amount**	**Rate**	**Amount TL**
Financial assets available-for-sale	TL	-	-	58,068,689
				58,068,689
Financial assets at fair value through profit or loss	TL	-	-	89,878,939
				89,878,939
Financial investments with risks on policy holders	USD	123,229,025	5.2609	648,295,578
	EUR	397,668	6.0280	2,397,142
	TL	-	-	44,699,296
				695,392,016
Total securities portfolio				**843,339,644**

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

6. FINANCIAL ASSETS (Continued)

	December 31, 2017			
	Currency Type	Currency Amount	Rate	Amount TL
Financial assets available-for-sale	TL	-	-	37,064,147
				37,064,147
Financial assets at fair value through profit or loss	TL	-	-	85,044,018
				85,044,018
Financial investments with risks on policy holders	USD	97,347,651	3.7719	367,185,606
	EUR	422,530	4.5155	1,907,936
	TL	-	-	56,624,193
				425,717,735
Total securities portfolio				**547,825,900**

7. REINSURANCE SHARE OF INSURANCE LIABILITIES

As at December 31, 2018 and December 31, 2017; reinsurance share of insurance liabilities are as follows:

	December 31, 2018	December 31, 2017
Reinsurers' share of outstanding claims	6,286,342	6,137,357
Reinsurers' share of unearned premiums reserve	4,536,303	4,830,432
Reinsurers' share of life mathematical reserve	1,061,641	2,868,990
	11,884,286	**13,836,779**

8. PREMIUM AND OTHER INSURANCE RECEIVABLES

As at December 31, 2018 and December 31, 2017; premium and other insurance receivables are as follows:

	December 31, 2018	December 31, 2017
Policyholders and reinsurance companies	33,872,232	23,531,390
Loans to policyholders	-	20,782
Total premium and other insurance receivables	**33,872,232**	**23,552,172**

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

8. PREMIUM AND OTHER INSURANCE RECEIVABLES (Continued)

As at December 31, 2018 and December 31, 2017; maturity distribution of neither past due nor impaired insurance operations receivables is as follows:

	December 31, 2018	December 31, 2017
Receivables from policyholders and reinsurance companies		
Up to 3 months	7,003,356	5,648,122
3 to 6 months	4,862,872	3,405,016
6 to 9 months	3,002,957	2,071,285
9 to 12 months	1,097,190	749,738
	15,966,375	**11,874,161**

As at December 31, 2018 and December 31, 2017; an analysis of the aging of overdue but not impaired insurance operations receivables is as follows:

	December 31, 2018	December 31, 2017
Overdue 0-3 months	11,349,466	7,332,139
Overdue 3-6 months	263,310	127,213
Overdue 6-9 months	96,297	61,415
Overdue 9-12 months	26,756	16,482
Overdue 1 year	247,497	180,940
	11,983,326	**7,718,189**
Total	**27,949,701**	**19,592,350**

As of December 31, 2018, total of receivables from reinsurance companies and intermediaries are TL 5,922,531 (31 December 2017: TL 3,939,040).

As at December 31, 2018 and December 31, 2017; maturity distribution of neither past due nor impaired loans to the policyholders is as follows:

	December 31, 2018	December 31, 2017
Up to 3 months	-	20,782
	-	**20,782**

As at December 31, 2018 and December 31, 2017; the collateral held by the Company as security for its receivables are as follows:

	December 31, 2018			
	USD	**EUR**	**TL**	**Total (TL)**
Guarantees received				
Letter of guarantees	105,218	-	14,187,071	14,292,289
Mortgage deed	-	-	309,700	309,700
Other guarantees	511,916	16,655	102,800	631,371
	617,134	**16,655**	**14,599,571**	**15,233,360**

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

8. PREMIUM AND OTHER INSURANCE RECEIVABLES (Continued)

	December 31, 2017			
	USD	**EUR**	**TL**	**Total (TL)**
Guarantees received				
Letter of guarantees	75,438	6,864	11,779,348	11,861,650
Mortgage deed	-	-	309,700	309,700
Other guarantees	367,027	12,476	691,773	1,071,276
	442,465	**19,340**	**12,780,821**	**13,242,626**

9. PENSION BUSINESS RECEIVABLES AND PAYABLES

As at December 31, 2018 and December 31, 2017; pension business receivables are as follows:

	December 31, 2018	**December 31, 2017**
Receivables pension operations	14,218,550	13,689,094
Pension business receivables - deferred income reserves	181,490,957	150,897,535
Capital advance for pension funds	468,815	2,032,812
Total individual pension business receivables, net	**196,178,322**	**166,619,441**

As at December 31, 2018 and December 31, 2017; pension business payables are as follows:

	December 31, 2018	**December 31, 2017**
Temporary account of participants	252,495,745	262,103,860
Pension business payables - deferred income reserves (*)	235,276,708	141,627,135
Other payables from pension operations	7,740,933	6,459,966
Total pension business payables	**495,513,386**	**410,190,961**

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

10. OTHER ASSETS

As at December 31, 2018 and December 31, 2017; other assets are as follows:

	December 31, 2018	**December 31, 2017**
Prepaid expenses	4,892,128	4,134,703
Other receivables from other related parties	5,700,785	1,317,435
Other receivables from third parties	412,109	977,566
Advances given	307,928	9,136,080
Advances to personnel	535,351	10
Deposits and guarantees given	88,330	90,607
Receivables from shareholders (Note 33)	20,221	-
Other	545,068	537,625
Total other assets	**12,501,920**	**16,194,026**

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

11. PROPERTY AND EQUIPMENT, NET

As of December 31, 2018 and December 31, 2017; tangible assets movement and its accumulated depreciation is as follows:

Cost	**January 1, 2018**	**Additions**	**Disposals**	**December 31, 2018**
Machinery and equipment	9,952,653	2,264,942	-	12,217,595
Furniture and fixtures	15,622,217	3,340,829	(10,551)	18,952,495
Other tangible assets	16,689,454	12,072,371	(52,677)	28,709,148
Leased assets	646,011	-	-	646,011
Advances given for tangible assets	1,242,249	-	(1,242,249)	-
	44,152,584	**17,678,142**	**(1,305,477)**	**60,525,249**

Accumulated depreciation	**January 1, 2018**	**Period charge**	**Disposals**	**December 31, 2018**
Machinery and equipment	(5,264,269)	(1,973,695)	-	(7,237,964)
Furniture and fixtures	(8,517,149)	(1,891,994)	428	(10,408,715)
Other tangible assets	(10,303,573)	(2,252,869)	1,762	(12,554,680)
Leased assets	(646,011)	-	-	(646,011)
	(24,731,002)	**(6,118,558)**	**2,190**	**(30,847,370)**
Net book value	**19,421,582**			**29,677,879**

Cost	**January 1, 2017**	**Additions**	**Disposals**	**December 31, 2017**
Machinery and equipment	6,228,595	3,724,058	-	9,952,653
Furniture and fixtures	10,600,146	6,665,925	(1,643,854)	15,622,217
Other tangible assets	11,962,940	5,540,081	(813,567)	16,689,454
Leased assets	1,175,521	-	(529,510)	646,011
Advances given for tangible assets	-	1,242,249	-	1,242,249
	29,967,202	**17,172,313**	**(2,986,931)**	**44,152,584**

Accumulated depreciation	**January 1, 2017**	**Period charge**	**Disposals**	**December 31, 2017**
Machinery and equipment	(3,613,442)	(1,650,827)	-	(5,264,269)
Furniture and fixtures	(9,307,768)	(784,325)	1,574,944	(8,517,149)
Other tangible assets	(10,538,577)	(578,563)	813,567	(10,303,573)
Leased assets	(1,175,521)	-	529,510	(646,011)
	(24,635,308)	**(3,013,715)**	**2,918,021**	**(24,731,002)**
Net book value	**5,331,894**			**19,421,582**

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

12. INTANGIBLE ASSETS, NET

As of December 31, 2018 and December 31, 2017; intangible assets movement and its accumulated amortization are as follows:

Cost	**January 1, 2018**	**Additions**	**Transfer**	**December 31, 2018**
Software	47,993,417	10,599,544	15,406,427	73,999,388
Capitalized software development costs	19,695,887	14,549,336	(15,406,427)	18,838,796
	67,689,304	**25,148,880**	**-**	**92,838,184**

Accumulated amortization	**January 1, 2018**	**Period charge**	**Disposals**	**December 31, 2018**
Software	(35,087,170)	(8,190,031)	-	(43,277,201)
Net book value	**32,602,134**			**49,560,983**

Cost	**January 1, 2017**	**Additions**	**Transfer**	**December 31, 2017**
Software	34,078,663	10,257,554	3,657,200	47,993,417
Capitalized software development costs	14,404,435	8,948,652	(3,657,200)	19,695,887
	48,483,098	**19,206,206**	**-**	**67,689,304**

Accumulated amortization	**January 1, 2017**	**Additions**	**Transfer**	**December 31, 2017**
Software	(31,040,463)	(4,046,707)	-	(35,087,170)
Net book value	**17,442,635**			**32,602,134**

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, 2018 and December 31, 2017; the details of other financial assets are as follows:

	December 31, 2018		**December 31, 2017**	
	Participation rate (%)	**Amount**	**Participation rate (%)**	**Amount**
Related party				
AvivaSA Sigorta Aracılığı A.Ş.(*)	100.00	2,000,000	-	-
Third Party				
Milli Reasürans A.Ş.	0.1494	575,082	0.1494	575,082
Emeklilik Gözetim Merkezi A.Ş.	5.5553	292,303	5.5553	292,303
Enternasyonel Turizm Yatırım A.Ş.	0.0001	2	0.0001	2
Endüstri Holding A.Ş.	0.0001	625	0.0001	625
Total		**2,868,012**		**868,012**

(*) The Company has founded "AvivaSA Sigorta Aracılığı A.Ş." brokerage as 100% subsidiary of AvivaSA Emeklilik ve Hayat A.Ş. with 2,000,000 TL paid-in capital to fulfill its customer's all insurance needs including health, non- life. The foundation has been approved in the board of directors meeting dated 13 December 2018 and the new subsidiary has officially registered on 20 December 2018.

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

14. DUE TO INSURANCE AND REINSURANCE COMPANIES

As at December 31, 2018 and December 31, 2017; due to insurance and reinsurance companies are as follows:

	December 31, 2018	December 31, 2017
Due to the intermediaries	18,924,268	17,208,381
Due to the reinsurance companies	1,610,099	478,106
Due to the policyholders	596,830	380,520
	21,131,197	**18,067,007**

15. OTHER PROVISIONS

As at December 31, 2018 and December 31, 2017; provision for expenses and lawsuit provisions are as follows:

	December 31, 2018	December 31, 2017
Personnel bonus provision	18,865,515	16,041,022
Provision for lawsuit against the Company (Note 33)	10,470,942	9,407,700
Bonus provision for sales activities	2,956,208	2,006,635
Commission provision	4,102,000	4,029,000
	36,394,665	**31,484,357**

16. TAXES

Corporate taxes

Statutory income is subject to corporate tax at 22% (2017: 20%). However, with Article 91 of the Bag Law No. 7061 published in the Official Gazette dated December 5, 2017 and numbered 30261, the corporate tax rate is set at 22% for corporate earnings for the tax years 2018, 2019 and 2020 and Provisional Article 10 has been added to the Law on Corporations Tax No. 5520. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

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

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

16. TAXES (Continued)

Corporate taxes (Continued)

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 2018 is 22% (2017: 20%). The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

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

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

Transfer pricing

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

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

Income tax

As at December 31, 2018 and December 31, 2017; prepaid income taxes are netted off with the current income tax payable as stated below:

	December 31, 2018	**December 31, 2017**
Income taxes payable	56,584,492	28,512,057
Prepaid income taxes (-)	(46,710,160)	(24,544,244)
Current tax liabilities / (assets)	**9,874,332**	**3,967,813**

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.

Since the tax rate effective from January 1, 2018 has been changed to 22% as valid for 3 years , in the calculation of deferred tax as of December 31, 2018, 22% tax rate is used for temporary differences expected to be realized within 3 years.

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

16. TAXES (Continued)

Deferred taxes (Continued)

Tax rate is applied as 22% for the calculation of deferred tax asset and liabilities. The details of deferred taxes are presented in the following tables. Since the tax rate effective from January 1, 2018 has been changed to 22% which is valid for 3 years, in the calculation of deferred tax as of December 31, 2018, 22% tax rate is used for temporary differences expected to be realized within 3 years and 20% tax tate is used for the temporary differences that belogs years after 2021.

	Cumulative temporary Differences		Deferred tax assets / (liabilities)	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Deferred income reserves	235,276,708	141,627,135	49,745,597	30,287,926
Incentive commission	1,426,750	1,032,583	313,885	227,168
Net difference between the carrying values and tax base values of tangible assets and intangible assets	449,334	11,213,850	98,853	2,467,047
Provision for employee termination benefit	11,934,859	12,440,746	2,625,669	2,736,964
Claims for Insured Customer Claims	5,789,552	5,273,457	1,157,910	1,054,691
Provision for lawsuits	1,450,211	1,066,024	319,046	234,525
Provisions for agency receivables	2,370,474	2,419,086	474,095	483,817
Unused vacation provision	4,803,637	4,076,214	1,056,800	896,767
Deposits internal rate of return-linear interest rate difference	348,475	142,318	76,664	31,310
Trading portfolio valuation difference	-	10,131	-	2,229
Derivative Securities		-		-
Expense accruals	26,288,821	8,309,827	5,783,541	1,828,162
Commission and bonus expense accruals	-	13,890,698	-	2,778,140
Provision for loans to policyholders Banking Insurance Transaction Tax	-	89	-	20
Total deferred tax assets	**290,138,821**	**201,502,158**	**61,652,060**	**43,028,766**
Eurobond valuation difference	(409,722)	4,049,909	(90,139)	(890,980)
Pension business receivables	(181,490,957)	(150,897,535)	(38,901,526)	(32,411,656)
Derivative Securities	(3,954,602)	-	(870,012)	-
Profit commissions		-		-
Deferred acquisition cost	(344,173,051)	(329,136,668)	(70,266,278)	(65,827,334)
Total deferred tax liabilities	**(530,028,332)**	**(475,984,294)**	**(110,127,955)**	**(99,129,970)**
Deferred tax assets/ (liabilities) accounted for under equity over the fair value reserve for available for sale financial assets	43,521,609	110,180	9,574,754	24,240
Effect of rate change of corporation tax	-	-	261,066	-
Deferred tax liabilities, net	**(196,367,902)**	**(274,371,956)**	**(38,640,075)**	**(56,076,964)**

Movement of deferred tax liabilities for the period ended December 31, 2018 and 2017 are as follows:

	2018	**2017**
Opening balance, January 1	(56,076,964)	(46,759,762)
IFRS 15 impact (*)	10,976,891	-
Charged to profit or loss	(3,533,485)	(9,374,128)
Reversal of deferred tax liability recognized in other comprehensive income due to fair value losses on available for sale financial assets	-	(328,726)
Cancellation available for sale financial assets are recognized in shareholders' equity of deferred tax assets	(24,240)	-
Deferred tax asset /(liability) recognized in other comprehensive income due to fair value losses on available for sale financial assets	9,574,754	24,240
Deferred tax asset of actuarial loss on employment termination provision	181,903	361,412
Effect of rate change of corporation tax	261,066	-
Closing balance, December 31	**(38,640,075)**	**(56,076,964)**

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.

(*) Effects of IFRS 15 has been explained in Note 2.5.

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

16. TAXES (Continued)

Deferred taxes (Continued)

Income tax expenses for the period ended December 31, 2018 and December 31, 2017; are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Income tax expense recognized in profit or loss:		
- Current tax charge	(57,524,212)	(28,598,304)
- Deferred tax charge	(3,533,485)	(9,374,128)
Adjustments recognized in the period for current tax of prior periods	2,761,061	1,463,949
Income tax expense	**(58,296,636)**	**(36,508,483)**

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

	January 1 - December 31, 2018	January 1 - December 31, 2017
Profit before taxes	258,880,311	181,227,165
Tax rate	22%	20%
Taxes on income per statutory tax rate	(56,953,668)	(36,245,433)
Revenue that is exempt from taxation	939,720	2,610,662
Non-deductible expenses	(2,282,688)	(2,873,712)
Income tax expense	**(58,296,636)**	**(36,508,483)**

17. EMPLOYMENT TERMINATION BENEFITS

	December 31, 2018	December 31, 2017
Provision for employment termination benefits	11,934,859	12,440,746
Total	**11,934,859**	**12,440,746**

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

The amount payable consists of one month's salary limited to a maximum of TL 5,434 (December 31, 2017: TL 4,732) for each year of service as of December 31, 2018.

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

17. EMPLOYMENT TERMINATION BENEFITS (Continued)

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

	December 31, 2018	December 31, 2017
Estimated salary increase rate	10.00%	7.00%
Discount rate	15.40%	12.00%

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

	2018	2017
Opening balance, January 1	12,440,746	9,404,969
Paid during the period	(4,066,494)	(1,551,212)
Service cost	1,341,492	1,793,563
Interest cost	1,392,284	986,367
Actuarial loss	826,831	1,807,059
Closing balance, December 31	**11,934,859**	**12,440,746**

18. DEFERRED EXPENSES

As at December 31, 2018 and 2017; movements of deferred expenses are as follows:

	2018	2017
Deferred acquisition costs, gross January 1	329,136,667	283,773,201
Acquisition costs deferred during the period	76,646,323	97,062,600
Amortization	(61,609,939)	(51,699,134)
Deferred acquisition costs - December 31	**344,173,051**	**329,136,667**
Deferred commission costs, gross January 1	39,347,185	26,937,873
Commission cost deferred during the period	(2,223,846)	12,409,312
Deferred commission costs - December 31	**37,123,339**	**39,347,185**
Total deferred expenses	**381,296,390**	**368,483,852**

19. OTHER PAYABLES AND LIABILITIES

As at December 31, 2018 and December 31, 2017; other payables and liabilities are as follows:

	December 31, 2018	December 31, 2017
Payables to suppliers	10,265,090	18,746,535
Taxes and funds payable	15,476,969	12,304,826
Payables to related parties	3,945,530	3,930,437
Unused vacation provision	4,803,637	4,076,214
Deferred commission income	2,011,993	3,490,039
Payables to personnel	1,111,024	556,419
Payables to shareholders (Note 33)	166,000	126,074
Other deferred income	2,055	127,062
Deposits and guarantees	3,469	2,489
Total	**37,785,767**	**43,360,095**

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

20. INSURANCE CONTRACT LIABILITIES

Insurance contract liabilities as at December 31, 2018 and December 31, 2017; are as follows:

	December 31, 2018	December 31, 2017
Gross insurance contract liabilities		
Life mathematical reserves (*)	728,756,640	458,922,195
Reserve for unearned premiums	119,149,509	122,134,002
Claims provision	72,092,000	73,082,705
	919,998,149	**654,138,902**
Reinsurance share of insurance contract liabilities		
Mathematical reserves, ceded (Note 7)	1,061,641	2,868,990
Reserve for unearned premiums, ceded (Note 7)	4,536,303	4,830,432
Claims provision, ceded (Note 7)	6,286,342	6,137,357
	11,884,286	**13,836,779**
Net insurance contract liabilities		
Life mathematical reserves	727,694,999	456,053,205
Reserve for unearned premiums	114,613,206	117,303,570
Claims provision	65,805,658	66,945,348
Net insurance liabilities	**908,113,863**	**640,302,123**

(*) As of December 31, 2018, the negative fair value difference of financial assets at insuree's risk amounting to TL 33,090,194 (December 31, 2017: negative fair value difference of financial asstes at insuree's risk amounting to TL 12,843,277), deferred taxes on the fair value difference of financial assets at insuree's risk amounting to TL 594,561 (December 31, 2017: TL 283,749) and reinsurers share of TL 1,061,641. (December 31, 2017: 2,868,990) have been included in the above mentioned mathematical reserve table.

Movements in insurance liabilities and reinsurance assets

Claims:

December 31, 2018	Gross	Ceded	Net
Total at the beginning of the year	73,082,705	(6,137,357)	66,945,348
Change during period	(990,705)	(148,985)	(1,139,690)
Total at the end of the period	**72,092,000**	**(6,286,342)**	**65,805,658**

December 31, 2018			
Reported claims	56,743,027	(5,098,563)	51,644,464
Incurred but not reported	15,348,973	(1,187,779)	14,161,194
Total at the end of the period	**72,092,000**	**(6,286,342)**	**65,805,658**

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

20. INSURANCE CONTRACT LIABILITIES (Continued)

Claims (Continued):

December 31, 2017	Gross	Ceded	Net
Total at the beginning of the year	68,886,777	(4,923,163)	63,963,614
Change during period	4,195,928	(1,214,194)	2,981,734
Total at the end of the period	**73,082,705**	**(6,137,357)**	**66,945,348**

December 31, 2017			
Reported claims	60,318,937	(5,011,996)	55,306,941
Incurred but not reported	12,763,768	(1,125,361)	11,638,407
	73,082,705	**(6,137,357)**	**66,945,348**

Claims paid and change in outstanding claims provision for the period ended December 31, 2018 and 2017 are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Cash paid for claims settled during the period	**110,952,240**	**95,257,226**
- Surrender and maturity from life savings	62,382,614	50,634,546
- Death and disability claims (*)	42,246,666	37,458,439
- Surrender from life protection	6,322,960	7,164,241
Change in outstanding claims provision	**(1,139,690)**	**2,981,735**
Claims paid and change in outstanding claims provision	**109,812,550**	**98,238,961**

(*) The amounts are presented net off reinsurance.

Reserve for unearned premiums:

December 31, 2018	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the year	122,134,002	(4,830,432)	117,303,570
Premiums written during the period	565,370,512	(18,067,922)	547,302,590
Premiums earned during the period	(568,355,005)	18,362,051	(549,992,954)
Reserve for unearned premiums at the end of the period	**119,149,509**	**(4,536,303)**	**114,613,206**

December 31, 2017	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the year	79,114,836	(4,856,089)	74,258,747
Premiums written during the period	471,451,926	(16,573,053)	454,878,873
Premiums earned during the period	(428,432,760)	16,598,710	(411,834,050)
Reserve for unearned premiums at the end of the period	**122,134,002**	**(4,830,432)**	**117,303,570**

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

20. INSURANCE CONTRACT LIABILITIES (Continued)

Life mathematical reserves

	2018 Mathematical reserve TL	2017 Mathematical reserve TL
Total at the beginning of the year, January 1	472,049,221	382,051,287
Additions	337,231,994	134,168,509
Disposals	(48,028,942)	(44,170,575)
Total at the end of the period, December 31 (*)	**761,252,273**	**472,049,221**

(*) As of December 31, 2018, the negative fair value difference of financial assets at insuree's risk amounting to TL 33,090,194 (December 31, 2017: negative fair value difference of financial asstes at insuree's risk amounting to TL 12,843,277), deferred taxes on the fair value difference of financial assets at insuree's risk amounting to TL 594,561 (December 31, 2017: TL 283,749) and reinsurers share of TL 1,061,641. (December 31, 2017: 2,868,990) have been included in the above mentioned mathematical reserve table.

Claims development tables

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

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

As at December 31, 2018; claim development table of the Company is as follows:

Accident year	**2011 and earlier**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Current estimate of claims	4,180,005	1,655,233	6,786,688	5,431,623	5,324,234	7,940,605	5,545,251	12,525,740	49,389,379
Accident year	56,321	54,783	712,930	1,377,374	837,575	1,211,085	2,317,200	-	6,567,268
1 year later	122,860	534	30,410	67,525	143,564	176,874	-	-	541,767
2 year later	-	12,362	18,376	15,074	49,626	-	-	-	95,438
3 year later	129,497	-	43	10,895	-	-	-	-	140,435
4 year later	-	-	8,740	-	-	-	-	-	8,740
5 year later	-	-	-	-	-	-	-	-	-
6 year later	-	-	-	-	-	-	-	-	-
7 year later	-	-	-	-	-	-	-	-	-
Total	4,488,683	1,722,912	7,557,187	6,902,491	6,354,999	9,328,564	7,862,451	12,525,740	56,743,027
Incurred but not reported									15,348,973
Total gross provision for outstanding claims as at December 31, 2018									**72,092,000**

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

20. INSURANCE CONTRACT LIABILITIES (Continued)

Claims development tables (Continued)

As at December 31, 2017, claim development table of the Company is as follows:

Accident year	2010 and earlier	2011	2012	2013	2014	2015	2016	2017	Total
Current estimate of claims									
Accident year	3,656,258	1,146,370	2,506,513	7,095,810	6,298,016	6,358,321	9,923,236	15,317,366	52,301,890
1 year later	188,029	22,246	304,429	1,455,667	1,651,271	1,080,494	2,262,822	-	6,964,958
2 year later	203,682	114,559	133,604	46,162	68,794	123,511	-	-	690,312
3 year later	-	10,000	51,414	21,376	118,839	-	-	-	201,629
4 year later	-	-	-	26,250	-	-	-	-	26,250
5 year later	116,885	11,505	5,508	-	-	-	-	-	133,898
6 year later	-	-	-	-	-	-	-	-	-
7 year later	-	-	-	-	-	-	-	-	-
Total	**4,164,854**	**1,304,680**	**3,001,468**	**8,645,265**	**8,136,920**	**7,562,326**	**12,186,058**	**15,317,366**	**60,318,937**
Incurred but not reported									12,763,768
Total gross provision for outstanding claims as at December 31, 2017									**73,082,705**

21. EQUITY

Share capital of the Company as at December 31, 2018 and December 31, 2017; are as follows:

	December 31, 2018		December 31, 2017	
	Shareholding %	TL	Shareholding %	TL
Hacı Ömer Sabancı Holding A.Ş.	40.00	72,000,007	40.00	47,200,005
Aviva International Holdings Ltd.	40.00	72,000,007	40.00	47,200,005
Other	0.09	166,026	0.09	108,838
Publicly Traded	19.91	35,833,960	19.91	23,491,152
Total share capital	**100.00**	**180,000,000**	**100.00**	**118,000,000**

Profit and other capital reserves:

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

	December 31, 2018	December 31, 2017
Profit reserves	44,498,235	53,117,686
Other capital reserves	837,095	837,095
Total	**45,335,330**	**53,954,781**

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.

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

21. EQUITY (Continued)

Profit reserves

As at December 31, 2018 and December 31, 2017; details of profit reserves is as follows:

	December 31, 2018	December 31, 2017
Legal reserves	36,132,751	26,807,343
Extraordinary reserves	8,353,990	26,298,849
Statutory reserves	11,494	11,494
Total	**44,498,235**	**53,117,686**

Movement of profit reserves is presented below:

	December 31, 2018	December 31, 2017
Opening balance, January 1	53,117,686	29,180,281
Transfers	(8,619,451)	23,937,405
Closing balance, December 31	**44,498,235**	**53,117,686**

Profit reserves

As of 31 December 2018, the Company's profit reserves consists of 36,132,751 TL (31 December 2017: 26,807,343 TL) legal reserves, 11,494 TL (31 December 2017: 11,494 TL) statue reserves and 8,353,990 TL (31 December 2017: 26,298,845 TL) extraordinary reserves.

Other capital reserves

As of December 31, 2018 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 paid capital of Aviva Emeklilik and TL 15,779,197 that is capital increase amount of Ak Emeklilik; participants' capitalization issue amounting to TL 324,312.

Fair value reserves from available for sale assets

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

Movement of the reserve is below:

	2018	2017
Opening balance, January 1	(3,130,948)	(3,270,313)
Unrealized gains and losses due to changes in the fair values of available for sale financial assets net of taxes	(36,010,256)	139,365
Closing balance, December 31	**(39,141,204)**	**(3,130,948)**

Dividend per share

In 2018, the Company has distributed TL 48,309,200 dividend to shareholders with respect to 2017 gross distributable profit after accounting legal reserves (TL 0.0040 per share) (2017: TL 21,664,800 and TL 0.0018).

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

22. EARNINGS PER SHARE

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

	January 1- December 31, 2018	January 1- December 31, 2017
Profit for the period	200,583,675	144,718,682
Weighted average number of shares with nominal value of TL 0.01 nominal value per share	18,000,000,000	11,800,000,000
Earnings per share	**0.0111**	**0.0123**

As of December 31, 2018 capital of the Company consists of 11,800,000,000 shares with nominal value of TL 0.01 (December, 2017: 11,800,000,000 shares with nominal value of TL 0.01).

23. WRITTEN PREMIUMS

The distribution of written premiums is as follows:

	January 1- December 31, 2018		
	Gross	**Reinsurer share**	**Net**
Non-life	75,398,382	(2,947,245)	72,451,137
Life (Life protection + savings)	489,972,141	(15,120,677)	474,851,464
Total premium income	**565,370,523**	**(18,067,922)**	**547,302,601**

	January 1- December 31, 2017		
	Gross	**Reinsurer Share**	**Net**
Non-life	68,760,304	(897,056)	67,863,248
Life (Life protection + savings)	402,691,622	(15,675,997)	387,015,625
Total premium income	**471,451,926**	**(16,573,053)**	**454,878,873**

24. INCOME GENERATED FROM PENSION BUSINESS

Inome generated from pension business for the periods ended December 31, 2018 and December 31, 2017; are as follows:

	January 1- December 31, 2018	January 1- December 31, 2017
Fund management income	230,179,244	199,896,199
Management fee	55,537,117	52,840,296
Entry and deferred entry fees income	41,100,284	33,065,254
Premium holiday charges	2,906,971	4,035,833
Total	**329,723,616**	**289,837,582**

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

25. FOREIGN EXCHANGE GAINS / (LOSSES), NET

Foreign exchange gains / (losses) for the periods ended December 31, 2018 and 2017; are as follows:

	January 1- December 31, 2018	January 1- December 31, 2017
Foreign exchange gains	103,161,516	20,325,605
Foreign exchange losses	(100,924,938)	(17,470,187)
Total	**2,236,578**	**2,855,418**

26. COMMISSION INCOME AND COMMISSION EXPENSE

Commission income for the periods ended December 31, 2018 and December 31, 2017; are as follows:

	January 1- December 31, 2018	January 1- December 31, 2017
Commission income from reinsurance companies (net)	9,744,614	7,213,098
Total	**9,744,614**	**7,213,098**

Commission expense for the periods ended December 31, 2018 and December 31, 2017; are as follows:

	January 1- December 31, 2018	January 1- December 31, 2017
Commission expenses due to personal accident insurance	(33,355,683)	(26,408,724)
-Change in commission expenses	(33,965,822)	(30,521,880)
-Change in deferred acquisition cost	610,139	4,113,156
Commission expenses due to life insurance	(90,165,757)	(71,743,064)
-Change in commission expenses	(87,331,772)	(80,039,222)
-Change in deferred acquisition cost	(2,833,985)	8,296,158
	(123,521,440)	**(98,151,788)**

27. INVESTMENT AND OTHER INCOME

Investment income for the periods ended December 31, 2018 and December 31, 2017; are as follows:

	January 1- December 31, 2018	January 1- December 31, 2017
Interest income	75,502,985	50,386,577
-Income from financial assets at fair value through profit or loss	27,629,357	21,176,724
-Income from available for sale financial assets	47,873,628	29,209,853
Net income from sale of financial assets	16,371,667	6,566,994
-Income from financial assets at fair value through profit or loss	17,847,729	7,725,254
-Income/ (loss) from available for sale financial assets	(1,476,062)	(1,158,260)
Dividend and realization income from other financial assets	10,297,079	1,310,042
Investment management expenses	(567,984)	(118,158)
Other income, net	3,212,006	5,704,726
Total investment and other income/(expense), net	**104,815,753**	**63,850,181**

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

28. PENSION EXPENSES INCLUDING COMMISSION

Pension expenses including commission for the periods ended December 31, 2018 and December 31, 2017; are as follows:

	January 1- December 31, 2018	January 1- December 31, 2017
Fund management charge	(21,547,287)	(22,840,351)
Commission expense, net of DAC	(59,192,240)	(42,515,757)
- Commission expense	(70,874,655)	(73,143,145)
- Change in deferred acquisition cost	11,682,415	30,627,388
Takasbank commission expense	(5,116,244)	(4,470,923)
Other expense	(8,520,474)	(7,997,364)
Total pension expenses	**(94,376,245)**	**(77,824,395)**

29. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the periods ended December 31, 2018 and December 31, 2017; are as follows:

	January 1- December 31, 2018	January 1- December 31, 2017
Personnel expenses	(168,374,732)	(154,237,672)
Outsourced expenses including IT services	(60,697,423)	(50,869,315)
Management expenses	(15,696,485)	(13,176,556)
Travelling and transportation expenses	(14,354,993)	(13,141,999)
Depreciation and amortization	(14,308,589)	(7,060,422)
Communication expenses	(4,872,676)	(5,284,211)
Representation and hosting expenses	(7,866,500)	(7,018,386)
Advertising and marketing expenses	(3,735,543)	(9,588,045)
Office supplies expenses	(2,778,357)	(3,640,551)
Broker expenses	(1,942,133)	(5,493,897)
Other marketing, sales and distribution expenses	(1,789,019)	(2,916,293)
Change in deferred acquisition cost	6,187,954	6,439,921
Other expenses	(15,814,759)	(6,758,691)
Total	**(306,043,255)**	**(272,746,117)**

Personnel expenses for the period ended December 31, 2018 and December 31, 2017; are as follows:

	January 1- December 31, 2018	January 1- December 31, 2017
Salaries	(95,535,868)	(88,801,816)
Commission and promotion expenses	(24,278,243)	(26,267,047)
Social security expenses	(17,323,013)	(15,484,003)
Other salary expenses	(14,855,882)	(11,174,702)
Other personnel expenses	(11,562,233)	(8,362,992)
Employee termination benefit expenses	(2,741,244)	(2,779,930)
Unused vacation expenses	(1,512,884)	(991,526)
Notice pay expense	(565,365)	(375,656)
Total	**(168,374,732)**	**(154,237,672)**

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

30. OTHER INCOME/(EXPENSE), NET

Other income and expenses for the periods endedd December 31, 2018 and 2017 are as follows:

	January 1- December 31, 2018	January 1- December 31, 2017
Other income:		
Other income	9,420	2,959
Other expense:		
Other operating expense	(9,264,795)	(217,545)
Other expense	(210,145)	(254,521)
Accrued subrogation expense	-	(24,456)
Total other income / (expense), net	**(9,465,520)**	**(493,563)**

31. BLOCKED SECURITIES AND BANK DEPOSITS

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

	December 31, 2018	December 31, 2017
Blocked securities	660,076,669	344,715,393
Blocked bank deposits	138,430,843	149,203,281
Total	**798,507,512**	**493,918,674**

32. RELATED PARTY BALANCES AND TRANSACTIONS

As at December 31, 2018 and December 31, 2017 balances with related parties are as follows:

	December 31, 2018	December 31, 2017
Akbank T.A.Ş. - Credit card receivables	240,634,056	246,881,711
Other cash and cash equivalents	**240,634,056**	**246,881,711**
Akbank T.A.Ş.- Bank deposit	44,677,472	135,961,039
Banks	**44,677,472**	**135,961,039**

As of December 31, 2018 and December 31, 2017, 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, 2018	December 31, 2017
Other receivables from related parties		
Akbank T.A,Ş.	1,547,544	1,223,011
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	8,460	6,732
Aksigorta A.Ş.	-	87,692
	1,556,004	**1,317,435**

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

32. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	December 31, 2018	December 31, 2017
Receivables from main operations		
Sabancı Üniversitesi	38,237	36,838
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	(1,735)	57,349
Other	(98,220)	105,226
	(61,718)	**199,413**

	December 31, 2018	December 31, 2017
Other payables to related parties		
Bimsa Uluslarası İş,Bilgi ve Yönetim Sistemleri A.Ş.	2,614,859	2,723,833
Vista Turizm ve Seyahat A.Ş.	200,662	196,118
Ak Portföy Yönetimi A.Ş.	135,292	118,158
EnerjiSA A.Ş.	106,243	-
Ak Sigorta A.Ş.	99,397	-
TeknoSA İç ve Dış Tic. A.Ş.	39,093	652,431
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	-	72
	3,195,546	**3,690,612**

	December 31, 2018	December 31, 2017
Advances given		
BimSA Uluslarası İş, Bilgi ve Yönetim Sistemleri A.Ş.	20,582	8,910,545
	20,582	**8,910,545**

	December 31, 2018	December 31, 2017
Subsidiary- Capital Transfer		
AvivaSA Sigorta Aracılığı A.Ş.	20,582	8,910,545
	20,582	**8,910,545**

	December 31, 2018	December 31, 2017
Payables from main operations		
Akbank T.A.Ş	17,272,337	13,773,181
Ak Portföy Yönetimi A.Ş.	2,117,546	4,049,182
Emeklilik Gözetim Merkezi A.Ş.	187,982	82,897
	19,577,865	**17,905,260**

	December 31, 2018	December 31, 2017
Expense accruals		
Akbank T.A.Ş.	-	115,960
Aviva International Holdings Ltd.	182,000	-
Ak Portföy Yönetimi A.Ş.	567,984	-
	749,984	**115,960**

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

32. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	December 31, 2018	December 31, 2017
Income accruals		
Akbank T.A.Ş.	4,250,000	-
	4,250,000	**-**

	December 31, 2018	December 31, 2017
Shareholders:		
Hacı Ömer Sabancı Holding	2,052	-
Other	163,948	126,074
Payables to shareholders	**166,000**	**126,074**
Shareholders:		
Aviva International Holdings Ltd.	11,667	-
Other	8,554	-
Receivables from shareholders	**20,221**	**-**

Transactions with related parties for the period ended December 31, 2018 and December 31, 2017 are as follows:

	1 January– 31 December 2018	1 January– 31 December 2017
Services Purchased		
Akbank T.A.Ş.	146,905,857	143,888,434
- Commission paid	145,005,857	141,848,828
- Paid administrative expenses	1,900,000	2,039,606
Bimsa Uluslararası İletişim ve Bilgi Sistemleri A.Ş.	22,827,260	18,431,529
Ak Portföy Yönetimi A.Ş.	15,844,008	22,958,509
Vista Turizm ve Seyahat A.Ş.	6,031,024	4,468,022
AkSigorta A.Ş.	4,449,697	3,521,075
Emeklilik Gözetim Merkezi A.Ş.	2,488,499	2,000,359
Anadolu Yakası Elektrik Dağıtım A.Ş.	765,875	501,697
Teknosa İç ve Dış Ticaret A.Ş.	500,064	231,219
EnerjiSA Elektrik Enerjisi Toptan Satış	266	61,373
Other	302,918	225,011
	200,115,468	**196,287,228**

	1 January– 31 December 2018	1 January– 31 December 2017
Financial expenses		
Akbank T.A.Ş. (interest expense)	-	113,273
	-	**113,273**
Financial income		
Akbank (interest income)	39,029,252	14,175,694
Akbank (rediscount on derivative securities)	3,954,602	-
	42,983,854	**14,175,694**

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

32. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	1 January– 31 December 2018	**1 January– 31 December 2017**
Services Provided		
Akbank T.A.Ş. and subsidaries	10,737,123	13,183,472
Enerjisa Elektrik Üretim A.Ş. and subsidaries	1,010,789	1,425,290
Kordsa Global Endüstriyel İplik ve Kordbezi San. ve Tic A.Ş.	563,063	500,630
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş.	511,778	488,689
Temsa Global Sanayi and Ticaret A.Ş. and subsidaries	438,270	407,113
Çimsa Çimento Sanayi ve Ticaret A.Ş. and subsidaries	297,742	280,379
Enerjisa Enerji Üretim A.Ş. and subsidaries	293,831	273,498
Akçansa Çimento Sanayi ve Ticaret A.Ş. and subsidaries	156,927	246,206
Teknosa İç ve Dış Ticaret A.Ş. and subsidaries	152,622	141,865
Sabancı Üniversitesi	151,266	141,796
Bimsa Uluslararası İş. Bilgi ve Yönetim Sistemleri A.Ş.	137,389	116,360
Yünsa Yünlü Sanayi ve Ticaret A.Ş.	129,027	101,205
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	6,592	5,566
Aksigorta A.Ş.	591	195,466
Other	455,577	246,226
	15,042,587	**17,753,761**

Benefits provided to executive management

For the period ended December 31, 2018 and 2017, 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 8,469,624 and TL 6,963,265 respectively.

33. CONTINGENCIES

Provision for lawsuits

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

As at December 31, 2018 and December 31, 2017; provisions for lawsuits against the Company are as follows:

	December 31, 2018	**December 31, 2017**
Lawsuits provision under other provision:	**10,470,942**	**9,407,700**
Insurance lawsuits against the Company	1,450,210	1,066,024
Business lawsuits against the Company	6,390,439	5,273,458
Other lawsuits against the Company	2,630,293	3,068,218
Lawsuits provision under claims provision	**31,736,212**	**27,154,116**
Total lawsuits provision	**42,207,154**	**36,561,816**

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

34. COMMITMENTS

As at December 31, 2018 and December 31, 2017, total insurance risk accepted by the Company under normal courses of the insurance business is detailed in Note 4.

As at December 31, 2018 and December 31, 2017, letters of guarantee given to suppliers and government institutions are as follows:

	December 31, 2018	December 31, 2017
Letters of guarantee	-	6,144,019
Total	**-**	**6,144,019**

Operational leases

Future minimum rentals payable under operational leases which mainly consists of building and car rentals as at December 31, 2018 and December 31, 2017 are as follows:

	December 31, 2018			
		USD	EUR	
	TL	(TL equivalent)	(TL equivalent)	Total
Within one year	8,820,997	295,926	4,668,857	13,785,780
After one year but not more than five years	39,700,308	-	4,231,228	43,931,536
More than five years	7,832,961	-	-	7,832,961
Total operational lease rental payable	56,354,266	295,926	8,900,085	65,550,277

	December 31, 2017			
		USD	EUR	
	TL	(TL equivalent)	(TL equivalent)	Total
Within one year	1,289,641	7,156,288	1,297,363	9,743,292
After one year but not more than five years	256,238	32,529,809	37,883	32,823,930
More than five years	-	12,388,428	-	12,388,428
Total operational lease rental payable	**1,545,879**	**52,074,525**	**1,335,246**	**54,955.650**

35. SUBSEQUENT EVENTS

The Company has decided to transfer its direct sales personnel to the newly founded AvivaSA Sigorta Aracılığı A.Ş., 100% subsidiary of AvivaSA Emeklilik ve Hayat A.Ş. in the 20th December 2018 board of directors meeting.

The company's financial statements as of 31 December 2018 is approved at 8 February 2019 by the Board of Directors.

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