

**AVIVASA EMEKLİLİK VE HAYAT
ANONİM ŞİRKETİ**

**FINANCIAL STATEMENTS AS OF
30 JUNE 2014 AND INDEPENDENT
AUDITOR'S REPORT**

Independent Auditor's Report

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

We have audited the accompanying financial statements of AvivaSA Emeklilik ve Hayat Anonim Şirketi ("the Company"), which comprise the statement of financial position as at 30 June 2014, and the statements of profit or loss, comprehensive income, changes in equity and cash flows for the period ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

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

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

Opinion

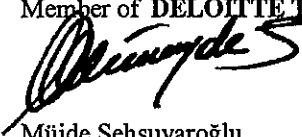
In our opinion, the financial statements give a true and fair view of the financial position of AvivaSA Emeklilik ve Hayat Anonim Şirketi as at 30 June 2014 and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Other Matter

We have not audited the accompanying statement of profit or loss, comprehensive income, changes in equity and cash flows for the period ended June 30, 2013 and the related disclosures, hence, we do not express an opinion on these financial statements.

İstanbul, September 1, 2014

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AvivaSA Emeklilik ve Hayat A.Ş.

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2014

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

| Assets | Note | June 30, 2014 | December 31, 2013 |
|--|-------------|--------------------------|------------------------------|
| Cash and cash equivalents | 5 | 354,519,969 | 314,537,220 |
| Financial assets | 6 | 327,227,170 | 345,957,494 |
| Premium and other insurance receivables | 8 | 21,293,015 | 15,049,206 |
| Reinsurance share of insurance liabilities | 7 | 7,022,738 | 6,072,929 |
| Deferred expenses | 19 | 177,204,075 | 149,079,359 |
| Other financial assets | 13 | 838,932 | 838,932 |
| Pension business receivables | 9 | 11,212,222 | 8,466,912 |
| Current tax assets | 17 | - | 16,212 |
| Other assets | 10 | 12,230,861 | 6,133,995 |
| Property and equipment, net | 11 | 6,097,005 | 6,016,157 |
| Intangible assets, net | 12 | 16,878,741 | 10,517,606 |
| Total assets | | 934,524,728 | 862,686,022 |
| <hr/> | | | |
| Liabilities | Note | June 30, 2014 | December 31, 2013 |
| Financial liabilities | 14 | 16,202,545 | - |
| Due to insurance and reinsurance companies | 15 | 8,225,405 | 5,918,543 |
| Pension business payables | 9 | 120,066,050 | 103,631,681 |
| Insurance contract liabilities | 21 | 419,958,641 | 410,395,284 |
| Provision for employment termination benefits | 18 | 2,720,024 | 2,571,128 |
| Deferred tax liabilities | 17 | 26,147,502 | 20,379,793 |
| Current tax liabilities | 17 | 5,305,555 | - |
| Other payables and liabilities | 20 | 19,288,660 | 23,565,570 |
| Other provisions | 16 | 20,509,039 | 24,482,093 |
| Total liabilities | | 638,423,421 | 590,944,092 |
| <hr/> | | | |
| Share capital | 22 | 51,971,980 | 51,971,980 |
| Items that may be reclassified to profit or loss | | | |
| Fair value reserves from available for sale assets | 22 | (2,321,113) | (5,913,273) |
| Other capital reserves | 22 | 66,865,115 | 66,865,115 |
| Profit reserves | 22 | 18,449,522 | 14,308,418 |
| Retained earnings | | 114,249,774 | 72,908,615 |
| Profit for the period/year | | 46,886,029 | 71,601,075 |
| Total shareholders' equity | | 296,101,307 | 271,741,930 |
| <hr/> | | | |
| Total equity and liabilities | | 934,524,728 | 862,686,022 |

The accompanying notes form an integral part of these financial statements

AvivaSA Emeklilik ve Hayat A.Ş.

STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED JUNE 30, 2014

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

| Statement of Income | Note | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|--|-------------|--------------------------------------|--------------------------------------|
| Income: | | | |
| Gross written premiums | 24 | 132,130,039 | 127,500,862 |
| Premium ceded to reinsurers | 24 | (5,379,909) | (5,893,592) |
| Premium written net of reinsurance | 24 | 126,750,130 | 121,607,270 |
| Net change in provision for unearned premiums reserves | 21 | (9,237,536) | (7,299,161) |
| Net premiums earned | | 117,512,594 | 114,308,109 |
| Net change in mathematical reserves | 21 | 31,985,606 | 52,959,898 |
| Income generated from pension business | 25 | 76,995,300 | 59,908,670 |
| Investment and other income/(expense), net | 28 | 23,138,014 | 17,121,545 |
| Commission income | 27 | 1,391,186 | 1,661,227 |
| Foreign exchange gain, net | 26 | 720,277 | 3,181,483 |
| Total income | | 251,742,977 | 249,140,932 |
| Expenses: | | | |
| Claims paid and change in outstanding claims provision | 21 | (66,664,551) | (95,958,697) |
| General and administrative expenses | 30 | (79,991,107) | (66,583,829) |
| Pension expenses including commission | 29 | (21,158,003) | (15,908,496) |
| Commission expense | 27 | (22,888,564) | (22,639,913) |
| Other income/ (expense), net | 31 | (505,065) | (431,788) |
| Total expenses | | (191,207,290) | (201,522,723) |
| Profit before taxes | | 60,535,687 | 47,618,209 |
| Income tax expense | 17 | (13,649,658) | (7,029,887) |
| Profit for the period | | 46,886,029 | 40,588,322 |
| Earnings per share (TL 0.01 nominal value per share) | 23 | 0.0131 | 0.0113 |

The accompanying notes form an integral part of these financial statements

AvivaSA Emeklilik ve Hayat A.Ş.

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED JUNE 30, 2014

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

| | Note | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|---|------|------------------------------|------------------------------|
| Profit for the period | | 46,886,029 | 40,588,322 |
| Other comprehensive income: | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Net gain/(loss) on available-for-sale assets | | 4,526,664 | (5,627,300) |
| Income tax relating to components of other comprehensive income | | (934,504) | 1,125,460 |
| Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods | 22 | 3,592,160 | (4,501,840) |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Actuarial loss on employee termination benefits | | - | - |
| Deferred tax income relating to actuarial loss | | - | - |
| Net other comprehensive loss not being reclassified to profit or loss in subsequent periods | | - | - |
| Other comprehensive (loss)/income, net of tax | 22 | 3,592,160 | (4,501,840) |
| Total comprehensive income, net of tax | | 50,478,189 | 36,086,482 |

The accompanying notes form an integral part of these financial statements

AvivaSA Emeklilik ve Hayat A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED JUNE 30, 2014

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

| | Note | Share capital | Items that may be reclassified to profit or loss/ Fair value reserves for | | | | Profit reserves | Profit for the period | Total |
|------------------------------------|------|---------------|---|---------------------------------------|-------------------|-----------------|-----------------|-----------------------|-------|
| | | | Other capital reserves | available for – sale financial assets | Retained earnings | Profit reserves | | | |
| Balance at January 1, 2013 | | 51,971,980 | 66,865,115 | 1,912,678 | 9,168,359 | 62,803,123 | 49,362,874 | 242,084,129 | |
| Profit for the period | | - | - | - | - | - | 40,588,322 | 40,588,322 | |
| Other comprehensive income/ (loss) | 22 | - | - | (4,501,840) | - | - | - | (4,501,840) | |
| Total comprehensive income | | - | - | (4,501,840) | - | - | 40,588,322 | 36,086,482 | |
| Transfer | 22 | - | - | - | 5,140,059 | 44,222,815 | (49,362,874) | - | |
| Dividend payment | 22 | - | - | - | - | (33,632,445) | - | (33,632,445) | |
| Balance at June 30, 2013 | | 51,971,980 | 66,865,115 | (2,589,162) | 14,308,418 | 73,393,493 | 40,588,322 | 244,538,166 | |

| | Note | Share capital | Items that may be reclassified to profit or loss/ Fair value reserves for | | | | Profit reserves | Profit for the period | Total |
|------------------------------------|------|---------------|---|---------------------------------------|-------------------|-----------------|-----------------|-----------------------|-------|
| | | | Other capital reserves | available for – sale financial assets | Retained earnings | Profit reserves | | | |
| Balance at January 1, 2014 | | 51,971,980 | 66,865,115 | (5,913,273) | 14,308,418 | 72,908,615 | 71,601,075 | 271,741,930 | |
| Profit for the period | | - | - | - | - | - | 46,886,029 | 46,886,029 | |
| Other comprehensive income/ (loss) | 22 | - | - | 3,592,160 | - | - | - | 3,592,160 | |
| Total comprehensive income | | - | - | 3,592,160 | - | - | 46,886,029 | 50,478,189 | |
| Transfer | 22 | - | - | - | 4,141,104 | 67,459,971 | (71,601,075) | - | |
| Dividend payment | 22 | - | - | - | - | (26,118,812) | - | (26,118,812) | |
| Balance at June 30, 2014 | | 51,971,980 | 66,865,115 | (2,321,113) | 18,449,522 | 114,249,774 | 46,886,029 | 296,101,307 | |

The accompanying notes form an integral part of these financial statements

AvivaSA Emeklilik ve Hayat A.Ş.

STATEMENT OF CASH FLOWS FOR THE FOR THE PERIOD ENDED JUNE 30, 2014

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

| | Note | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|---|------|------------------------------|------------------------------|
| Cash flows from operating activities: | | | |
| Profit for the period | | 46,886,029 | 40,588,322 |
| Income taxes | 17 | 13,649,658 | 7,029,887 |
| Depreciation and amortization | 30 | 2,231,442 | 1,853,642 |
| (Gains) / losses from sale of property and equipment | | (8,673) | - |
| Interest income | | (20,564,224) | (16,536,181) |
| Unrealized exchange rates (gains) / losses from cash and cash equivalents | | 98,139 | (556,873) |
| Fair value changes in financial assets | | (23,595,297) | 68,152,871 |
| Increase in claims provision | 21 | 66,732,660 | 96,501,325 |
| Change in life mathematical reserves | 21 | (2,177,642) | (44,788,017) |
| Change in provision for unearned premiums reserves | 21 | 10,119,235 | 8,353,119 |
| Change in provision for employment termination benefits | 18 | 814,075 | 1,189,585 |
| Change in other provisions | | (206,644) | (10,123,222) |
| Operating profit before changes in operating assets / liabilities | | 93,978,758 | 151,664,457 |
| Changes in operating assets and liabilities: | | | |
| Change in premium and other insurance receivables | 8 | (6,243,810) | (3,535,104) |
| Change in other assets | 10 | (6,096,866) | (2,673,176) |
| Change in deferred expenses | 19 | (28,124,716) | (24,462,774) |
| Change in pension business receivables | 9 | (2,745,310) | 711,268 |
| Change in pension business payables | 9 | 16,434,369 | (20,222,189) |
| Taxes paid | 17 | 702,482 | (6,778,702) |
| Cash paid for claims settled during the period, net | 21 | (65,110,897) | (90,638,240) |
| Employment termination benefits paid | 18 | (665,179) | (998,209) |
| Net cash provided from operating activities | | 2,128,831 | 3,067,331 |
| Cash flows from investing activities: | | | |
| Acquisition of property and equipment | 11 | (1,206,706) | (908,016) |
| Acquisition of intangible assets | 12 | (7,466,720) | (1,464,948) |
| Purchases of financial assets | 6 | (201,805,783) | (1,946,669,966) |
| Proceeds from sale of financial assets | | 237,783,308 | 1,988,995,588 |
| Change in time deposits with maturities more than 3 months | 5 | (31,014,718) | 24,373,499 |
| Interest received | | 19,999,805 | 16,191,143 |
| Net cash provided by investing activities | | 16,289,186 | 80,517,300 |
| Cash flow from financing activities: | | | |
| Dividend payment | 22 | (26,118,812) | (33,632,445) |
| Change in financial liabilities | 14 | 16,202,545 | 1,189,477 |
| Net cash used in financing activities | | (9,916,267) | (32,442,968) |
| Effect of exchange rates on cash and cash equivalents | | (98,139) | 556,873 |
| Net increase in cash and cash equivalents | | 8,403,611 | 51,698,536 |
| Cash and cash equivalents at the beginning of the period | | 312,313,251 | 274,214,620 |
| Cash and cash equivalents at the end of the period | 5 | 320,716,862 | 325,913,156 |

The accompanying notes form an integral part of these financial statements

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

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 Undersecretariat of Treasury (the "Undersecretariat of Treasury") dated December 3, 2002 numbered 77941.

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

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

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

Aksigorta Anonim Şirketi transferred its shares of AvivaSA Emeklilik ve Hayat A.Ş. to Hacı Ömer Sabancı Holding A.Ş. within the scope of clause "b" of Paragraph 3 of Article 3 of Corporate Tax Law numbered 5520 and under the provisions of "Partial Division of Corporations and Limited Liability Companies Procedures and Operations Joint Communiqué on Principles of Editing" published in the Official Gazette No. 25230 dated 16.09.2003. The transfer was registered and announced on January 12, 2010 and published in the Trade Registry Gazette No. 7481 dated January 18, 2010.

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

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

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

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

1. Corporate information (continued)

On August 26, 2003, Aviva Emeklilik acquired a pension operating license from the Undersecretariat of Treasury to operate also in the pension branch. The individual pension investment funds were registered by the Capital Market Board (CMB) on October 27, 2003, the individual retirement plans were approved on December 12, 2003 and the sale of pension products started as of December 15, 2003. In accordance with the decree of the Board of Directors dated October 8, 2007 and numbered 15, it was decided that the pension investment funds of Aviva Emeklilik shall be transferred to Ak Emeklilik as of October 31, 2007. The pension funds of the Company have been managed by Ak Portföy as of November 1, 2007. AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Performans Esnek Emeklilik Yatırım Fonu, established as of December 20, 2011, started to be managed by Ata Portföy.

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

As of June 30, 2014, there are 24 pension investment funds established by the Company (December 31, 2013: 24 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. Para Piyasası Birinci Likit Esnek Emeklilik Yatırım Fonu (*) | 20.08.2003 |
| AvivaSA Emeklilik ve Hayat A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu | 20.08.2003 |
| AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu | 20.08.2003 |
| AvivaSA Emeklilik ve Hayat A.Ş. Birinci Esnek Emeklilik Yatırım Fonu (*) | 20.08.2003 |
| AvivaSA Emeklilik ve Hayat A.Ş. Hisse Senedi Emeklilik Yatırım Fonu | 20.08.2003 |
| AvivaSA Emeklilik ve Hayat A.Ş. Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu | 21.10.2003 |
| AvivaSA Emeklilik ve Hayat A.Ş. Dengeli Emeklilik Yatırım Fonu | 21.10.2003 |
| AvivaSA Emeklilik ve Hayat A.Ş. Esnek Emeklilik Yatırım Fonu | 21.10.2003 |
| AvivaSA Emeklilik ve Hayat A.Ş. Kamu Borçlanma Araçları Emeklilik Yatırım Fonu | 21.10.2003 |
| AvivaSA Emeklilik ve Hayat A.Ş. Para Piyasası İkinci Likit Esnek Emeklilik Yatırım Fonu (*) | 21.10.2003 |
| AvivaSA Emeklilik ve Hayat A.Ş. İkinci Esnek Emeklilik Yatırım Fonu (*) | 21.10.2003 |
| AvivaSA Emeklilik ve Hayat A.Ş. Kamu Borçlanma Araçları Emeklilik Yatırım Fonu - Grup | 05.01.2005 |
| AvivaSA Emeklilik ve Hayat A.Ş. Gelir Amaçlı Esnek Emeklilik Yatırım Fonu | 05.01.2005 |
| AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Hisse Senedi Grup Emeklilik Yatırım Fonu | 05.01.2005 |
| AvivaSA Emeklilik ve Hayat A.Ş. Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu | 08.11.2005 |
| AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Hisse Senedi Emeklilik Yatırım Fonu | 28.12.2006 |
| AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Esnek Grup Emeklilik Yatırım Fonu | 17.08.2010 |
| AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Performans Esnek Emeklilik Yatırım Fonu | 20.12.2011 |
| AvivaSA Emeklilik ve Hayat A.Ş. Gelir Amaçlı Alternatif Esnek Emeklilik Yatırım Fonu | 20.12.2011 |
| AvivaSA Emeklilik ve Hayat A.Ş. Standart Emeklilik Yatırım Fonu | 02.05.2013 |
| AvivaSA Emeklilik ve Hayat A.Ş. Katkı Emeklilik Yatırım Fonu | 02.05.2013 |
| AvivaSA Emeklilik ve Hayat A.Ş. BRIC Ülkeleri Esnek Emeklilik Yatırım Fonu | 10.05.2013 |
| AvivaSA Emeklilik ve Hayat A.Ş. Altın Emeklilik Yatırım Fonu | 20.06.2013 |
| AvivaSA Emeklilik ve Hayat A.Ş. Özel Sektör Borçlanma Araçları Emeklilik Yatırım Fonu | 25.10.2013 |

(*) Pension Funds' standing orders, registration statement and description form text is changed due to permission with date of 04.03.2013 and number of 12233903-174 and these are registered on Trade Register on 02.06.2014.

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

1. Corporate information (continued)

As at June 30, 2014 and December 31, 2013 units and amounts of share certificates in circulation and share certificates not in circulation are as follows:

| Share certificates in circulation (*) | 30 June 2014 | | 31 December 2013 | |
|---|------------------------------|----------------------|------------------------------|----------------------|
| | Number of Share Certificates | Net Asset Value | Number of Share Certificates | Net Asset Value |
| AvivaSA Emeklilik ve Hayat A.Ş. | | | | |
| Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu | 5,679,602,888 | 164,594,892 | 4,166,571,893 | 112,701,603 |
| AvivaSA Emeklilik ve Hayat A.Ş. Dengeli Emeklilik Yatırım Fonu | 2,395,349,320 | 88,769,250 | 2,576,645,315 | 88,198,569 |
| AvivaSA Emeklilik ve Hayat A.Ş. Esnek Emeklilik Yatırım Fonu | 4,380,692,260 | 174,237,654 | 4,707,359,544 | 173,381,467 |
| AvivaSA Emeklilik ve Hayat A.Ş. | | | | |
| Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu | 3,359,821,260 | 87,876,125 | 2,693,566,546 | 65,477,909 |
| AvivaSA Emeklilik ve Hayat A.Ş. | | | | |
| Kamu Borçlanma Araçları Emeklilik Yatırım Fonu | 8,100,268,375 | 330,442,348 | 8,822,267,347 | 332,952,370 |
| AvivaSA Emeklilik ve Hayat A.Ş. Para Piyasası İkinci Likit Esnek Emeklilik Yatırım Fonu | 2,127,712,827 | 63,859,045 | 1,378,511,434 | 39,541,222 |
| AvivaSA Emeklilik ve Hayat A.Ş. İkinci Esnek Emeklilik Yatırım Fonu | 1,685,635,508 | 28,977,760 | 1,325,639,857 | 22,409,942 |
| AvivaSA Emeklilik ve Hayat A.Ş. | | | | |
| Büyüme Amaçlı Hisse Senedi Emeklilik Yatırım Fonu | 3,730,867,706 | 82,832,725 | 3,578,204,859 | 69,724,900 |
| AvivaSA Emeklilik ve Hayat A.Ş. | | | | |
| Para Piyasası Birinci Likit Esnek Emeklilik Yatırım Fonu | 14,300,266,752 | 456,393,013 | 11,392,862,165 | 347,550,653 |
| AvivaSA Emeklilik ve Hayat A.Ş. | | | | |
| Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu | 46,428,614,789 | 1,925,116,084 | 44,453,493,463 | 1,707,903,219 |
| AvivaSA Emeklilik ve Hayat A.Ş. | | | | |
| Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu | 29,396,557,917 | 1,178,890,162 | 27,342,332,449 | 1,012,978,733 |
| AvivaSA Emeklilik ve Hayat A.Ş. Birinci Esnek Emeklilik Yatırım Fonu | 2,978,986,134 | 55,114,222 | 1,996,844,859 | 35,727,548 |
| AvivaSA Emeklilik ve Hayat A.Ş. Hisse Senedi Emeklilik Yatırım Fonu | 8,851,849,012 | 388,702,394 | 7,655,532,979 | 294,929,408 |
| AvivaSA Emeklilik ve Hayat A.Ş. | | | | |
| Kamu Borçlanma Araçları Emeklilik Yatırım Fonu-Grup | 10,305,131,347 | 334,483,953 | 10,518,768,569 | 314,553,255 |
| AvivaSA Emeklilik ve Hayat A.Ş. | | | | |
| Gelir Amaçlı Esnek Emeklilik Yatırım Fonu | 3,921,908,582 | 122,473,361 | 3,661,364,818 | 109,324,692 |
| AvivaSA Emeklilik ve Hayat A.Ş. | | | | |
| Büyüme Amaçlı Hisse Senedi Grup Emeklilik Yatırım Fonu | 1,659,612,621 | 57,834,181 | 1,615,560,816 | 48,596,070 |
| AvivaSA Emeklilik ve Hayat A.Ş. | | | | |
| Büyüme Amaçlı Esnek Grup Emeklilik Yatırım Fonu | 1,810,628,027 | 24,566,601 | 2,097,318,545 | 26,214,384 |
| AvivaSA Emeklilik ve Hayat A.Ş. Büyüme Amaçlı Performans Esnek Emeklilik Yatırım Fonu | 134,022,191 | 1,646,329 | 124,032,871 | 1,365,726 |
| AvivaSA Emeklilik ve Hayat A.Ş. Standart Emeklilik Yatırım Fonu | 1,765,226,761 | 18,173,010 | 677,211,876 | 6,354,956 |
| AvivaSA Emeklilik ve Hayat A.Ş. Katkı Emeklilik Yatırım Fonu | 35,527,996,653 | 370,841,229 | 21,034,337,322 | 199,657,930 |
| AvivaSA Emeklilik ve Hayat A.Ş. Altın Emeklilik Yatırım Fonu | 4,355,047,959 | 45,244,593 | 999,059,073 | 9,674,888 |
| | 192,895,798,889 | 6,001,068,931 | 162,817,486,600 | 5,019,219,444 |

| Share certificates not in circulation (**) | 30 June 2014 | | 31 December 2013 | |
|---|------------------------------|------------------|------------------------------|------------------|
| | Number of Share Certificates | Net Asset Value | Number of Share Certificates | Net Asset Value |
| AvivaSA Emeklilik ve Hayat A.Ş. Gelir Amaçlı Alternatif Esnek Emeklilik Yatırım Fonu | 10,000,000 | 113,413 | 10,000,000 | 109,670 |
| AvivaSA Emeklilik ve Hayat A.Ş. Özel Sektör Borçlanma Araçları Emeklilik Yatırım Fonu | 10,000,000 | 105,350 | 10,000,000 | 101,026 |
| AvivaSA Emeklilik ve Hayat A.Ş. BRIC Ülkeleri Esnek Emeklilik Yatırım Fonu | 100,000,000 | 1,156,204 | 100,000,000 | 1,116,130 |
| | 120,000,000 | 1,374,967 | 120,000,000 | 1,326,826 |

(*) Share certificates sold to participants

(**) Share certificates not yet sold to participants

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

1. Corporate information (continued)

There are no entities controlled or jointly controlled by the Company (December 31, 2013: None). The Company's management analysed their relationship with the pension investment funds under IFRS 10, 11, and 12, and concluded the Company has no control over the pension investment funds.

The total personnel number of the Company is 1,560 employees as of June 30, 2014 (December 31, 2013: 1,504).

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

The accompanying financial statements of AvivaSA Hayat ve Emeklilik Anonim Şirketi for the period ended June 30, 2014 were authorised for issue in accordance with a resolution of the directors on September 1, 2014.

2. Accounting policies

2.1 Basis of preparation

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

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

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

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

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies

a) Gross written premiums

For short-term insurance policies, premiums are recognized on an accrual basis net of cancellations (representing the accrued premium for the months which have not yet been paid when a policy is cancelled). The portion of premium accrued on in-force contracts that relates to unexpired risks at the reporting date is recognized as the reserve for unearned premiums, calculated on a daily pro-rata basis. Premiums are presented before deduction of commissions given or received and deferred acquisitions costs, and are gross of any taxes and duties levied.

For long-term insurance policies, premiums are recognized as revenue when the premiums are receivable.

For unit-linked life savings policies, premiums are recognized on a collection basis.

b) Premiums ceded to reinsurers

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

c) Net change in provision for unearned premium reserves

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

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

d) Net change in mathematical reserves

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

e) Income generated from pension business

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

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

e) Income generated from pension business (continued)

Fund management fees, which are calculated with reference to assets under management, are attributable to the hardware, software, personnel and accounting services provided to pension funds. Management fees from contributions are attributable to the operational costs of the services rendered to customers by the Company and can be deducted from the participants' contributions. Premium holiday charges may be received when the participant does not pay his or her regular premium within three months of being due. Entry fees are fees received from the participant when he or she first enters the pension system and from any participants who have already entered into the system but create a new account in another pension company. Deferred entry fees may be charged to the participant and recorded as income in the event that he or she exits, merges or transfers accounts within the context of conditions defined in the contract as of the effective date of contract.

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.

f) Investment and other income (expense), net

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

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

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

Interest income presented in the statement of comprehensive income includes:

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

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

g) Commission income and commission expenses

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

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

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

h) Claims paid and change in outstanding claims provisions

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

i) Pension expenses including commission

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

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

j) Cash and cash equivalents

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

k) Property and equipment

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

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

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

k) Property and equipment (continued)

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

l) Leases as lessee

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

The payment of the operational lease is charged to profit or loss on a straight-line basis over the lease period. The incentives received or to be received from the lessor and payments made to intermediaries to acquire the lease contract are also charged to profit or loss on a straight-line basis over the lease period. As at June 30, 2014 and December 31, 2013 details of the outstanding operational lease liability has been disclosed in Note 35.

m) Intangible assets

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

Construction in progress refers to the Company's software development project started in 2012 to unify the basic insurance applications used within the structure of the Company and to use such applications by integration to all the surrounding systems. Personnel expenses and cost of the outsourced services associated directly with the development of the application are capitalised as incurred.

n) Financial instruments

Recognition

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

Classification

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

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

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

n) Financial instruments (continued)

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.

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.

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

n) Financial instruments (continued)

Derecognition

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

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

Offsetting

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

o) Impairment of financial assets

Premium and other insurance receivables

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

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

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.

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

o) Impairment of financial assets (continued)

Premium and other insurance receivables (continued)

If, 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.

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

o) Impairment of financial assets (continued)

Insurance contract

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

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

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

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

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

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

p) Liability adequacy test

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

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

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

q) Deferred expenses

Deferred acquisition costs (DAC)

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

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

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

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

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

r) Provision for unearned premiums

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

Unearned premium reserve is calculated on a daily basis for all policies in force as of statement of financial position date for unearned portions of premiums written, except for marine premiums issued before 14 June 2007. During the calculation of unearned portion of premiums written on a daily basis, it is supposed that the policies start at 12:00 noon and end at 12:00 noon again. Unearned premium reserve and the reinsurers' share of the unearned premium reserve for policies, are calculated and recorded as the deferred portion of the accrued premiums related to the policies in force and ceded premiums to reinsurers without deducting commissions or any other deduction, on a daily and gross basis.

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

s) Provision for outstanding claims / IBNR

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

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

t) Mathematical reserves

Insurance companies operating in life branche 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.

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

u) Reinsurance contracts held

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

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

v) Pension business

The Company provides group and individual plans to customers.

The Company offers 24 pension investment funds (2013: 24). 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/Expense from/on Pension Operations

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

w) Employee benefits

Provision for Termination Benefit Obligations

Provision for Termination Benefit Obligations represents the present value of the estimated future probable obligation of the Company arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. As the maximum liability is revised semi-annually, the maximum amount of TL 3,438 effective from June 30, 2014 (December 31, 2013: TL 3,254) has been taken into consideration during calculation of provision from employment termination benefits.

IAS 19 – *Employee benefits* requires actuarial valuation methods to be developed to estimate the Company's obligation for termination benefits. The principal statistical assumptions used in the calculation of the total liability in the accompanying financial statements at June 30, 2014 and December 31, 2013 is as follows:

| | June 30, 2014 | December 31, 2013 |
|--|---------------|-------------------|
| | % | % |
| Discount rate | 8.00 | 8.00 |
| Expected rate of salary/limit increase | 4.50 | 4.50 |

Other benefits to employees

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

x) Provisions

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

y) Taxes on income

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

Current tax

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

Deferred tax

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

z) Related parties

Parties are considered related to the Company if;

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

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

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

aa) Foreign currency transactions

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

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

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

| | June 30, 2014 | | December 31, 2013 | |
|-----------|----------------|-----------|-------------------|-----------|
| | US Dollar / TL | Euro / TL | US Dollar / TL | Euro / TL |
| Bid Rates | 2.1234 | 2.8919 | 2.1343 | 2.9365 |
| Ask Rates | 2.1304 | 2.9014 | 2.1413 | 2.9462 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

bb) Segment reporting

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

2.3 Changes in accounting policy and disclosures

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

a) New and Revised IFRSs applied with no material effect on financial statements

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

| | |
|-----------------------------------|---|
| Amendments to IFRS 10, 11, IAS 27 | <i>Investment Entities¹</i> |
| Amendments to IAS 32 | <i>Offsetting Financial Assets and Financial Liabilities¹</i> |
| Amendments to IAS 36 | <i>Recoverable Amount Disclosures for Non-Financial Assets¹</i> |
| Amendments to IAS 39 | <i>Novation of Derivatives and Continuation of Hedge Accounting¹</i> |
| IFRIC 21 | <i>Levies¹</i> |

¹ Effective for annual periods beginning on or after 1 January 2014.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

a) New and Revised IFRSs applied with no material effect on financial statements (continued)

Amendments to IFRS 10, 11, IAS 27 *Investment Entities*

This amendment with the additional provisions of IFRS 10 provide 'investment entities' (as defined) an exemption from the particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss.

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*

As a consequence of IFRS 13 *Fair Value Measurements*, there are amendments in the explanations about the measurement of the recoverable amount of an impaired asset. This amendment is limited to non-financial assets and paragraphs 130 and 134 of IAS 36 has been changed.

Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*

This amendment to IAS 39 makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

IFRIC 21 *Levies*

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

b) New and Revised IFRSs in Issue But Not Yet Effective

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

| | |
|--|---|
| IFRS 9 | <i>Financial Instruments</i> |
| Amendments to IFRS 9 and IFRS 7 | <i>Mandatory Effective Date of IFRS 9 and Transition Disclosures</i> |
| Amendments to IAS 19 | <i>Defined Benefit Plans: Employee Contributions¹</i> |
| Annual Improvements to 2010-2012 Cycle | <i>IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 38, IAS 24¹</i> |
| Annual Improvements to 2011-2013 Cycle | <i>IFRS 1, IFRS 3, IFRS 13, IAS 40¹</i> |
| IFRS 14 | <i>Regulatory Deferral Accounts²</i> |
| Amendments to IFRS 11 | <i>Accounting for Acquisition of Interests in Joint operations²</i> |
| Amendments to IAS 16 and IAS 38 | <i>Clarification of Acceptable Methods of Depreciation and Amortisation²</i> |
| Amendments to IAS 16 and IAS 41 | <i>Agriculture: Bearer Plants²</i> |
| IFRS 15 | <i>Revenue from Contracts with Customers³</i> |

¹ Effective for annual periods beginning on or after 1 July 2014.

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017.

IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Amendments to IFRS 9 and IFRS 7 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*

The IASB decided to require an entity to apply IFRS 9 for annual periods beginning on or after 1 January 2018.

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*

This amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered.

Annual Improvements to 2010-2012 Cycle

IFRS 2: Amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'

IFRS 3: Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

b) New and Revised IFRSs in Issue But Not Yet Effective (continued)

IFRS 8: Requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.

IFRS 13: Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only).

IAS 16 and IAS 38: Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.

IAS 24: Clarify how payments to entities providing management services are to be disclosed.

Annual Improvements to 2011-2013 Cycle

IFRS 1: Clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).

IFRS 3: Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

IFRS 13: Clarify the scope of the portfolio exception in paragraph 52.

IAS 40: Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.3 Changes in accounting policy and disclosures (continued)

b) New and Revised IFRSs in Issue But Not Yet Effective (continued)

IFRS 14 Regulatory Deferral Accounts

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

IFRS 14 was issued by the IASB on 30 January 2014 and is applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

Amendments to IFRS 11 Accounting for Acquisition of Interests in Joint operations

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

2.4 Critical accounting estimates and judgments in applying accounting policies

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

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

Deferred acquisition costs (DAC)

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

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

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

2. Accounting policies (continued)

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

Employee termination benefits

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

Doubtful receivables provisions

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

Deferred taxes

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

Provision for litigations

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

3. Segment information

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

Life Protection

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

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

Life Savings

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

Personal Accident

Personal accident policies provide coverage against disability, death and medical expenses due to accident. The insurance covers the insured'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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

3. Segment information (continued)

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

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

Other: Adjustments included in other represent individually insignificant reclassifications.

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

3. Segment information (continued)

| | Life Insurance | | | | Reconciliation to statement of profit and loss | | | Statement of Profit or Loss | | |
|--|---------------------------|--------------|-----------------|--------------|--|--------------|----------------------|-----------------------------|--------------|-------------------------------------|
| | January 1 - June 30, 2014 | Pension | Life protection | Life savings | Personal accident | Total | Commissions expenses | | Other | Net change in mathematical reserves |
| Gross written premiums | - | 102,629,165 | 8,597,154 | 20,903,720 | - | 132,130,039 | - | - | - | 132,130,039 |
| Premium ceded to reinsurers | - | (4,972,320) | (337,627) | (69,962) | - | (5,379,909) | - | - | - | (5,379,909) |
| Premium written net of reinsurance | - | 97,656,845 | 8,259,527 | 20,833,758 | - | 126,750,130 | - | - | - | 126,750,130 |
| Net change in mathematical reserves | - | (10,698,574) | 42,688,786 | - | - | 31,990,212 | - | (4,606) | (31,985,606) | - |
| Net change in provision for unearned premiums reserves | - | (4,647,322) | 20,859 | (4,611,073) | - | (9,237,536) | - | - | (31,985,606) | (9,237,536) |
| Net premiums earned | - | 82,310,949 | 50,969,172 | 16,222,685 | - | 149,502,806 | - | (4,606) | - | 117,512,594 |
| Net change in mathematical reserves | - | (14,840,876) | (49,447,463) | (2,376,212) | - | (66,664,551) | - | - | 31,985,606 | 31,985,606 |
| Claim paid and change in outstanding claims | - | 1,357,334 | 22,275 | 11,577 | - | 1,391,186 | - | - | - | (66,664,551) |
| Commission income | - | (15,751,935) | (16,069) | (7,408,262) | - | (23,176,266) | 287,702 | - | - | 1,391,186 |
| Commission expense | - | (481,954) | - | (271,171) | - | (509,671) | - | 4,606 | - | (22,888,564) |
| Other income / (expense), net | - | 52,593,518 | 1,527,915 | 6,422,071 | - | 60,543,504 | - | - | - | (905,065) |
| Life and personal accident (technical profit) | - | 45,280,155 | - | - | - | 45,280,155 | - | - | - | 45,280,155 |
| Fund management charge | - | 10,682,290 | - | - | - | 10,682,290 | - | - | - | 10,682,290 |
| Management fee | - | 7,946,584 | - | - | - | 7,946,584 | - | - | - | 7,946,584 |
| Entry fee | - | 9,232,510 | - | - | - | 9,232,510 | - | - | - | 9,232,510 |
| Deferred fee | - | 3,853,761 | - | - | - | 3,853,761 | - | - | - | 3,853,761 |
| Premium holiday charge | - | 76,995,300 | - | - | - | 76,995,300 | - | - | - | 76,995,300 |
| Pension income | - | (5,163,573) | - | - | - | (5,163,573) | - | - | - | (5,163,573) |
| Fund management charge paid to Akportfoy | - | (14,073,818) | - | - | - | (14,073,818) | 1,778,363 | - | - | (12,295,455) |
| Commission expense, net of DAC | - | (33,724,242) | - | - | - | (33,724,242) | 1,778,363 | - | - | (31,945,879) |
| Commission expense | - | 19,650,424 | - | - | - | 19,650,424 | - | - | - | 19,650,424 |
| DAC | - | (3,685,175) | - | - | - | (3,685,175) | - | (13,800) | - | (3,698,975) |
| Other income / (expense), net | - | (22,922,566) | - | - | - | (22,922,566) | 1,778,363 | (13,800) | - | (21,158,003) |
| Pension expenses including commission | - | 54,072,734 | - | - | - | 54,072,734 | - | - | - | 54,072,734 |
| Pension technical profit | - | 54,072,734 | 52,593,518 | 1,527,915 | 6,422,071 | 114,616,238 | - | - | - | 114,616,238 |
| Total technical profit | - | 54,072,734 | 52,593,518 | 1,527,915 | 6,422,071 | 114,616,238 | - | - | - | 114,616,238 |
| General and administrative expenses | - | - | - | - | - | (76,899,591) | - | - | - | (76,899,591) |
| Net technical profit after overhead expenses | - | - | - | - | - | 37,716,647 | - | - | - | 37,716,647 |
| Foreign exchange gain / (loss), net | - | - | - | - | - | 720,277 | - | - | - | 720,277 |
| Investment and other income / (expense), net | - | - | - | - | - | 22,098,763 | - | - | - | 22,098,763 |
| Net financial income | - | - | - | - | - | 22,819,040 | - | - | - | 22,819,040 |
| Profit before taxes | - | - | - | - | - | 60,535,687 | - | - | - | 60,535,687 |
| Income tax expense | - | - | - | - | - | (13,649,658) | - | - | - | (13,649,658) |
| Profit for the period | - | - | - | - | - | 46,886,029 | - | - | - | 46,886,029 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

3. Segment information (continued)

| January 1 - June 30, 2013 | Life Insurance | | | Reconciliation to statement of profit or loss | | Statement of profit or loss | | |
|--|----------------|-----------------|--------------|---|--------------|-----------------------------|----------------------|----------------|
| | Pension | Life protection | Life savings | Personal accident | Total | | Commissions expenses | Other expenses |
| Gross written premiums | - | 98,264,739 | 11,964,486 | 17,271,637 | 127,500,862 | - | - | 127,500,862 |
| Premium ceded to reinsurers | - | (5,407,540) | (443,802) | (42,250) | (5,893,592) | - | - | (5,893,592) |
| Premium written net of reinsurance | - | 92,857,199 | 11,520,684 | 17,229,387 | 121,607,270 | - | - | 121,607,270 |
| Net change in mathematical reserves | - | (14,635,398) | 67,602,393 | - | 52,966,995 | - | (7,097) | (52,959,898) |
| Net change in provision for unearned premiums reserves | - | (6,117,325) | 44,294 | (1,226,130) | (7,299,161) | - | - | (7,299,161) |
| Net premiums earned | - | 72,104,476 | 79,167,371 | 16,003,257 | 167,275,104 | - | (7,097) | (52,959,898) |
| Net change in mathematical reserves | - | (17,675,050) | (76,266,659) | (2,016,988) | (95,958,697) | - | - | (95,958,697) |
| Claim paid and change in outstanding claims | - | 1,630,617 | 29,309 | 1,301 | 1,661,227 | - | - | 1,661,227 |
| Commission income | - | (15,708,069) | (39,362) | (7,353,162) | (23,100,593) | 460,680 | - | (22,639,913) |
| Commission expense | - | (435,607) | - | (3,278) | (438,885) | - | 7,097 | (431,788) |
| Other income / (expense), net | - | 39,916,367 | 2,890,659 | 6,631,130 | 49,438,156 | - | - | 49,438,156 |
| Life and personal accident technical profit | 37,825,283 | - | - | - | 37,825,283 | - | - | 37,825,283 |
| Fund management charge | 7,762,514 | - | - | - | 7,762,514 | - | - | 7,762,514 |
| Management fee | 6,487,763 | - | - | - | 6,487,763 | - | - | 6,487,763 |
| Entry fee | 7,833,110 | - | - | - | 7,833,110 | - | - | 7,833,110 |
| Deferred fee | - | - | - | - | - | - | - | - |
| Premium holiday | - | - | - | - | - | - | - | - |
| Pension income | 59,908,670 | - | - | - | 59,908,670 | - | - | 59,908,670 |
| Fund management charge paid to Alportfiy | (5,254,823) | - | - | - | (5,254,823) | - | - | (5,254,823) |
| Commission expense, net of DAC | (7,773,164) | - | - | - | (7,773,164) | 164,035 | - | (7,609,129) |
| Commission expense | (24,318,672) | - | - | - | (24,318,672) | 164,035 | - | (24,154,637) |
| DAC | 16,545,508 | - | - | - | 16,545,508 | - | - | 16,545,508 |
| Other income / (expense), net | (3,031,825) | - | - | - | (3,031,825) | - | (12,719) | (3,044,544) |
| Pension expenses including commission | (16,059,812) | - | - | - | (16,059,812) | 164,035 | (12,719) | (15,908,496) |
| Pension technical profit | 43,848,858 | - | - | - | 43,848,858 | - | - | 43,848,858 |
| Total technical profit | 43,848,858 | 39,916,367 | 2,890,659 | 6,631,130 | 93,287,014 | - | - | 93,287,014 |
| General and administrative expenses | - | - | - | - | - | (64,950,535) | - | (64,950,535) |
| Net technical profit after overhead expenses | - | - | - | - | - | 28,336,479 | - | 28,336,479 |
| Foreign exchange gain / (loss), net | - | - | - | - | - | - | 3,181,483 | 3,181,483 |
| Investment and other income / (expense), net | - | - | - | - | - | - | 16,100,247 | 16,100,247 |
| Net financial income | - | - | - | - | - | - | 19,281,730 | 19,281,730 |
| Profit before taxes | - | - | - | - | - | - | 47,618,209 | 47,618,209 |
| Income tax expense | - | - | - | - | - | - | (7,025,887) | (7,025,887) |
| Profit for the period | - | - | - | - | - | - | 40,592,322 | 40,592,322 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

4. Insurance and financial risk management

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

The Company's approach to risk management is based on the following elements:

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

4. Insurance and financial risk management (continued)

Risk Management Framework

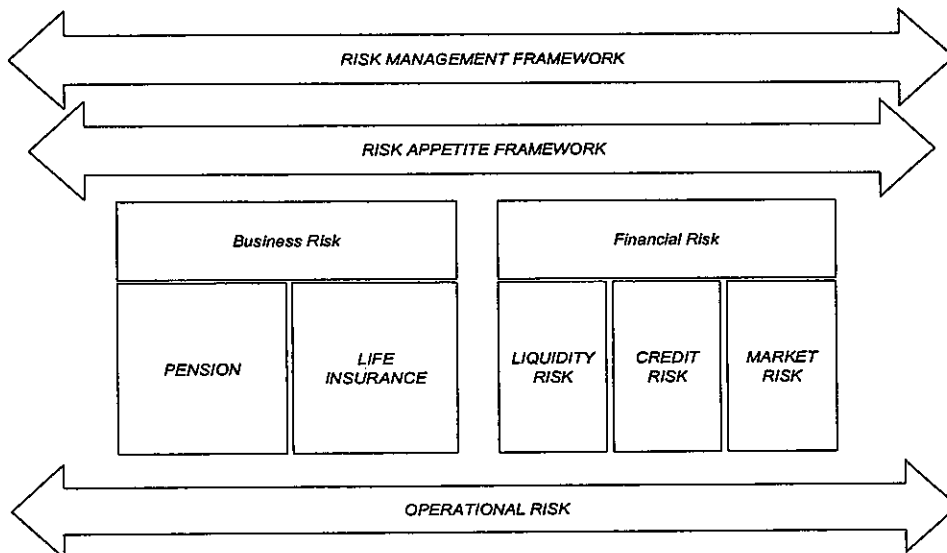
The Company’s risk management framework “(RMF)” forms an integral part of the management and Board processes and decision making framework. The key elements of our risk management framework comprise risk appetite, risk governance including risk policies and business standards, risk oversight committees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

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

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

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

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



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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

4. Insurance and financial risk management (continued)

Risk Management Framework (continued)

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

Risk policies

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

Business standards

The Company recognizes the importance of consistent and controlled business processes as a form of risk management. Each risk policy is therefore supported by a number of associated business standards which sets out the requirements for operating consistent processes across its most important business activities. The requirements outlined in the Company's business standards are targeted to be implemented company-wide. Where it is not able to implement a particular requirement in the standard, the Company must apply for a modification or exception which is required to be approved by the related Aviva group standard owner.

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

Insurance Risk

This is the risk that the insurance premiums allocated by the Company may not meet the claim liabilities and profit share payments and any payment in relation to claims and damages may exceed its expectations. Such risk will arise if the provisions (such as those on mortality) are not sufficient to meet future payments. Life insurance risk includes mortality risk, morbidity risk, persistency risk, expense risk (including commissions) and policyholder behavior risk around take-up of insurance guarantees and options. Life insurance

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) and morbidity risk (the risk that more than expected insured parties fall seriously ill or become disabled) play an important role in the life insurance businesses of the Company. The mortality risk and the morbidity risk associated with the Company's life and related rider businesses have been partly reinsured in an effort to control the risk; the most important contracts are with Swiss Re, Scor Global Life, Cardiff Hayat ve Emeklilik and Munich Re.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

4. Insurance and financial risk management (continued)

Insurance Risk (continued)

a) Life insurance (continued)

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

b) Personal Accident (Non-Life)

Personal Accident insurances are offered as individual or group contracts.

Risks for personal accident insurances can be summed up as mortality rates, illness rates, continuity risk and investment risk.

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")
- analysis of change.

Claims handling is organized in a specialized department within the operations division of the Company, handling both individual and corporate policies, and the assessment and settlement of incurred claims takes place on a monthly basis. Further, the Company has underwriting at the claim stage specifically for critical illness claims.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

(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 June 30, 2014 and December 31, 2013, Company's claim/premium ratio related branches are given below. It is observed that premiums collected provide a capacity to meet any incurred claims:

| Net claims ratio | June 30, 2014 | December 31, 2013 |
|------------------------------|---------------|-------------------|
| Life | 13% | 15% |
| Personal Accident (Casualty) | 11% | 10% |

As at June 30, 2014 and December 31, 2013 that part of total risk which is ceded to reinsurers is given below on a risk coverage basis.

| June 30, 2014 | | | | | | |
|-------------------|------------------|-----------------------|---------------------------|--------------------|------------------|--------------|
| Life | | | | | | |
| Natural Death | Accidental death | Accidental disability | Sickness disability | Dangerous sickness | Public Transport | Unemployment |
| 2.85% | 0.64% | 1.45% | 0.99% | 2.19% | 0.09% | 0.01% |
| Personal Accident | | | | | | |
| Natural death | Accidental death | Accidental disability | Accidental treatment cost | | | |
| - | 0.15% | 0.22% | - | | | |
| December 31, 2013 | | | | | | |
| Life | | | | | | |
| Natural death | Accidental death | Accidental disability | Sickness disability | Dangerous sickness | Public Transport | Unemployment |
| 2.76% | 0.52% | 1.42% | 1.03% | 2.57% | 0.08% | 0.02% |
| Personal Accident | | | | | | |
| Natural death | Accidental death | Accidental disability | Accidental treatment cost | | | |
| - | 0.15% | 0.21% | - | | | |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

4. Insurance and financial risk management (continued)

Sensitivity to Insurance Risk

The Company's policy production strategy is based on optimal distribution of risk to reinsurance companies according to policy type, as well as to kind and size of risk taken. At 30 June 2014 and 31 December 2013 the Company has both proportional and non-proportional reinsurance treaties.

Outstanding claims are reviewed and updated periodically by claims department.

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

| June 30, 2014 | Total gross risk liability | Share of reinsurer in total risk liability | Net risk liability |
|----------------------|-----------------------------------|---|---------------------------|
| Life | 33,255,689,069 | 1,456,634,658 | 31,799,054,411 |
| Personal Accident | 28,032,238,934 | 104,349,541 | 27,927,889,393 |
| Total | 61,287,928,003 | 1,560,984,199 | 59,726,943,804 |

| December 31, 2013 | Total gross risk liability | Share of reinsurer in total risk liability | Net risk liability |
|--------------------------|-----------------------------------|---|---------------------------|
| Life | 31,167,780,632 | 1,378,101,830 | 29,789,678,802 |
| Personal Accident | 26,809,810,623 | 98,140,953 | 26,711,669,670 |
| Total | 57,977,591,255 | 1,476,242,783 | 56,501,348,472 |

The Company's gross provision for outstanding claims at June 30, 2014 and December 31, 2013 are as follows:

| Outstanding Claims | June 30, 2014 | December 31, 2013 |
|---------------------------|----------------------|--------------------------|
| Life | 31,087,117 | 30,264,942 |
| Personal Accident | 7,097,034 | 6,297,445 |
| Total | 38,184,151 | 36,562,387 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

4. Insurance and financial risk management (continued)

Financial Risk

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

a) Market Risk

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

i) Foreign Currency Risk

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

Foreign currency sensitivity analysis as of 30 June 2014 and 31 December 2013 are as follows:

At June 30, 2014, on condition that all variables remain constant, effect of a 10% appreciation/ devaluation of Eurobonds against TL on owners' equity is TL 147,962.

June 30, 2014:

| Liabilities and assets in foreign currency Exchange rate variation (*) | Effect on income/expense | | |
|---|--------------------------|----------|----------|
| | USD | EUR | GBP |
| 10% | 2,016,981 | (20,567) | 36,829 |
| -10% | (2,016,981) | 20,567 | (36,829) |

As at December 31, 2013, on condition that all variables remain constant, effect of a 10% appreciation/ devaluation of Eurobonds against TL on owners' equity is TL 467,827.

December 31, 2013:

| Liabilities and assets in foreign currency Exchange rate variation (*) | Effect on income/expense | | |
|---|--------------------------|-----------|---------|
| | USD | EUR | GBP |
| 10% | 3,788,057 | 508,053 | (2,549) |
| -10% | (3,788,057) | (508,053) | 2,549 |

(*) All amounts are presented in TL.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

4. Insurance and financial risk management (continued)

Financial Risk (continued)

a) Market Risk (continued)

ii) Interest Risk

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

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

As at 30 June 2014:

| Total of trading available for sale financial assets Market interest increase / (decrease) (**) | Effect Profit and Loss | | |
|--|------------------------|-------------|---------|
| | TL | USD (*) | EUR (*) |
| %5 | (13,710,849) | (5,375,458) | (9,438) |
| -%5 | 12,533,629 | 4,533,916 | 7,365 |

| Trading financial assets (company) Market interest increase / (decrease) (**) | Effect Profit and Loss | | |
|--|------------------------|---------|---------|
| | TL | USD (*) | EUR (*) |
| %5 | (2,288,836) | - | - |
| -%5 | 2,448,733 | - | - |

| Available for sale financial assets Market interest increase / (decrease) (**) | Effect Profit and Loss | | |
|---|------------------------|-------------|---------|
| | TL | USD (*) | EUR (*) |
| 5% Asset backing investment contacts | (9,888,329) | (4,581,122) | (9,438) |
| 5% Available for sale financial assets (company) | (1,533,684) | (794,336) | - |
| -5% Asset backing investment contacts | 8,704,305 | 3,875,199 | 7,365 |
| -5% Available for sale financial assets (company) | 1,380,591 | 658,717 | - |

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

(**) Amounts are shown in relevant currency.

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

4. Insurance and financial risk management (continued)

Financial Risk (continued)

a) Market Risk (continued)

ii) Interest Risk (continued)

December 31, 2013:

| Market interest increase / (decrease) (**) | Effect Profit and Loss | | |
|---|------------------------|-------------|----------|
| | TL | USD (*) | EUR (*) |
| 5% | (12,900,940) | (5,327,681) | (47,905) |
| -5% | 11,722,774 | 4,597,596 | 37,776 |
| Trading financial assets (company) | | | |
| Market interest increase / (decrease) (**) | TL | USD (*) | EUR (*) |
| 5% | (1,787,742) | - | - |
| -5% | 1,954,840 | - | - |
| Available for sale financial assets | | | |
| Market interest increase / (decrease) (**) | TL | USD (*) | EUR (*) |
| 5% Asset backing insurance contracts | (10,214,212) | (4,716,479) | (47,455) |
| 5% Available for sale financial assets (Company) | (898,986) | (611,202) | - |
| -5% Asset backing insurance contracts | 8,989,327 | 4,093,542 | 37,422 |
| -5% Available for sale financial assets (Company) | 778,607 | 504,054 | - |

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

4. Insurance and financial risk management (continued)

Financial Risk (continued)

b) Credit Risk

Credit risk refers to the risk of adverse financial impact resulting from fluctuations in the credit quality of third parties, including financial losses as a result of defaulting counterparties, rating transition and credit spread movements. The Company has a relatively small collateral portfolio, and it does not view credit risk as one of its main risks as its financial assets (other than loans and receivables subject to credit risk generally) consist mainly of certain bonds (including Treasury bonds and private sector bonds) and time and demand deposits kept in financial institutions in Turkey, which are not deemed to have high credit risk.

Maximum exposure to credit risk

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

| | June 30, 2014 | December 31, 2013 |
|--|--------------------|--------------------|
| Cash and cash equivalents | 354,519,969 | 314,537,220 |
| Financial assets | 327,227,170 | 345,957,494 |
| Premium and other insurance receivables | 21,293,015 | 15,049,206 |
| Reinsurance share of insurance liabilities | 7,022,738 | 6,072,929 |
| Other financial assets | 838,932 | 838,932 |
| Pension business receivables | 11,212,222 | 8,466,912 |
| Total | 722,114,046 | 690,922,693 |

c) Liquidity Risk

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

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4. Insurance and financial risk management (continued)

Financial Risk (continued)

c) Liquidity Risk (continued)

As at June 30, 2014, 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.

| June 30, 2014 | 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 | 354,519,969 | 53,699,808 | 267,669,771 | 33,150,390 | - | - | - | 354,519,969 |
| Financial assets | 327,227,170 | 44,370,526 | 15,868,707 | 32,494,285 | 6,238,803 | 239,738,983 | - | 338,711,304 |
| - Available for sale asset backing financial investments | 34,176,577 | - | - | 3,799,704 | - | 32,279,955 | - | 36,079,659 |
| - Financial assets at fair value through profit or loss | 56,349,706 | 18,616,848 | 15,868,707 | 15,300,113 | 6,238,803 | - | - | 56,024,471 |
| - Available for sale financial investments Policyholders' portfolio | 236,700,887 | 25,753,678 | - | 13,394,468 | - | 207,459,028 | - | 246,607,174 |
| Premium and other insurance receivables | 21,293,015 | 49,546 | 12,071,759 | 5,417,795 | 2,694,308 | 881,101 | 178,506 | 21,293,015 |
| Pension business receivables | 11,212,222 | 8,274,992 | - | - | 1,374,967 | - | 1,562,263 | 11,212,222 |
| Other financial assets | 838,932 | - | - | - | - | - | 838,932 | 838,932 |
| Total undiscounted assets | 715,091,308 | 106,394,872 | 295,610,237 | 71,062,470 | 10,308,078 | 240,620,084 | 2,579,701 | 726,575,442 |
| Financial liabilities | | | | | | | | |
| Financial liabilities | 16,202,545 | 16,202,545 | - | - | - | - | - | 16,202,545 |
| Due to insurance and reinsurance companies | 8,225,405 | 47,658 | 8,177,747 | - | - | - | - | 8,225,405 |
| Pension business payables | 120,066,050 | 103,398,497 | 16,667,553 | - | - | - | - | 120,066,050 |
| Other payables and liabilities | 19,288,660 | 5,929,797 | 5,661,002 | 3,154,870 | 4,542,991 | - | - | 19,288,660 |
| Total undiscounted liabilities | 163,782,660 | 125,578,497 | 30,506,302 | 3,154,870 | 4,542,991 | - | - | 163,782,660 |
| Liquidity surplus/(deficit) | 551,308,648 | (19,183,625) | 265,103,935 | 67,907,600 | 5,765,087 | 240,620,084 | 2,579,701 | 562,792,782 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

4. Insurance and financial risk management (continued)

Financial Risk (continued)

c) Liquidity Risk (continued)

As at December 31, 2013, table of liquidity risk is as follows:

| December 31, 2013 | 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 | 314,537,220 | 159,871,832 | 152,917,064 | 1,748,324 | - | - | - | 314,537,220 |
| Financial assets | 345,957,494 | - | 70,109,294 | 5,019,829 | 48,798,281 | 236,585,905 | 16,000,002 | 376,513,311 |
| - Available for sale asset backing financial investments | 22,066,114 | - | - | - | - | 26,909,672 | - | 26,909,672 |
| - Financial assets at fair value through profit or loss | 57,828,778 | - | 36,808,947 | 5,019,829 | - | - | 16,000,002 | 57,828,778 |
| - Available for sale financial investments Policyholders' portfolio | 266,062,602 | - | 33,300,347 | - | 48,798,281 | 209,676,233 | - | 291,774,861 |
| Premium and other insurance receivables | 15,049,206 | - | 9,053,678 | 5,995,528 | - | - | - | 15,049,206 |
| Pension business receivables | 8,466,912 | 5,479,478 | 128 | 340 | 2,986,966 | - | - | 8,466,912 |
| Other financial assets | 838,932 | - | - | - | - | - | 838,932 | 838,932 |
| Total undiscounted assets | 684,849,764 | 165,351,310 | 232,080,164 | 12,764,021 | 51,785,247 | 236,585,905 | 16,838,934 | 715,405,581 |
| Financial liabilities | | | | | | | | |
| Financial liabilities | - | - | - | - | - | - | - | - |
| Due to insurance and reinsurance companies | 5,918,543 | 55,535 | 5,863,008 | - | - | - | - | 5,918,543 |
| Pension business payables | 103,631,681 | 85,784,656 | 17,847,025 | - | - | - | - | 103,631,681 |
| Other payables and liabilities | 23,565,570 | 5,976,410 | 14,019,520 | - | 3,569,640 | - | - | 23,565,570 |
| Total undiscounted liabilities | 133,115,794 | 91,816,601 | 37,729,553 | - | 3,569,640 | - | - | 133,115,794 |
| Liquidity surplus/(deficit) | 551,733,970 | 73,534,709 | 194,350,611 | 12,764,021 | 48,215,607 | 236,585,905 | 16,838,934 | 582,289,787 |

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

4. Insurance and financial risk management (continued)

Financial Risk (continued)

c) Liquidity Risk (continued)

Fair value of the financial instruments

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

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

Fair value hierarchy

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that is not based on observable market data (that is, unobservable inputs).

| | 30 June 2014 | | | Total |
|---|--------------------|----------|----------|--------------------|
| | 1. Level | 2. Level | 3. Level | |
| Financial assets: | | | | |
| Available for sale financial assets (Note 6) | 34,176,577 | - | - | 34,176,577 |
| Financial assets held for trading (Note 6) | 56,349,706 | - | - | 56,349,706 |
| Financial investments with risks on policyholders classified as available for sale (Note 6) (*) | 210,947,209 | - | - | 210,947,209 |
| Total financial assets | 301,473,492 | - | - | 301,473,492 |

(*) Time deposits amounting to TL 25,753,678 are not included. Carrying values of time deposits approximate their fair values due to their short term nature.

| | 31 December 2013 | | | Total |
|--|--------------------|----------|----------|--------------------|
| | 1. Level | 2. Level | 3. Level | |
| Financial assets: | | | | |
| Available for sale financial assets (Note 6) | 22,066,114 | - | - | 22,066,114 |
| Financial assets held for trading (Note 6) | 57,828,778 | - | - | 57,828,778 |
| Financial investments with risks on policyholders classified as available for sale (Note 6) (**) | 232,762,255 | - | - | 232,762,255 |
| Total financial assets | 312,657,147 | - | - | 312,657,147 |

(**) Time deposits amounting to TL 33,300,347 are not included. Carrying values of time deposits approximate their fair values due to their short term nature.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

4. Insurance and financial risk management (continued)

Financial Risk (continued)

d) Operational Risk

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

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

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

Operational risks are detailed in the Company's risk tracking system, 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, 2014 and December 31, 2013, 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, 2014 and December 31, 2013, the required capital reserves (calculated in accordance with the above-mentioned local regulation) and current capital adequacy analysis is as follows:

| | 30 June 2014 | 31 December 2013 |
|-----------------------------------|-------------------|-------------------|
| Total owners' equity | 170,646,355 | 166,314,279 |
| Required minimum capital reserves | 75,417,084 | 70,267,142 |
| Capital surplus | 95,229,271 | 96,047,137 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

5. Cash and cash equivalents

As at June 30, 2014 and December 31, 2013, cash and cash equivalents are as follows:

| | June 30, 2014 | December 31, 2013 |
|---|--------------------|--------------------|
| Cash | 337 | 401 |
| Banks (*) | 253,531,342 | 226,279,430 |
| Other cash and cash equivalents (**) | 100,988,290 | 88,257,389 |
| Total cash and cash equivalents | 354,519,969 | 314,537,220 |
| Accrued interest | (1,043,230) | (478,812) |
| Term deposits with maturities of 3 months or more | (32,759,877) | (1,745,159) |
| Total cash and cash equivalents per statement of cash flow | 320,716,862 | 312,313,249 |

(*) See Note 32 for the details about the blockage on cash and cash equivalents in favour of Undersecretariat of Treasury.

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

Interest rates of time deposits are stated below:

| | June 30, 2014 | December 31, 2013 |
|-----|---------------|-------------------|
| | Interest Rate | Interest Rate |
| | (%) | (%) |
| USD | 1.95 | 1.81 |
| TL | 10.48 | 9.12 |

As of June 30, 2014, TL deposit maturity changes between July 1, 2014 and December 29, 2014, foreign currency deposits maturity changes between July 7, 2014 and September 23, 2014.

As of December 31, 2013, TL deposit maturity changes between January 2, 2014 and April 25, 2014, foreign currency deposits maturity changes between January 2, 2014 and January 6, 2014.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

5. Cash and cash equivalents (continued)

As at June 30, 2014 and December 31, 2013; detail of cash and cash equivalents are as follows:

| | June 30, 2014 | December 31, 2013 |
|---|--------------------|--------------------|
| Foreign currency cash and cash equivalents | 2,187,767 | 19,236,608 |
| - demand deposits | 139,084 | 153,505 |
| - time deposits | 1,996,330 | 19,030,814 |
| - credit card collections | 52,271 | 52,143 |
| - cash | 82 | 146 |
| TL cash and cash equivalents | 352,332,202 | 295,300,612 |
| - demand deposits | 7,119,284 | 3,623,988 |
| - time deposits | 244,276,644 | 203,471,123 |
| - credit card collections | 100,936,019 | 88,205,246 |
| - cash | 255 | 255 |
| Total | 354,519,969 | 314,537,220 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

6. Financial assets

As at June 30, 2014 and December 31, 2013; the securities portfolio of the Company is as follows:

| | June 30, 2014 | December 31, 2013 |
|--|--------------------|--------------------|
| Financial assets at fair value through profit or loss | 56,349,706 | 57,828,778 |
| Total available for sale financial assets | 270,877,464 | 288,128,716 |
| Available for sale financial investments | 34,176,577 | 22,066,114 |
| Available for sale asset backing financial investments, policyholders' portfolio | 236,700,887 | 266,062,602 |
| Total securities portfolio | 327,227,170 | 345,957,494 |

As at June 30, 2014 and December 31, 2013; financial assets as fair value through profit or loss are as follows:

| | June 30, 2014 | | |
|--|-------------------|-------------------|-------------------|
| | Cost | Fair value | Carrying value |
| Investment funds | 6,966,756 | 7,198,463 | 7,198,463 |
| Private sector bonds | 21,715,088 | 22,005,615 | 22,005,615 |
| Asset backed securities | 4,713,178 | 5,233,692 | 5,233,692 |
| Treasury bills | 21,326,204 | 21,911,936 | 21,911,936 |
| Total financial assets at fair value through profit or loss | 54,721,226 | 56,349,706 | 56,349,706 |
| | December 31, 2013 | | |
| | Cost | Fair value | Carrying value |
| Private sector bonds | 36,535,082 | 36,808,947 | 36,808,947 |
| Investment funds | 16,000,002 | 16,000,002 | 16,000,002 |
| Asset backed securities | 4,722,088 | 5,019,829 | 5,019,829 |
| Total financial assets at fair value through profit or loss | 57,257,172 | 57,828,778 | 57,828,778 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

6. Financial assets (continued)

As at June 30, 2014 and December 31, 2013; available for sale financial assets owned by the Company are as follows:

| | June 30, 2014 | | |
|---|-------------------|-------------------|-------------------|
| | Cost | Fair value | Carrying value |
| Government bonds – TL | 14,674,125 | 13,989,104 | 13,989,104 |
| Eurobonds- USD | 21,258,728 | 20,187,473 | 20,187,473 |
| Total available for sale financial investments | 35,932,853 | 34,176,577 | 34,176,577 |
| | December 31, 2013 | | |
| | Cost | Fair value | Carrying value |
| Government bonds – TL | 7,698,000 | 6,301,220 | 6,301,220 |
| Eurobonds-USD | 18,862,187 | 15,764,894 | 15,764,894 |
| Total available for sale financial investments | 26,560,187 | 22,066,114 | 22,066,114 |

As at June 30, 2014 and December 31, 2013; available for sale financial assets backing insurance contracts are as follows:

| | June 30, 2014 | | |
|---|--------------------|--------------------|--------------------|
| | Cost | Fair value | Carrying value |
| Government bonds – TL | 84,193,796 | 77,265,122 | 77,265,122 |
| Eurobonds – USD | 135,451,064 | 132,468,052 | 132,468,052 |
| Eurobonds – EUR | 1,111,576 | 1,214,035 | 1,214,035 |
| Time deposits – TL | 22,800,000 | 22,992,393 | 22,992,393 |
| Time deposits – USD | 2,760,420 | 2,761,285 | 2,761,285 |
| Total available for sale asset backing financial investments, policyholders' portfolio | 246,316,856 | 236,700,887 | 236,700,887 |
| | December 31, 2013 | | |
| | Cost | Fair value | Carrying value |
| Government bonds – TL | 91,169,921 | 78,513,796 | 78,513,796 |
| Eurobonds – USD | 158,662,496 | 147,118,584 | 147,118,584 |
| Eurobonds – EUR | 6,598,684 | 7,129,875 | 7,129,875 |
| Time deposits – TL | 32,700,000 | 33,300,347 | 33,300,347 |
| Time deposits – USD | - | - | - |
| Total available for sale asset backing financial investments, policyholders' portfolio | 289,131,101 | 266,062,602 | 266,062,602 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

6. Financial assets (continued)

As at June 30, 2014 and June 30, 2013; financial assets at fair value through profit or loss and available for sale financial assets movement table are as follows:

| | 2014 | 2013 |
|---|--------------------|--------------------|
| Opening, January 1 | 345,957,494 | 409,546,878 |
| Purchases | 201,805,783 | 1,946,669,966 |
| Disposals | (222,007,235) | (1,967,730,395) |
| Change in the valuation - unrealized gain and losses | (1,266,632) | 8,614,861 |
| Disposals through the redemption | (150,726) | (3,392,037) |
| Unrealized exchange rate gains/(losses) | (15,625,347) | (17,873,156) |
| Change in balance recognized under equity | 4,526,663 | (5,035,111) |
| Change in balance recognized under life mathematical reserves | 13,987,170 | (29,407,000) |
| Closing, June 30 | 327,227,170 | 341,394,006 |

The maturity analysis of financial assets is as follows:

As at June 30, 2014 and December 31, 2013; the remaining contractual maturities of financial assets are as follows:

| | 30 June 2014 | | | | | | Total |
|-------------------------------------|--------------------|-------------------|------------------|--------------------|------------------|--------------------|--------------------|
| | No stated maturity | 0-3 months | 3-6 months | 6 months to 1 year | 1-3 years | More than 3 years | |
| Government bonds and treasury bills | - | - | - | 27,445,361 | 6,455,100 | 79,265,701 | 113,166,162 |
| Eurobond | - | - | - | 5,408,076 | - | 148,461,484 | 153,869,560 |
| Private sector bonds | - | 22,005,615 | - | - | - | - | 22,005,615 |
| Asset-backed securities | - | 5,233,692 | - | - | - | - | 5,233,692 |
| Time deposit | - | 23,842,020 | 1,911,658 | - | - | - | 25,753,678 |
| Investment fund | 7,198,463 | - | - | - | - | - | 7,198,463 |
| Total | 7,198,463 | 51,081,327 | 1,911,658 | 32,853,436 | 6,455,100 | 227,727,185 | 327,227,170 |

| | December 31, 2013 | | | | | | Total |
|-------------------------------------|--------------------|-------------------|------------|--------------------|-------------------|--------------------|--------------------|
| | No stated maturity | 0-3 months | 3-6 months | 6 months to 1 year | 1-3 years | More than 3 years | |
| Government bonds and treasury bills | - | - | - | - | 11,791,947 | 73,023,069 | 84,815,016 |
| Eurobonds | - | - | - | - | 34,239,170 | 135,774,183 | 170,013,353 |
| Private sector bonds | - | 36,808,947 | - | - | - | - | 36,808,947 |
| Asset backed securities | - | - | - | 5,019,829 | - | - | 5,019,829 |
| Time deposits | - | 33,300,347 | - | - | - | - | 33,300,347 |
| Investment fund | 16,000,002 | - | - | - | - | - | 16,000,002 |
| Total | 16,000,002 | 70,109,294 | - | 5,019,829 | 46,031,117 | 208,797,252 | 345,957,494 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

6. Financial assets (continued)

The foreign currency analysis of financial assets is as follows:

| 30 June 2014 | | | | |
|---|---------------|-----------------|--------|--------------------|
| | Currency Type | Currency Amount | Rate | Amount TL |
| Financial assets available-for-sale | USD | 9,507,146 | 2.1234 | 20,187,473 |
| | TL | | | 13,989,104 |
| Total | | | | 34,176,577 |
| Financial assets at fair value through profit or loss | TL | | | 56,349,706 |
| Total | | | | 56,349,706 |
| Financial investments with risks on policy holders | USD | 63,685,287 | 2.1234 | 135,229,337 |
| | EUR | 419,805 | 2.8919 | 1,214,035 |
| | TL | | | 100,257,515 |
| Total | | | | 236,700,887 |
| | | | | 327,227,170 |
| 31 December 2013 | | | | |
| | Currency Type | Currency Amount | Rate | Amount TL |
| Financial assets available-for-sale | USD | 7,386,447 | 2.1343 | 15,764,894 |
| | TL | | | 6,301,220 |
| Total | | | | 22,066,114 |
| Financial assets at fair value through profit or loss | TL | | | 57,828,778 |
| Total | | | | 57,828,778 |
| Financial investments with risks on policy holders | USD | 68,930,602 | 2.1343 | 147,118,584 |
| | EUR | 2,428,018 | 2.9365 | 7,129,875 |
| | TL | | | 111,814,143 |
| Total | | | | 266,062,602 |
| | | | | 345,957,494 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

7. Reinsurance share of insurance liabilities

As at June 30, 2014 and December 31, 2013; reinsurance share of insurance liabilities are as follows:

| | June 30, 2014 | December 31, 2013 |
|--|------------------|-------------------|
| Reinsurers' share of outstanding claims | 3,520,695 | 3,452,585 |
| Reinsurers' share of unearned premiums reserve | 3,502,043 | 2,620,344 |
| Total | 7,022,738 | 6,072,929 |

8. Premium and other insurance receivables

As at June 30, 2014 and December 31, 2013; premium and other insurance receivables are as follows:

| | June 30, 2014 | December 31, 2013 |
|--|-------------------|-------------------|
| Policyholders and reinsurance companies | 21,167,703 | 14,914,669 |
| Loans to policyholders | 125,312 | 134,537 |
| Total premium and other insurance receivables | 21,293,015 | 15,049,206 |

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

As at June 30, 2014 and December 31, 2013; maturity distribution of neither past due nor impaired insurance operations receivables is as follows:

| | June 30, 2014 | December 31, 2013 |
|--------------------------------|-------------------|-------------------|
| Receivables from policyholders | | |
| Up to 3 months | 7,211,913 | 5,622,130 |
| 3 to 6 months | 4,172,125 | 3,166,866 |
| 6 to 9 months | 2,638,780 | 1,987,304 |
| 9 to 12 months | 813,673 | 706,821 |
| Total | 14,836,491 | 11,483,121 |

As at June 30, 2014 and December 31, 2013; an analysis of the aging of overdue but not impaired insurance operations receivables is as follows:

| | June 30, 2014 | December 31, 2013 |
|---------------------|-------------------|-------------------|
| Overdue 0-3 months | 4,987,020 | 2,959,727 |
| Overdue 3-6 months | 1,120,358 | 230,695 |
| Overdue 6-9 months | 55,528 | 189,494 |
| Overdue 9-12 months | 67,428 | 36,367 |
| Overdue 1 year | 100,878 | 15,265 |
| Total | 6,331,212 | 3,431,548 |
| Grand total | 21,167,703 | 14,914,669 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

8. Premium and other insurance receivables (continued)

As at June 30, 2014 and December 31, 2013; maturity distribution of neither past due nor impaired loans to the policyholders is as follows:

| | June 30, 2014 | December 31, 2013 |
|----------------|----------------|-------------------|
| 3 to 6 months | 14,514 | - |
| 6 to 9 months | 97,507 | 18,926 |
| 9 to 12 months | 13,291 | 115,611 |
| Total | 125,312 | 134,537 |

As at June 30, 2014 and December 31, 2013; the collateral held by the Company as security for its receivables are as follows:

| | June 30, 2014 | | | |
|----------------------------|----------------|--------------|------------------|------------------|
| | USD | EURO | TL | Total (TL) |
| Guarantees received | | | | |
| Letter of guarantees | 155,008 | - | 5,770,085 | 5,925,093 |
| Mortgage deed | - | - | 316,200 | 316,200 |
| Other guarantees | 228,670 | 7,990 | 161,800 | 398,460 |
| Total | 383,678 | 7,990 | 6,248,085 | 6,639,753 |

| | December 31, 2013 | | | |
|----------------------------|-------------------|---------------|------------------|------------------|
| | USD | EURO | TL | Total (TL) |
| Guarantees received | | | | |
| Letter of guarantees | 140,864 | 58,730 | 4,906,135 | 5,105,729 |
| Mortgage deed | - | - | 241,200 | 241,200 |
| Other guarantees | 229,844 | 8,113 | 151,800 | 389,757 |
| Total | 370,708 | 66,843 | 5,299,135 | 5,736,686 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

9. Pension business receivables and payables

As at June 30, 2014 and December 31, 2013; pension business receivables are as follows:

| | June 30, 2014 | December 31, 2013 |
|---|-------------------|-------------------|
| Due from pension operations | 9,837,255 | 7,140,086 |
| Investment management fee receivable | 1,374,967 | 1,326,826 |
| Total individual pension business receivables, net | 11,212,222 | 8,466,912 |

As at June 30, 2014 and December 31, 2013; pension business payables are as follows:

| | June 30, 2014 | December 31, 2013 |
|--|--------------------|--------------------|
| Temporary account of participants | 113,434,052 | 95,834,517 |
| Other payables from pension operations | 6,631,998 | 7,797,164 |
| Total pension business payables | 120,066,050 | 103,631,681 |

10. Other assets

As at June 30, 2014 and December 31, 2013; other assets are as follows:

| | June 30, 2014 | December 31, 2013 |
|--|-------------------|-------------------|
| Prepaid expenses | 6,838,196 | 3,997,962 |
| Other receivables from other related parties (Note 33) | 3,428,993 | 1,538,086 |
| Advances given | 833,293 | 80,001 |
| Receivables from shareholders (Note 33) | 396,626 | 241,117 |
| Deposits and guarantees given | 84,755 | 41,548 |
| Advances to personnel | 7,145 | - |
| Other | 641,853 | 235,281 |
| Total other assets | 12,230,861 | 6,133,995 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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11. Property and equipment, net

As of June 30, 2014 and June 30, 2013; tangible assets movement and its accumulated depreciation is as follows:

| Cost | 1 January 2014 | Additions | Disposals | 30 June 2014 |
|-------------------------|-------------------|------------------|-----------------|-------------------|
| Machinery and equipment | 7,006,784 | 226,547 | (1,706) | 7,231,625 |
| Furniture and fixtures | 9,718,549 | 436,827 | (24,831) | 10,130,545 |
| Other tangible assets | 10,178,130 | 543,332 | - | 10,721,462 |
| Leased assets | 1,175,521 | - | - | 1,175,521 |
| Total | 28,078,984 | 1,206,706 | (26,537) | 29,259,153 |

| Accumulated depreciation | 1 January 2014 | Period charge | Disposals | 30 June 2014 |
|--------------------------|-------------------|------------------|-----------------|-------------------|
| Machinery and equipment | 5,892,237 | 209,996 | (1,706) | 6,100,527 |
| Furniture and fixtures | 7,468,301 | 327,028 | (24,831) | 7,770,498 |
| Other tangible assets | 7,527,184 | 588,833 | - | 8,116,017 |
| Leased assets | 1,175,106 | - | - | 1,175,106 |
| Total | 22,062,828 | 1,125,857 | (26,537) | 23,162,148 |

| Net book Value | 6,016,157 | 80,849 | - | 6,097,005 |
|----------------|-----------|--------|---|-----------|
|----------------|-----------|--------|---|-----------|

| Cost | 1 January 2013 | Additions | Disposals | Transfers | 30 June 2013 |
|-------------------------|-------------------|----------------|-----------|-----------|-------------------|
| Machinery and equipment | 6,203,529 | 321,261 | - | - | 6,524,790 |
| Furniture and fixtures | 9,093,613 | 238,693 | - | - | 9,332,306 |
| Other tangible assets | 9,483,000 | 348,062 | - | - | 9,831,062 |
| Leased assets | 1,175,521 | - | - | - | 1,175,521 |
| Total | 25,955,663 | 908,016 | - | - | 26,863,679 |

| Accumulated depreciation | 1 January 2013 | Period charge | Disposals | Transfers | 30 June 2013 |
|--------------------------|-------------------|----------------|-----------|-----------|-------------------|
| Machinery and equipment | 5,556,373 | 163,042 | - | - | 5,719,415 |
| Furniture and fixtures | 6,923,607 | 268,576 | - | - | 7,192,183 |
| Other tangible assets | 6,500,451 | 496,802 | - | - | 6,996,253 |
| Leased assets | 1,175,107 | - | - | - | 1,175,107 |
| Total | 20,155,538 | 928,420 | - | - | 21,083,958 |

| Net book Value | 5,800,125 | (20,404) | - | 5,779,721 |
|----------------|-----------|----------|---|-----------|
|----------------|-----------|----------|---|-----------|

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

12. Intangible assets, net

As of June 30, 2014 and June 30, 2013; intangible assets movement and its accumulated amortization are as follows:

| Cost | 1 January 2014 | Additions | Disposals | 30 June 2014 |
|--|-------------------|------------------|-----------|-------------------|
| Software | 28,440,212 | 665,435 | - | 29,105,647 |
| Capitalized software development costs | 6,817,029 | 6,801,285 | - | 13,618,314 |
| Total | 35,257,241 | 7,466,720 | - | 42,723,961 |

| Accumulated amortization | 1 January 2014 | Period charge | Disposals | 30 June 2014 |
|--------------------------|-------------------|------------------|-----------|-------------------|
| Software | 24,739,635 | 1,105,585 | - | 25,845,220 |
| Total | 24,739,635 | 1,105,585 | - | 25,845,220 |

| | | | | |
|-----------------------|-------------------|------------------|--|-------------------|
| Net book value | 10,517,606 | 6,361,135 | | 16,878,741 |
|-----------------------|-------------------|------------------|--|-------------------|

| Cost | 1 January 2013 | Additions | Disposals | Transfers | 30 June 2013 |
|--|-------------------|------------------|-----------|-----------|-------------------|
| Software | 26,745,795 | 367,149 | - | - | 27,112,944 |
| Capitalized software development costs | 926,220 | 1,097,799 | - | - | 2,024,019 |
| Total | 27,672,015 | 1,464,948 | - | - | 29,136,963 |

| Accumulated amortization | 1 January 2013 | Period charge | Disposals | Transfers | 30 June 2013 |
|--------------------------|-------------------|----------------|-----------|-----------|-------------------|
| Software | 22,840,417 | 925,222 | - | - | 23,765,639 |
| Total | 22,840,417 | 925,222 | - | - | 23,765,639 |

| | | | | | |
|-----------------------|------------------|----------------|--|--|------------------|
| Net book value | 4,831,598 | 539,726 | | | 5,371,324 |
|-----------------------|------------------|----------------|--|--|------------------|

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

13. Other financial assets

Other financial assets include equity participations that are classified as available for sale. As these equity participations do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and impracticable, they are stated at cost. As at June 30, 2014 and December 31, 2013; the details of other financial assets are as follows:

| | June 30, 2014 | | December 31, 2013 | |
|-----------------------------------|-------------------------|----------------|------------------------|----------------|
| | Participation rate % | Amount | Participation rate% | Amount |
| Milli Reasürans A.Ş. | 0.1494 | 575,082 | 0.1494 | 575,082 |
| Emeklilik Gözetim Merkezi A.Ş. | 5.5552 | 263,222 | 5.5552 | 263,222 |
| Enternasyonel Turizm Yatırım A.Ş. | 0.0001 | 2 | 0.0001 | 2 |
| Endüstri Holding A.Ş. | 0.0001 | 626 | 0.0001 | 626 |
| Total | | 838,932 | | 838,932 |

14. Financial liabilities

| | June 30, 2014 | December 31, 2013 |
|--|-------------------|-------------------|
| Short-term bank loans | 1,624,126 | - |
| Borrowings under repurchase agreements | 14,578,419 | - |
| Total | 16,202,545 | - |

As at June 30, 2014, short-term bank loan consists of interest-free loan.

As at June 30, 2014, maturity of the borrowing under repurchase agreement is July 15, 2014 with an interest rate of 9.4%

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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15. Due to insurance and reinsurance companies

As at June 30, 2014 and December 31, 2013; due to insurance and reinsurance companies are as follows:

| | June 30, 2014 | December 31, 2013 |
|----------------------------------|------------------|-------------------|
| Due to the intermediaries | 7,530,298 | 5,767,232 |
| Due to the reinsurance companies | 647,449 | 95,777 |
| Due to the policyholders | 47,658 | 55,534 |
| Total | 8,225,405 | 5,918,543 |

16. Other provisions

As at June 30, 2014 and December 31, 2013; provision for expenses and lawsuit provisions are as follows:

| | June 30, 2014 | December 31, 2013 |
|---|-------------------|-------------------|
| Personnel bonus provision | 7,894,618 | 10,456,131 |
| Commission provision | 1,385,000 | 2,493,967 |
| Bonus provision for sales personnel | 4,270,057 | 5,065,740 |
| Provision for lawsuit against the Company (Note 34) | 6,959,364 | 6,466,255 |
| Total | 20,509,039 | 24,482,093 |

17. Taxes

Corporate taxes

Statutory income is subject to corporate tax at 20% (2013: 20%). This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

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

In Turkey, advance tax returns are filed on a quarterly basis. The prepaid taxes are calculated and paid at the rates valid for the earnings of the related years. Advance corporate income tax rate applied in 2014 is 20%. (2013: 20%). The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

17. Taxes (continued)

Corporate taxes (continued)

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

Transfer pricing

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

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

Income tax

As at June 30, 2014 and December 31, 2013; prepaid income taxes are netted off with the current income tax payable as stated below:

| | June 30, 2014 | December 31, 2013 |
|---|------------------|-------------------|
| Income taxes payable | 9,924,842 | 6,762,490 |
| Prepaid income taxes | (4,619,287) | (6,778,702) |
| Current tax (assets) / liabilities | 5,305,555 | (16,212) |

Deferred taxes

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

17. Taxes (continued)

Deferred taxes (continued)

| | Cumulative temporary differences | | Deferred tax assets / (liabilities) | |
|---|----------------------------------|----------------------|-------------------------------------|---------------------|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Provision for employment termination benefit | 2,720,024 | 2,571,130 | 544,006 | 514,226 |
| Unused vacation provision | 3,533,403 | 2,716,290 | 706,681 | 543,258 |
| Provision for lawsuits | 6,959,364 | 6,466,255 | 1,391,873 | 1,293,251 |
| Deposits internal rate of return-linear interest rate difference | 88,960 | 64,210 | 17,792 | 12,842 |
| Provision for loans to policyholders Banking | | 410 | | |
| Insurance Transaction Tax | 127 | | 25 | 82 |
| Trading portfolio valuation difference | 105,025 | 118,500 | 21,005 | 23,700 |
| Equalization Reserve | - | - | - | - |
| Expense accruals | 16,644,395 | 18,252,370 | 3,328,879 | 3,650,474 |
| Total deferred tax assets | 30,051,298 | 30,189,165 | 6,010,261 | 6,037,833 |
| Net difference between the carrying values and tax base values of tangible assets and intangible assets | (2,097,106) | (2,223,450) | (419,421) | (444,690) |
| Portfolio price difference for financial assets at fair value through profit or loss | - | - | - | - |
| Eurobond valuation difference | (540,326) | (575,815) | (108,066) | (115,164) |
| Profit commissions | (387,953) | - | (77,591) | - |
| Income accruals | - | - | - | - |
| Deferred acquisition cost | (159,101,355) | (133,990,090) | (31,820,271) | (26,798,017) |
| Total deferred tax liabilities | (162,126,740) | (136,789,355) | (32,425,349) | (27,357,871) |
| Deferred tax assets/ (liabilities) accounted for under equity over the fair value reserve for available for sale financial assets | 1,337,934 | 4,701,225 | 267,586 | 940,245 |
| Deferred tax liabilities, net | (130,737,508) | (101,898,965) | (26,147,502) | (20,379,793) |

Movement of deferred tax liabilities for the period ended June 30, 2014 and June 30, 2013; are as follows:

| | June 30, 2014 | June 30, 2013 |
|--|---------------------|---------------------|
| Opening balance, 1 January | (20,379,793) | (12,707,526) |
| Cancellation available for sale financial assets are recognized in shareholders' equity of deferred tax assets | (940,245) | 234,326 |
| Charged to profit or loss | (5,095,050) | (3,607,812) |
| Deferred tax asset /(liability) recognized in other comprehensive income due to impairment losses on available for sale financial assets | 267,586 | 298,945 |
| Closing balance | (26,147,502) | (15,782,067) |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

17. Taxes (continued)

Deferred taxes (continued)

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

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

Income tax expenses for the period ended June 30, 2014 and June 30, 2013; are as follows:

| | January 1 - June 30 2014 | January 1 - June 30, 2013 |
|--|-----------------------------|------------------------------|
| Income tax expense recognized in profit or loss: | | |
| - Current tax charge | (8,554,608) | (3,422,075) |
| - Deferred tax charge | (5,095,050) | (3,607,812) |
| Income tax expense | (13,649,658) | (7,029,887) |

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

| | January 1 - June 30, 2014 | January 1 - June 30, 2013 |
|--|------------------------------|------------------------------|
| Profit before taxes | 60,535,690 | 47,618,209 |
| Tax rate | 20% | 20% |
| Taxes on income per statutory tax rate | (12,107,138) | (9,523,642) |
| Revenue that is exempt from taxation | 2,601,498 | 4,894,646 |
| Non-deductible expenses | (4,144,018) | (2,400,891) |
| Income tax expense | (13,649,658) | (7,029,887) |

18. Employment termination benefits

| | June 30, 2014 | December 31, 2013 |
|---|------------------|----------------------|
| Provision for employment termination benefits | 2,720,024 | 2,571,128 |
| Total | 2,720,024 | 2,571,128 |

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

18. Employment termination benefit (continued)

The amount payable consists of one month's salary limited to a maximum of TL 3,438 (December 31, 2013: TL 3,254) for each year of service as of December 31, 2013.

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:

| | June 30, 2014 | December 31, 2013 |
|--------------------------------|---------------|-------------------|
| Discount rate | 8.0% | 8.0% |
| Estimated salary increase rate | 4.5% | 4.5% |

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

| | 2014 | 2013 |
|---------------------------------|------------------|------------------|
| Opening balance, January 1 | 2,571,128 | 1,810,014 |
| Paid during the period | (665,179) | (998,209) |
| Charge for the period | 814,075 | 1,189,585 |
| Closing balance, June 30 | 2,720,024 | 2,001,390 |

19. Deferred expenses

As at June 30, 2014 and June 30, 2013; movements of deferred expenses are as follows:

| | June 30, 2014 | June 30, 2013 |
|--|--------------------|--------------------|
| Deferred acquisition costs, gross January 1 | 133,990,090 | 84,061,256 |
| Acquisition costs deferred during the period | 35,504,932 | 29,074,074 |
| Amortization | (10,393,667) | (6,585,696) |
| Deferred acquisition costs | 159,101,355 | 106,549,634 |
| Deferred commission costs, gross January 1 | 15,089,269 | 14,606,921 |
| Commission cost deferred during the period | 3,013,451 | 1,974,397 |
| Deferred commission costs | 18,102,720 | 16,581,318 |
| Total deferred expenses | 177,204,075 | 123,130,952 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

20. Other payables and liabilities

As at June 30, 2014 and December 31, 2013; other payables and liabilities are as follows:

| | June 30, 2014 | December 31, 2013 |
|---------------------------------------|-------------------|----------------------|
| Payables to suppliers | 5,245,910 | 10,562,896 |
| Taxes and funds payable | 4,841,928 | 4,480,896 |
| Unused vacation provision | 3,533,403 | 2,716,292 |
| Expense accruals | 3,353,461 | 737,670 |
| Deferred commission income | 1,009,588 | 631,937 |
| Payables to related parties (Note 33) | 886,369 | 3,866,646 |
| Payables to personnel | 297,755 | 485,020 |
| Payables to shareholders (Note 33) | 120,246 | 84,213 |
| Total | 19,288,660 | 23,565,570 |

21. Insurance contract liabilities

Insurance liabilities as at June 30, 2014 and December 31, 2013; are as follows:

| | June 30, 2014 | December 31, 2013 |
|--|--------------------|--------------------|
| Gross insurance contract liabilities | | |
| Reserve for unearned premiums | 54,350,989 | 44,231,754 |
| Claims provision | 38,184,151 | 36,562,387 |
| Life mathematical reserves | 327,423,501 | 329,601,143 |
| Total | 419,958,641 | 410,395,284 |
| Reinsurance share of insurance contract liabilities | | |
| Reserve for unearned premiums, ceded (Note 7) | 3,502,043 | 2,620,344 |
| Claims provision, ceded (Note 7) | 3,520,695 | 3,452,585 |
| Total | 7,022,738 | 6,072,929 |
| Net insurance contract liabilities | | |
| Reserve for unearned premiums | 50,848,946 | 41,611,410 |
| Claims provision | 34,663,456 | 33,109,802 |
| Life mathematical reserves | 327,423,501 | 329,601,143 |
| Net insurance liabilities | 412,935,903 | 404,322,355 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

21. Insurance contract liabilities (continued)

Movements in insurance liabilities and reinsurance assets

Claims:

| June 30, 2014 | Gross | Ceded | Net |
|---------------------------------------|-------------------|------------------|-------------------|
| Total at the beginning of the period | 36,562,387 | 3,452,585 | 33,109,802 |
| Change during year | 1,621,765 | 68,111 | 1,553,654 |
| Total at the end of the period | 38,184,152 | 3,520,696 | 34,663,456 |

| June 30, 2014 | Gross | Ceded | Net |
|---------------------------------------|-------------------|------------------|-------------------|
| Reported claims | 28,777,766 | 2,136,963 | 26,640,803 |
| Incurred but not reported | 9,406,386 | 1,383,733 | 8,022,653 |
| Total at the end of the period | 38,184,152 | 3,520,696 | 34,663,456 |

| June 30, 2013 | Gross | Ceded | Net |
|---------------------------------------|-------------------|------------------|-------------------|
| Total at the beginning of the period | 29,414,060 | 2,446,834 | 26,967,226 |
| Change during year | 5,863,084 | 542,629 | 5,320,455 |
| Total at the end of the period | 35,277,144 | 2,989,463 | 32,287,681 |

| June 30, 2013 | Gross | Ceded | Net |
|---------------------------------------|-------------------|------------------|-------------------|
| Reported claims | 25,356,563 | 1,954,763 | 23,401,800 |
| Incurred but not reported | 9,920,581 | 1,034,700 | 8,885,881 |
| Total at the end of the period | 35,277,144 | 2,989,463 | 32,287,681 |

Claims paid and change in outstanding claims provision for the period ended June 30, 2014 and June 30, 2013 are as follows:

| | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|---|------------------------------|------------------------------|
| Cash paid for claims settled during the period | 65,110,897 | 90,638,242 |
| - Surrender and maturity from life savings | 50,729,740 | 74,222,750 |
| - Death and disability claims (*) | 11,454,298 | 10,441,346 |
| - Surrender from life protection | 2,926,859 | 5,974,146 |
| Change in outstanding claims provision | 1,553,654 | 5,320,455 |
| Claims paid and change in outstanding claims provision | 66,664,551 | 95,958,697 |

(*) The amounts are netted-off reinsurance.

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21. Insurance contract liabilities (continued)

Reserve for unearned premiums:

| June 30, 2014 | Gross | Ceded | Net |
|---|-------------------|------------------|-------------------|
| Reserve for unearned premiums at the beginning of the period | 44,231,754 | (2,665,378) | 46,897,132 |
| Premiums written during the period | 132,130,039 | 5,379,909 | 126,750,130 |
| Premiums earned during the period | (122,010,804) | 787,512 | (122,798,316) |
| Reserve for unearned premiums at the end of the period | 54,350,989 | 3,502,043 | 50,848,946 |
| June 30, 2013 | Gross | Ceded | Net |
| Reserve for unearned premiums at the beginning of the period | 31,107,673 | 1,437,468 | 29,670,205 |
| Premiums written during the period | 127,500,862 | 5,893,592 | 121,607,270 |
| Premiums earned during the period | (107,748,725) | (3,611,725) | (104,137,001) |
| Reserve for unearned premiums at the end of the period | 50.859.810 | 3.719.335 | 47.140.474 |

Life mathematical reserves

| | 2014 | 2013 |
|---|----------------------|----------------------|
| | Mathematical reserve | Mathematical reserve |
| | TL | TL |
| Total at the beginning of the period, January 1 | 350,404,798 | 381,222,270 |
| Additions | 27,983,842 | 42,881,917 |
| Disposals | 43,040,290 | 58,262,726 |
| Total at the end of the period, June 30 | 335,348,350 | 365,841,461 |

As of June 30, 2014, the fair value difference of financial assets at insured's risk amounting to TL 9,177,056 (December 31, 2013: TL 23,164,227) has not been included in the above mentioned mathematical reserve table (Note 6). In addition, deferred taxes on the fair value difference of financial assets at insured's risk amounting to TL 1,252,207 has not been included in the above mentioned mathematical reserve table.(December 31, 2013: 2,360,572).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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21. Insurance contract liabilities (continued)

Claims development tables

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

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

Claim development tables

As at June 30, 2014; claim development table of the Company is as follows:

| Accident year | 2007 and earlier | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|--|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Current estimate of claims | | | | | | | | | |
| Accident year | 923,284 | 826,690 | 1,227,956 | 1,554,297 | 1,951,856 | 3,530,749 | 7,008,782 | 8,093,131 | 25,116,745 |
| 1 year later | 166,776 | 235,437 | 212,915 | 367,109 | 286,984 | 531,152 | 1,033,845 | - | 2,834,218 |
| 2 year later | - | - | 131,476 | 95,647 | 203,714 | 65,910 | - | - | 496,747 |
| 3 year later | - | 65,893 | 9,484 | 95,486 | 11,500 | - | - | - | 182,363 |
| 4 year later | - | 6,110 | 47,250 | 85,133 | - | - | - | - | 138,493 |
| 5 year later | - | 3,100 | 6,100 | - | - | - | - | - | 9,200 |
| 6 year later | - | - | - | - | - | - | - | - | - |
| 7 year later | - | - | - | - | - | - | - | - | - |
| Total | 1,090,060 | 1,137,230 | 1,635,181 | 2,197,672 | 2,454,054 | 4,127,811 | 8,042,627 | 8,093,131 | 28,777,766 |
| Incurred but not reported | | | | | | | | | 5,983,489 |
| Additional claims according to the actuarial claim development table | | | | | | | | | 3,422,896 |
| Total gross provision for outstanding claims as at 30 June 2014 | | | | | | | | | 38,184,151 |

As at December 31, 2013, claim development table of the Company is as follows:

| Accident year | 2006 and earlier | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|--|---------------------|----------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
| Current estimate of claims | | | | | | | | | |
| Accident year | 329,438 | 846,145 | 1,597,244 | 1,221,544 | 1,525,863 | 1,851,084 | 3,616,998 | 13,768,123 | 24,756,439 |
| 1 year later | 87,644 | 103,489 | 227,947 | 232,100 | 432,994 | 286,968 | 525,525 | - | 1,896,667 |
| 2 year later | 1,663 | - | - | 131,895 | 93,555 | 190,815 | - | - | 417,928 |
| 3 year later | 344 | - | 66,650 | 9,484 | 85,665 | - | - | - | 162,143 |
| 4 year later | - | - | 6,110 | 50,050 | - | - | - | - | 56,160 |
| 5 year later | - | - | 3,100 | - | - | - | - | - | 3,100 |
| 6 year later | - | - | - | - | - | - | - | - | - |
| 7 year later | - | - | - | - | - | - | - | - | - |
| Total | 419,089 | 949,634 | 1,901,051 | 1,645,073 | 2,138,077 | 2,328,867 | 4,142,523 | 13,768,123 | 27,292,437 |
| Incurred but not reported | | | | | | | | | 6,444,846 |
| Additional claims according to the actuarial claim development table | | | | | | | | | 2,825,104 |
| Total gross provision for outstanding claims as at 31 December 2013 | | | | | | | | | 36,562,387 |

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

22. Equity

Share capital of the Company as at June 30, 2014 and December 31, 2013; are as follows:

| | June 30, 2014 | | December 31, 2013 | |
|--|----------------|-------------------|-------------------|-------------------|
| | Shareholding % | TL | Shareholding % | TL |
| Hacı Ömer Sabancı Holding A.Ş. (Sabancı Holding) | 49.83 | 17,830,354 | 49.83 | 17,830,354 |
| Aviva International Holdings Limited | - | - | - | - |
| AvivaSA Europe SE | 49.83 | 17,830,354 | 49.83 | 17,830,354 |
| Others | 0.34 | 118,489 | 0.34 | 118,489 |
| | 100.00 | 35,779,197 | 100.00 | 35,779,197 |
| Inflation adjustment on share capital | | 16,192,783 | | 16,192,783 |
| Total Equity | | 51,971,980 | | 51,971,980 |

Profit and other capital reserves:

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

| | June 30, 2014 | December 31, 2013 |
|------------------------|-------------------|-------------------|
| Profit reserves | 18,449,522 | 14,308,418 |
| Other capital reserves | 66,865,115 | 66,865,115 |
| Total | 85,314,637 | 81,173,533 |

Retained earnings as per the statutory financial statements, other than legal reserve requirements as referred below, are available for distribution. The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code. The Turkish Commercial Code stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the Turkish Commercial Code, the legal reserves can only be used to offset losses unless they exceed 50% of paid-in share capital and are not available for any other usage.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

22. Equity (continued)

Profit reserves

As at June 30, 2014 and December 31, 2013; details of profit reserves is as follows:

| | June 30, 2014 | December 31, 2013 |
|------------------------|-------------------|-------------------|
| Legal reserves | 5,058,452 | 3,545,456 |
| Statutory reserves | 7,739,802 | 5,306,816 |
| Extraordinary reserves | 5,651,268 | 5,456,146 |
| Total | 18,449,522 | 14,308,418 |

Other capital reserves

As of June 30, 2014 and December 31, 2013 capital reserves of the Company amounting to TL 66,865,115 consist of the amount of TL 66,540,803 that are differences resulted between the amount of TL 82,320,000 that is pre-merger nominal capital of Aviva Emeklilik and TL 15,779,197 that is capital increase amount of Ak Emeklilik; inflation adjustment of affiliates amounting to TL 324,236 and the amount of TL 76 that is bonus share increase of the affiliate.

Movement of profit reserves is presented below:

| | 2014 | 2013 |
|---------------------------------|-------------------|-------------------|
| Opening balance, January 1 | 14,308,418 | 9,168,359 |
| Transfers | 4,141,104 | 5,140,059 |
| Closing balance, June 30 | 18,449,522 | 14,308,418 |

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:

| | 2014 | 2013 |
|---|--------------------|--------------------|
| Opening balance, January 1 | (5,913,273) | 1,912,678 |
| Unrealized gains and losses due to changes in the fair values of available for sale financial assets net of taxes | 3,592,160 | (4,501,840) |
| Closing balance, June 30 | (2,321,113) | (2,589,162) |

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

22. Equity (continued)

Dividend per share

In 2014, the Company has distributed dividend to shareholders with respect to 2013 net distributable profit after the transfer of legal reserves amounting to TL 26,118,812 (TL 0.0073 per share) (2013: TL 33,632,445).

23. Earnings per share

Shareholder of the company's earnings per share calculation is as follows:

| | January 1-June 30, 2014 | January 1-June 30, 2013 |
|--|----------------------------|----------------------------|
| Profit for the period | 46,886,029 | 40,588,322 |
| Weighted average number of shares with nominal value of TL 0.01 nominal value per share | 3,577,919,700 | 3,577,919,700 |
| Earnings per share | 0.0131 | 0.0113 |

As of June 30, 2014 capital of the Company consists of 3,577,919,700 shares with nominal value of TL 0.01 (June, 2013: 3,577,919,700 shares with nominal value of TL 0.01).

24. Written premiums

The distribution of written premiums is as follows:

| | January 1- June 30, 2014 | | | January 1- June 30, 2013 | | |
|-------------------------------------|--------------------------|--------------------|--------------------|--------------------------|--------------------|--------------------|
| | Gross | Reinsurer share | Net | Gross | Reinsurer share | Net |
| Non-life | 20,903,720 | (69,962) | 20,833,758 | 17,271,637 | (42,250) | 17,229,387 |
| Life (Life protection + savings) | 111,226,319 | (5,309,947) | 105,916,372 | 110,229,225 | (5,851,342) | 104,377,883 |
| Total premium income | 132,130,039 | (5,379,909) | 126,750,130 | 127,500,862 | (5,893,592) | 121,607,270 |

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

25. Income generated from pension business

Income generated from pension business for the periods ended June 30, 2014 and June 30, 2013; are as follows:

| | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|--------------------------------------|------------------------------|------------------------------|
| Fund management income | 45,280,155 | 37,825,283 |
| Management fee | 10,682,290 | 7,762,514 |
| Premium holiday charges | 3,853,761 | - |
| Entry and deferred entry fees income | 17,179,094 | 14,320,873 |
| Total | 76,995,300 | 59,908,670 |

26. Foreign exchange gain / (loss), net

Total financial expenses for the periods ended June 30, 2014 and June 30, 2013; are as follows:

| | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|-------------------------|------------------------------|------------------------------|
| Foreign exchange gains | 14,646,324 | 6,547,055 |
| Foreign exchange losses | (13,926,047) | (3,365,572) |
| Total | 720,277 | 3,181,483 |

27. Commission income and commission expense

Commission income for the periods ended June 30, 2014 and June 30, 2013; are as follows:

| | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|--|------------------------------|------------------------------|
| Commission income from reinsurance companies (net) | 1,391,186 | 1,661,227 |
| Total | 1,391,186 | 1,661,227 |

Commission expense for the periods ended June 30, 2014 and June 30, 2013; are as follows:

| | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|--|------------------------------|------------------------------|
| Commission expenses due to personal accident insurance | (7,223,908) | (7,239,177) |
| -Change in commission expenses | (9,484,805) | (7,793,726) |
| -Change in deferred acquisition cost (Note 19) | 2,260,897 | 554,549 |
| Commission expenses due to life insurance | (15,664,656) | (15,400,736) |
| -Change in commission expenses | (16,417,210) | (16,820,584) |
| -Change in deferred acquisition cost (Note 19) | 752,554 | 1,419,848 |
| Total | (22,888,564) | (22,639,913) |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

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

Investment income for the period ended June 30, 2014 and June 30, 2013; are as follows:

| | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|--|------------------------------|------------------------------|
| Interest income | 13,844,745 | 9,040,639 |
| -Income from financial assets at fair value through profit or loss | 8,531,223 | 6,502,775 |
| -Income from available for sale financial assets | 5,313,522 | 2,537,864 |
| Net income from sale of financial assets | 6,155,060 | 7,150,505 |
| -Income from financial assets at fair value through profit or loss | 2,178,550 | 753,725 |
| -Income from available for sale financial assets | 3,976,510 | 6,396,780 |
| Dividend and realization income from other financial assets | - | 6,251 |
| Investment management expenses | (112,884) | (430,044) |
| Other income / (expense) | 3,251,093 | 1,354,154 |
| Total investment and other income/(expense), net | 23,138,014 | 17,121,545 |

29. Pension expenses including commission

Pension expenses including commission for the period ended June 30, 2014 and June 30, 2013; are as follows:

| | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|---|------------------------------|------------------------------|
| Fund management charges paid to Ak Asset Management | (5,163,573) | (5,254,823) |
| Commission expense, net of Dac | (12,295,455) | (7,609,129) |
| -Commission expense | (31,945,879) | (24,154,637) |
| - Change in deferred acquisition cost (Note 19) | 19,650,424 | 16,545,508 |
| Other income/ (expense), net | (3,698,975) | (3,044,544) |
| Total pension expenses | (21,158,003) | (15,908,496) |

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

30. General and administrative expenses

General and administrative expenses for the period ended June 30, 2014 and June 30, 2013; are as follows:

| | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|--|------------------------------|------------------------------|
| Personnel expenses | (48,582,360) | (45,076,159) |
| Outsourced expenses including IT services | (12,276,982) | (9,215,119) |
| Travelling and transportation expenses | (5,041,617) | (4,279,383) |
| Management expenses | (4,245,137) | (3,409,146) |
| Communication expenses | (3,089,880) | (2,267,518) |
| Depreciation and amortization (Note 11,12) | (2,231,442) | (1,853,642) |
| Office supplies expenses | (2,117,227) | (1,257,924) |
| Broker expenses | (1,921,246) | (240,360) |
| Advertising and marketing expenses | (1,733,542) | (1,686,729) |
| Representation and hosting expenses | (1,512,748) | (1,051,385) |
| Other marketing, sales and distribution expenses | (386,340) | (159,070) |
| Change in deferred acquisition cost (Note 19) | 5,460,840 | 5,942,869 |
| Other expenses | (2,313,426) | (2,030,263) |
| Total | (79,991,107) | (66,583,829) |

Personnel expenses for the period ended June 30, 2014 and June 30, 2013; are as follows:

| | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|---------------------------------------|------------------------------|------------------------------|
| Salaries | (27,768,857) | (23,992,505) |
| Commission and promotion expenses | (6,467,138) | (5,712,889) |
| Other salary expenses | (5,984,302) | (6,861,803) |
| Social security expenses | (4,591,506) | (3,889,334) |
| Other personnel expenses | (2,847,943) | (3,112,778) |
| Employee termination benefit expenses | (665,179) | (998,209) |
| Unused vacation expenses | (228,794) | (371,323) |
| Notice pay expense | (28,641) | (137,318) |
| Total | (48,582,360) | (45,076,159) |

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

31. Other income / (expense), net

Other income and expenses for the period ended June 30, 2014 and June 30, 2013 are as follows:

| | January 1 – June 30, 2014 | January 1 – June 30, 2013 |
|--|------------------------------|------------------------------|
| Other income: | | |
| Other income | 4,605 | 7,097 |
| Other expense: | | |
| Other operating expense | (393,249) | (371,242) |
| Other expense | (116,421) | (47,645) |
| Accrued subrogation expense | - | (19,997) |
| Total other income / (expense), net | (505,065) | (431,788) |

32. Blocked securities and bank deposits

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

| | June 30, 2014 | June 30, 2013 |
|-----------------------|--------------------|--------------------|
| Blocked bank deposits | 151,672,632 | 170,023,940 |
| Blocked securities | 214,269,073 | 227,556,686 |
| Total | 365,941,705 | 397,580,626 |

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

33. Related party balances and transactions

As at June 30, 2014 and December 31, 2013 balances and with related parties are as follows:

| | June 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Akbank T.A.Ş. –Credit card receivables | 100,399,878 | 87,747,296 |
| Other cash and cash equivalents | 100,399,878 | 87,747,296 |
| Akbank T.A.Ş.– Bank deposit | 107,965,456 | 97,208,869 |
| Banks | 107,965,456 | 97,208,869 |

As of 30 June 2014 and 31 December 2013, 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:

| | 30 June 2014 | | | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Nominal | Cost | Fair Value | Book Value |
| <i>Private Sector bonds</i> | | | | |
| Akbank T.A.Ş. | 5,900,000 | 5,900,000 | 5,958,528 | 5,958,528 |
| Başkent Elektrik Dağıtım A.Ş. | 4,500,000 | 4,500,000 | 4,536,315 | 4,536,315 |
| | 10,400,000 | 10,400,000 | 10,494,843 | 10,494,843 |

| | 31 December 2013 | | | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Nominal | Cost | Fair Value | Book Value |
| <i>Private Sector bonds</i> | | | | |
| Akbank T.A.Ş. | 6,520,000 | 6,520,000 | 6,530,628 | 6,530,628 |
| Başkent Elektrik Dağıtım A.Ş. | 4,500,000 | 4,500,000 | 4,549,590 | 4,549,590 |
| | 11,020,000 | 11,020,000 | 11,080,218 | 11,080,218 |

| | 30 June 2014 | 31 December 2013 |
|---|------------------|------------------|
| Other receivables from related parties | | |
| Aviva Sigorta A.Ş. (Aviva Sigorta) | 18,737 | 7,010 |
| Akbank T.A.Ş. | 3,410,256 | 1,526,946 |
| Ak Sigorta A.Ş. | - | 4,130 |
| | 3,428,993 | 1,538,086 |

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

33. Related party balances and transactions (continued)

| | 30 June 2014 | 31 December 2013 |
|--|---------------------|-------------------------|
| Receivables from main operations | | |
| H.Ö. Sabancı Holding A.Ş. | 417,249 | 1,444 |
| Kordsa Global Endüstriyel İplik ve Kord Bezi San. ve Tic. A.Ş. | 9,077 | (10,535) |
| Brisa Bridgestone Sabancı Lastik San. Ve Tic. A.Ş. | 4,785 | 368 |
| Temsa Global Sanayi ve Ticaret A.Ş. ve İştirakleri | 272,821 | 292 |
| Sabancı Üniversitesi | 163,240 | 123,515 |
| Bimsa Uluslararası İletişim ve Bilgi Sistemleri A.Ş. | 2,841 | (431) |
| Aviva Sigorta A.Ş. | 8,803 | 9,627 |
| Philip Morris Sabancı Satış ve Pazarlama A.Ş. | 436,575 | (1,262) |
| Philip Morris Sabancı Sigara ve Tütün A.Ş. | 380,129 | 22,265 |
| Aksigorta A.Ş. | 203,865 | (130) |
| Other | 218,307 | 82,615 |
| | 2,117,692 | 227,768 |
| | 30 June 2014 | 31 December 2013 |
| Finansal Borçlar | | |
| Akbank T.A.Ş. | 14,578,419 | - |
| | 30 June 2014 | 31 December 2013 |
| Other payables to related parties | | |
| Ak Portföy Yönetimi A.Ş. | - | 2,858,071 |
| AkSigorta A.Ş. (Aksigorta) | 386,698 | 31,066 |
| Bimsa Uluslararası İletişim ve Bilgi Sistemleri A.Ş. | 220,003 | 552,196 |
| TeknoSA İç ve Dış Tic. A.Ş. (TeknoSA) | 71,894 | 163,835 |
| Vista Turizm ve Seyahat A.Ş. (Vista) | 165,409 | 188,845 |
| EnerjiSA A.Ş. | 42,366 | 42,983 |
| Aviva Sigorta A.Ş. | - | 263 |
| | 886,370 | 3,837,259 |
| | 30 June 2014 | 31 December 2013 |
| Payables from main operations | | |
| Ak Portföy Yönetimi A.Ş. | 807,100 | 723,250 |
| Emeklilik Gözetim Merkezi A.Ş. | 41,916 | 29,387 |
| Akbank T.A.Ş. | 6,020,554 | 8,759,161 |
| | 6,869,570 | 9,511,798 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

33. Related party balances and transactions (continued)

| | 30 June 2014 | 31 December 2013 |
|--|---------------------|-------------------------|
| Expense accruals from other related parties | | |
| Aviva Europe SE | - | 221,411 |
| H.Ö Sabancı Vakfı | 1,086,059 | - |
| Ak Portföy Yönetimi A.Ş. | 1,838,625 | - |
| | 2,924,684 | 221,411 |
| | 30 June 2014 | 31 December 2013 |
| Shareholders: | | |
| Hacı Ömer Sabancı Holding | 535 | 7,629 |
| Aviva International Holdings | 27,063 | 26,328 |
| Other | 92,647 | 50,256 |
| Payables to shareholders | 120,245 | 84,213 |
| | | |
| Shareholders: | | |
| Aviva International Holdings | 396,626 | 241,117 |
| Receivables from shareholders | 396,626 | 241,117 |

Transactions with related parties for the period ended January 1 – June 30, 2014 and 2013 are as follows:

| | 1 January– 30 June 2014 | 1 January– 30 June 2013 |
|--|----------------------------|----------------------------|
| Services purchased | | |
| Akbank T.A.Ş. | 47,790,111 | 43,603,745 |
| - Paid administrative expenses | 553,070 | 180,106 |
| - commission paid | 47,237,041 | 43,423,639 |
| Ak Portföy Yönetimi A.Ş. | 4,648,368 | 3,781,292 |
| Vista (administrative expenses) | 2,245,599 | 1,945,741 |
| Citibank A.Ş. (commission and bonus expenses and performance bonuses) | - | - |
| BimSA (accounting and computing machinery) | 479,050 | 224,418 |
| Aviva Sigorta (kasko poliçe giderleri ve entegrasyon projesi danışmanlık hizm.) | | |
| Emeklilik Gözetim Merkezi A.Ş. (examination fee, pension costs, joint promotion services) | 315,773 | 531,733 |
| Milli Reasürans T.A.Ş. (Premiums Transferred) | | 18,900 |
| Aksigorta A.Ş. | 1,212,690 | 1,098,528 |
| EnerjiSA Doğal Gaz Toptan Satış A.Ş. | 247,568 | 228,953 |
| Other | 1,196,278 | 915,866 |
| | 58,135,437 | 52,349,176 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

33. Related party balances and transactions (continued)

| | 1 January– 30 June 2014 | 1 January– 30 June 2013 |
|--|----------------------------|----------------------------|
| Financial income | | |
| Akbank (interest income) | 5,672,924 | 5,165,114 |
| | 5,672,924 | 5,165,114 |
| Services provided | | |
| Kordsa Global Endüstriyel İplik ve Kord Bezi San. ve Tic. A.Ş. | 414,435 | 416,616 |
| Brisa Bridgestone Sabancı Lastik San. Ve Tic. A.Ş. | 362,710 | 304,116 |
| Temsa Global Sanayi ve Ticaret A.Ş. ve iştirakleri | 272,614 | 296,054 |
| Akçansa Çimento Sanayi ve Ticaret A.Ş. ve iştirakleri | 197,009 | 172,358 |
| Enerjisa Enerji Üretim A.Ş. ve iştirakleri | 294,950 | 254,310 |
| Çimsa Çimento Sanayi ve Ticaret A.Ş. ve iştirakleri | 207,829 | 165,551 |
| Sabancı Üniversitesi | 199,664 | 160,857 |
| Teknosa İç ve Dış Ticaret A.Ş. ve iştirakleri | 160,519 | 137,790 |
| Sasa Polyester Sanayi A.Ş. | 103,238 | 105,412 |
| Exsa Satış Araştırma | 3,198 | 3,187 |
| I-Bımsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş. | 66,828 | 55,425 |
| Yünsa Yünlü San. Tic. A.Ş. | 103,809 | 94,649 |
| Aviva Sigorta A.Ş. | 91,493 | 75,627 |
| Milli Reasürans T.A.Ş. | - | 10,419 |
| Philip Morris Sabancı Satış ve Pazarlama A.Ş. | 437,838 | 357,133 |
| Philip Morris Sabancı Sigara ve Tütün A.Ş. | 380,088 | 331,047 |
| Aksigorta A.Ş. | 203,995 | 160,656 |
| Akbank T.A.Ş. ve iştirakleri | 162,998 | 97,307 |
| Other | 595,574 | 396,192 |
| | 4,258,789 | 3,594,706 |

Benefits provided to to executive management

For the periods ended June 30, 2014 and 2013, 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 3,259,847 and TL 2,702,273 respectively.

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

34. Contingencies

Provision for lawsuits

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

As at June 30, 2014 and December 31, 2013; provisions for lawsuits against the Company are as follows:

| | June 30, 2014 | December 31, 2013 |
|--|-------------------|----------------------|
| Lawsuits provision under other provision: | 6,959,364 | 6,466,255 |
| Business lawsuits against the Company | 3,205,705 | 3,394,099 |
| Insurance lawsuits against the Company | 3,427,637 | 2,755,352 |
| Other lawsuits against the Company | 326,022 | 316,804 |
| Lawsuits provision under claims provision | 9,936,391 | 8,831,158 |
| Total lawsuits provision | 16,895,755 | 15,297,413 |

35. Commitments

As at June 30, 2014 and December 31, 2013, total insurance risk accepted by the Company under normal courses of the insurance business is detailed in Note 4.

As at June 30, 2014 and December 31, 2013, letters of guarantee given to suppliers and government institutions are as follows:

| | June 30, 2014 | December 31, 2013 |
|----------------------|------------------|-------------------|
| Letters of guarantee | 2,233,936 | 2,819,147 |
| Total | 2,233,936 | 2,819,147 |

AvivaSA Emeklilik ve Hayat A.Ş.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2014

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

35. Commitments (continued)

Operational leases

Future minimum rentals payable under operational leases as at June 30, 2014 and December 31, 2013 are as follows:

| | June 30, 2014 | | | |
|---|----------------|------------------|------------------|-------------------|
| | TL | USD | EUR | Total |
| Within one year | 508,623 | 3,588,904 | 2,348,191 | 6,445,718 |
| After one year but not more than five years | - | 1,486,380 | 2,616,524 | 4,102,904 |
| Total operational lease rental payable | 508,623 | 5,075,284 | 4,964,715 | 10,548,622 |

| | December 31, 2013 | | | |
|---|-------------------|------------------|------------------|-------------------|
| | TL | USD | EUR | Total |
| Within one year | 1,079,566 | 3,699,246 | 2,843,189 | 7,622,001 |
| After one year but not more than five years | 60,254 | 3,286,822 | 232,437 | 3,579,513 |
| Total operational lease rental payable | 1,139,820 | 6,986,068 | 3,075,626 | 11,201,514 |

36. Subsequent events

None.