

**AVİVASA EMEKLİLİK VE HAYAT
ANONİM ŞİRKETİ**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2019
AND INDEPENDENT AUDITOR'S REVIEW REPORT**

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

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AVIVASA EMEKLİLİK VE HAYAT A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

Assets	Note	June 30, 2019	December 31, 2018
Cash and cash equivalents	5	683,012,955	633,233,563
Financial assets	6	1,054,332,410	843,339,644
Premium and other insurance receivables	8	37,876,601	33,872,232
Reinsurance share of insurance liabilities	7,21	14,855,313	11,884,286
Deferred expenses	19	399,636,956	381,296,390
Other financial assets	13	868,012	868,012
Pension business receivables	9	237,760,573	196,178,322
Right of use assets	2	34,727,842	-
Property and equipment, net	11	29,820,926	29,677,879
Intangible assets, net	12	57,048,711	49,560,983
Other assets	10	28,579,050	12,501,920
Total assets		2,578,519,349	2,192,413,231
Liabilities			
Lease liabilities	14	36,742,023	-
Due to insurance and reinsurance companies	15	24,385,028	21,131,197
Pension business payables	9	533,722,334	495,513,386
Insurance contract liabilities	21	1,129,426,027	919,998,149
Provision for employment termination benefits	18	14,053,636	11,934,859
Deferred tax liabilities	17	42,659,979	38,640,075
Current tax liabilities	17	16,832,235	9,874,332
Other payables and liabilities	20	100,729,233	37,785,767
Other provisions	16	31,926,834	36,394,665
Total liabilities		1,930,477,329	1,571,272,430
Share capital	22	180,000,000	180,000,000
Items that may be reclassified to profit or loss			
Fair value reserves from available for sale assets	22	(34,046,530)	(39,141,204)
Other capital reserves	22	837,095	837,095
Profit reserves	22	135,728,079	44,498,235
Retained earnings	22	249,520,980	234,363,000
Profit for the period	23	116,002,396	200,583,675
Equity attributable to the owners of the Group		648,042,020	621,140,801
Total equity and liabilities		2,578,519,349	2,192,413,231

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

	Note	January 1 - June 30, 2019	April 1- June 30, 2019	January 1 - June 30, 2018	April 1- June 30, 2018
Income:					
Gross written premiums	24	368,710,187	191,284,112	285,276,648	144,822,438
Premium ceded to reinsurers	24	(12,881,852)	(6,227,979)	(9,380,415)	(4,085,976)
Premium written net of reinsurance	24	355,828,335	185,056,133	275,896,233	140,736,462
Net change in provision for unearned premiums reserves		(12,090,233)	5,836,283	(20,707,562)	(5,496,395)
Net premiums earned		343,738,102	190,892,416	255,188,671	135,240,067
Net change in mathematical reserves		(111,744,194)	(71,333,908)	(44,928,813)	(25,839,719)
Income generated from pension business	25	180,981,867	84,467,269	162,464,001	80,042,480
Investment and other income	28	61,908,061	43,144,576	42,455,745	24,435,260
Commission income	27	5,343,236	3,836,666	5,844,324	4,370,361
Foreign exchange gains/(losses), net	26	17,863,096	3,583,750	5,708,940	4,872,995
Total income		498,090,168	254,590,769	426,732,868	223,121,444
Expenses:					
Claims paid and change in outstanding claims provisions	21	(47,276,245)	(21,559,158)	(52,945,778)	(25,078,743)
General and administrative expenses	30	(179,145,656)	(88,581,116)	(148,269,870)	(72,544,794)
Pension expenses including commission	29	(58,363,073)	(27,557,404)	(46,455,361)	(23,804,375)
Commission expense	27	(63,369,563)	(34,817,015)	(60,926,294)	(31,720,856)
Other (expense)/income, net	31	(1,134,727)	(470,347)	(3,722,441)	(3,221,102)
Total expenses		(349,289,264)	(172,985,040)	(312,319,744)	(156,369,870)
Profit before taxes		148,800,904	81,605,729	114,413,124	66,751,574
Income tax expense (-)	17	(32,798,508)	(16,908,042)	(25,711,569)	(14,335,111)
Profit for the period		116,002,396	64,697,687	88,701,555	52,416,463
Earnings per share (TL 0.01 nominal value per share)	23	0.0064	0.0036	0.0075	0.0044

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

Note	January 1 - June 30, 2019	April 1 - June 30, 2019	January 1 - June 30, 2018	April 1 - June 30, 2019
Profit for the year	116,002,396	64,697,687	88,701,555	52,416,463
Other comprehensive income:				
Items that may be reclassified subsequently to profit or (loss):				
Net gain/(loss) on available-for-sale assets	6,531,633	24,899,800	(39,559,379)	(28,947,201)
Deferred tax relating to components of other comprehensive income	(1,436,959)	(5,477,956)	8,703,063	6,368,384
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent years	5,094,674	19,421,844	(30,856,316)	(22,578,817)
Items that will not be reclassified subsequently to profit or loss:				
Actuarial gain/ (loss) on employee termination benefits	(3,123,600)	(1,408,871)	-	-
Deferred tax relating to actuarial gain/ (loss)	687,192	309,952	-	-
Net other comprehensive gain/ (loss) not being reclassified to profit or loss in subsequent years	(2,436,408)	(1,098,919)	-	-
Other comprehensive income / (loss), net of tax	2,658,266	18,322,925	(30,856,316)-	(22,578,817)
Total comprehensive income, net of tax	118,660,662	83,020,612	57,845,239	29,837,646

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

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

	Note	Share capital	Other capital reserves	Items that may be reclassified to profit or loss/ Fair value reserves for available for - sale financial assets	Profit reserves	Retained earnings	Profit for the period	Total
Balances at January 1, 2018 - as previously stated		118,000,000	837,095	(3,130,948)	53,117,686	235,872,981	144,718,682	549,415,496
IFRS 15 impact		-	-	-	-	(43,893,986)	-	(43,893,986)
Balances at January 1, 2018 (as restated)		118,000,000	837,095	(3,130,948)	53,117,686	191,978,995	144,718,682	505,521,510
Profit for the period		-	-	-	-	-	88,701,555	88,701,555
Other comprehensive loss	22	-	-	(30,856,316)	-	-	-	(30,856,316)
Total comprehensive income		-	-	(30,856,316)	-	-	88,701,555	57,845,239
Transfer	22	-	-	-	53,380,549	91,338,133	(144,718,682)	-
Dividend payment	22	-	-	-	-	(48,309,200)	-	(48,309,200)
Balance at June 30, 2018		118,000,000	837,095	(33,987,264)	106,498,235	235,007,928	88,701,555	515,057,549
	Note	Share capital	Other capital reserves	Items that may be reclassified to profit or loss/ Fair value reserves for available for - sale financial assets	Profit reserves	Retained earnings	Profit for the period	Total
Balances at January 1, 2019- as previously stated		180,000,000	837,095	(39,141,204)	44,498,235	234,362,984	200,564,104	621,121,214
ROP DAC impact (*)		-	-	-	-	8,260,144	-	8,260,144
Balances at January 1, 2019 (as restated)		180,000,000	837,095	(39,141,204)	44,498,235	242,623,128	200,564,104	629,381,358
Profit for the period		-	-	-	-	-	116,002,396	116,002,396
Other comprehensive income	22	-	-	5,094,674	-	(2,436,408)	-	2,658,266
Total comprehensive income		-	-	5,094,674	-	(2,436,408)	116,002,396	118,660,662
Transfer	22	-	-	-	91,229,844	109,334,260	(200,564,104)	-
Dividend payment	22	-	-	-	-	(100,000,000)	-	(100,000,000)
Balance at June 30, 2019		180,000,000	837,095	(34,046,530)	135,728,079	249,520,980	116,002,396	648,042,020

(*) Disclosed in Note 2.6

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

	Note	January 1 - June 30, 2019	January 1 - June 30, 2018
Cash flows from operating activities:			
Profit for the period		116,002,396	88,701,555
Income taxes	17	32,798,508	25,711,569
Depreciation and amortization	30	14,456,191	5,834,814
Interest income	28	(43,753,565)	(36,819,191)
Unrealized exchange rates (gains) / losses from cash and cash equivalents		(18,730,556)	9,518,746
Unrealized Exchange rates (gains) / losses from financial assets	6	(69,448,005)	(88,081,385)
Fair value changes in financial assets	6	12,985,132	(18,237,263)
Change in claims provision	21	47,588,997	53,242,567
Change in life mathematical reserves	21	194,722,858	121,150,268
Change in provision for unearned premiums reserves	21	14,630,227	21,027,217
Change in provision for employment termination benefits	18	1,603,762	2,270,497
Change in blockage		39,426,847	(14,120,951)
Operating profit before changes in operating assets / liabilities		342,282,792	170,198,443
Changes in operating assets and liabilities:			
Change in premium and other insurance receivables		(4,004,369)	(15,761,298)
Change in other assets and other liabilities		6,985,406	(109,469)
Change in deferred expenses	18	(18,340,566)	(16,609,497)
Change in pension business receivables		(41,582,251)	(28,320,426)
Change in pension business payables		38,208,948	55,219,986
Change in lease liabilities		2,014,183	-
Corporate taxes paid		(27,073,278)	(22,677,315)
Cash paid for claims settled during the year, net	21	(47,514,187)	(50,697,604)
Employment termination benefits paid	18	(2,608,581)	(1,850,938)
Net cash provided from / (used in) operating activities		248,368,097	89,391,882
Cash flows from investing activities:			
Acquisition of property and equipment	11	(3,927,284)	(13,147,070)
Acquisition of intangible assets	12	(13,724,706)	(11,230,919)
Purchases of financial assets	6	(1,147,146,479)	(308,515,202)
Proceeds from sale of financial assets	6	1,002,452,450	205,695,573
Interest received	28	43,753,565	36,819,191
Net cash provided by investing activities		(118,592,454)	(90,378,427)
Dividend payment		(54,748,939)	(48,309,200)
Paid rent for lease liabilities		(6,859,283)	-
Net cash provided by/(used in) financing activities		(61,608,222)	(48,309,200)
Effect of exchange rates on cash and cash equivalents		18,730,556	14,791,925
Net increase in cash and cash equivalents		86,897,977	(34,503,820)
Cash and cash equivalents at the beginning of the year		386,292,747	438,733,762
Cash and cash equivalents at the end of the period		473,190,724	404,229,942

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

1. GENERAL INFORMATION

1.1 Corporate Information

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

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

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

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

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

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

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

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

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

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

With the Board of Directors' decision dated October 26, 2018, it has been decided to get permission from the Prime Ministry Capital Markets Board, Treasury and Finance Ministry and Ministry of Commerce to increase the paid-in capital of the Company by 52.54% and increase from TL 118,000,000 to TL 180,000,000 and to provide the entire increase of TL 62,000,000 from Extraordinary Reserves and to give 52.54% of the shares to each share held by the shareholders. As of June 30, 2019 19.91% of the Company's share have been listed on the Borsa İstanbul ("BIST").

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

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

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

1. GENERAL INFORMATION (Continued)

1.1 Corporate Information (Continued)

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

The consolidated financial statements of the Company as at and for the period ended June 30, 2019 comprises the Company and its subsidiary (together referred to as the “Group” and individually as “Group Entities”).

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

The address of the registered office of the subsidiary is as follows;
Küçükbakkalköy Mah. Kayışdağı Cad. Sevda Sokak No:1 (Seven Towers) Kat: 2 Daire: 2 Ataşehir/İstanbul

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

The average personnel number of the Group is 1,704 employees for the period ended June 30, 2019 (1 January - December 31, 2018: 1,596).

The accompanying consolidated financial statements of the Group for the year ended June 30, 2019 were authorised for issue in accordance with a resolution of the directors on August 5, 2019.

As of June 30, 2019, there are 35 pension investment funds established by the Group (December 31, 2018: 35 pension funds). The pension investment funds established by the Group are as follows:

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

1. GENERAL INFORMATION (Continued)

1.1 Corporate Information (Continued)

As at June 30, 2019 and December 31, 2018 units and amounts of share certificates in circulation are as follows:

Share certificates in circulation	June 30, 2019		December 31, 2018	
	Number of Share Certificates	Net Asset Value (TL)	Number of Share Certificates	Net Asset Value (TL)
AvivaSA Emeklilik ve Hayat A.Ş. Karma Emeklilik Yatırım Fonu	918,937,675	54,545,384	1,112,312,204	59,540,960
AvivaSA Emeklilik ve Hayat A.Ş. Agresif Değişken Emeklilik Yatırım Fonu	1,259,169,077	73,452,369	1,633,053,388	86,827,816
AvivaSA Emeklilik ve Hayat A.Ş. Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	26,365,267,893	1,958,333,003	23,045,685,443	1,529,219,503
AvivaSA Emeklilik ve Hayat A.Ş. Uzun Vadeli Borçlanma Araçları Emeklilik Yatırım Fonu	2,355,989,136	139,443,929	2,997,914,114	163,323,363
AvivaSA Emeklilik ve Hayat A.Ş. İkinci Para Piyasası Emeklilik Yatırım Fonu	2,556,637,525	143,018,303	2,788,370,446	139,175,934
AvivaSA Emeklilik ve Hayat A.Ş. İkinci Değişken Emeklilik Yatırım Fonu	3,336,224,677	137,182,223	2,637,389,550	96,847,582
AvivaSA Emeklilik ve Hayat A.Ş. Uzun Vadeli Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	22,585,644,152	1,545,784,071	21,194,457,875	1,289,873,512
AvivaSA Emeklilik ve Hayat A.Ş. Temettü Ödeyen Şirketler Hisse Senedi Emeklilik Yatırım Fonu	1,512,185,130	51,229,808	1,912,998,808	57,192,925
AvivaSA Emeklilik ve Hayat A.Ş. Birinci Para Piyasası Emeklilik Yatırım Fonu	43,881,304,540	2,609,928,350	43,916,937,084	2,329,486,094
AvivaSA Emeklilik ve Hayat A.Ş. Borçlanma Araçları Emeklilik Yatırım Fonu	43,293,259,427	2,506,679,721	50,393,102,031	2,690,890,862
AvivaSA Emeklilik ve Hayat A.Ş. Dinamik Değişken Emeklilik Yatırım Fonu	32,395,504,041	2,073,636,214	37,552,350,630	2,170,000,134
AvivaSA Emeklilik ve Hayat A.Ş. Birinci Değişken Emeklilik Yatırım Fonu	19,578,481,290	1,002,829,390	20,616,171,803	885,011,023
AvivaSA Emeklilik ve Hayat A.Ş. Hisse Senedi Emeklilik Yatırım Fonu	13,750,754,658	876,500,603	15,936,445,122	891,596,295
AvivaSA Emeklilik ve Hayat A.Ş. Borçlanma Araçları Grup Emeklilik Yatırım Fonu	5,938,994,178	289,828,855	7,061,381,300	316,236,900
AvivaSA Emeklilik ve Hayat A.Ş. Muhafazakar Değişken Emeklilik Yatırım Fonu	2,752,372,580	156,285,220	3,204,378,926	164,554,471
AvivaSA Emeklilik ve Hayat A.Ş. Hisse Senedi Grup Emeklilik Yatırım Fonu	1,387,744,671	87,293,303	1,640,160,741	87,696,114
AvivaSA Emeklilik ve Hayat A.Ş. Karma Grup Emeklilik Yatırım Fonu	1,202,234,461	27,414,552	1,407,631,834	28,936,688
AvivaSA Emeklilik ve Hayat A.Ş. Dengeli Değişken Emeklilik Yatırım Fonu	248,058,422	4,860,457	259,788,054	4,627,864
AvivaSA Emeklilik ve Hayat A.Ş. Katkı Emeklilik Yatırım Fonu	161,257,552,402	2,317,109,770	157,881,142,351	2,087,504,464
AvivaSA Emeklilik ve Hayat A.Ş. Standart Emeklilik Yatırım Fonu	7,886,441,598	114,242,993	8,793,260,075	116,739,321
AvivaSA Emeklilik ve Hayat A.Ş. Altın Emeklilik Yatırım Fonu	93,408,631,946	2,645,706,091	73,892,577,497	1,754,431,468
AvivaSA Emeklilik ve Hayat A.Ş. B.R.I.C Ülkeleri Yabancı Değişken Emeklilik Yatırım Fonu	3,779,791,764	127,518,835	1,790,444,978	48,401,099
AvivaSA Emeklilik ve Hayat A.Ş. Özel Sektör Borçlanma Araçları Emeklilik Yatırım Fonu	769,583,672	15,216,208	390,396,356	6,915,871
AvivaSA Emeklilik ve Hayat A.Ş. Başlangıç Emeklilik Yatırım Fonu	7,035,051,453	102,423,314	7,459,442,479	98,084,209
AvivaSA Emeklilik ve Hayat A.Ş. Başlangıç Katılım Emeklilik Yatırım Fonu	4,975,750,148	69,043,509	4,849,170,832	61,051,061
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dinamik Katılım Değişken EYF	172,895,985	2,128,350	89,315,513	1,015,696
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Katılım Değişken EYF	114,713,092	1,374,607	79,639,898	862,500
AvivaSA Emeklilik ve Hayat A.Ş. OKS Muhafazakar Değişken EYF	269,148,392	3,398,806	121,200,231	1,378,410
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dengeli Değişken EYF	178,697,324	2,130,251	104,242,667	1,103,096
AvivaSA Emeklilik ve Hayat A.Ş. OKS Dinamik Değişken EYF	198,902,227	2,316,018	125,651,917	1,291,702
AvivaSA Emeklilik ve Hayat A.Ş. OKS Agresif Değişken EYF	229,251,542	2,485,545	174,297,685	1,660,360
AvivaSA Emeklilik ve Hayat A.Ş. OKS Standart Emeklilik Yatırım Fonu	23,158,673,297	275,541,895	17,402,949,120	187,760,418
AvivaSA Emeklilik ve Hayat A.Ş. OKS Katılım Standart Emeklilik Yatırım Fonu	10,544,646,235	125,089,842	7,429,543,250	81,635,821
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Katkı Emeklilik Yatırım Fonu	1,215,608	13,534	1,134,107	11,752
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Standart Emeklilik Yatırım Fonu	77,016	988	32,647	389
	539,209,787,234	19,543,986,311	519,894,970,956	17,440,885,677

Participation certificates at the Group	June 30, 2019		December 31, 2018	
	Number of Share Certificates	Net Asset Value (TL)	Number of Share Certificates	Net Asset Value (TL)
AvivaSA Emeklilik ve Hayat A.Ş. Katılım Standart EYF	39,389,242	504,455	39,356,595	468,815
	39,389,242	504,455	39,356,595	468,815

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

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

2.2 Basis of consolidation

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

Subsidiary

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

Transactions eliminated on consolidation

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies

Gross written premiums

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

Premiums ceded to reinsurers

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

Net change in provision for unearned premium reserves

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

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

Net change in mathematical reserves

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

Income generated from pension business

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

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

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

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

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

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

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

Investment and other income (expense), net

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

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

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

Interest income presented in the statement of comprehensive income includes:

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

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

Commission income and commission expenses

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

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

Claims paid and change in outstanding claims provisions

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Pension expenses including commission

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

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

Cash and cash equivalents

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

Property and equipment

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

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

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

Leases as lessee

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

The payment of the operational lease is charged to profit or loss on a straight-line basis over the lease period. The incentives received or to be received from the lessor and payments made to intermediaries to acquire the lease contract are also charged to profit or loss on a straight-line basis over the lease period. As at June 30, 2019 and December 31, 2018 details of the outstanding operational lease liability has been disclosed in Note 14.

Intangible assets

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Financial instruments

Recognition

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

Classification

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

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

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

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

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

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

Measurement

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Fair value measurement principles

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

Derecognition

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

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

Offsetting

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

Impairment of financial assets

Premium and other insurance receivables

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS AT JUNE 30, 2019**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

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

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

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

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

Insurance contracts

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Impairment of financial assets (Continued)

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

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

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

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

Liability adequacy test

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

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

Deferred acquisition costs (DAC)

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

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

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

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

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

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Provision for unearned premiums

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

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

Provision for outstanding claims/IBNR

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

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

Mathematical reserves

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

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

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

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

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Reinsurance contracts held

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

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

Pension business

The Group provides group and individual plans to customers.

The Group offers 35 pension investment funds (2018: 35). These pension funds are in different risk profiles according to the portfolio composition of the funds. The participants choose from among different pension funds within legal limitations and determine allocation rates for contributions and additional contributions according to the contract provisions. The participants gain right for retirement provided that they remain in the pension system for at least 10 years, pay contributions for at least 10 years and attain 56 years of age.

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

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

Income on/Expense from Pension Operations

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

Employee benefits

Provision for Termination Benefit Obligations

Provision for Termination Benefit Obligations represents the present value of the estimated future probable obligation of the Group arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the consolidated financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The maximum amount of TL 6,018 effective as of June 30, 2019 (December 31, 2018:TL 5,434) has been taken into consideration during calculation of provision from employment termination benefits.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Employee benefits (Continued)

IAS 19 - *Employee benefits* requires actuarial valuation methods to be developed to estimate the Group's obligation for termination benefits. The principal statistical assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at June 30, 2019 and December 31, 2018 is as follows:

	June 30, 2019 %	December 31, 2018 %
Expected rate of salary/limit increase	10.00	10.00
Discount rate	15.40	15.40

Other benefits to employees

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

Provisions

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

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

Taxes on income

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

Current tax

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

Deferred tax

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

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

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Taxes on income (Continued)

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

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

Since the tax rate effective from 1 January 2018 has been changed to 22% as valid for 3 years , in the calculation of deferred tax as of June 30, 2019, 22% tax rate is used for temporary differences expected to be realized within 3 years.

Related parties

Parties are considered related to the Group if;

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

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

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

Foreign currency transactions

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

2. ACCOUNTING POLICIES (Continued)

2.3 Summary of significant accounting policies (Continued)

Foreign currency transactions (Continued)

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

	June 30, 2019		December 31, 2018	
	USD / TL	Euro / TL	USD / TL	Euro / TL
Bid Rates	5.7551	6,5507	5.2609	6.0280
Ask Rates	5.7741	6.5724	5.2783	6.0479

Segment reporting

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

2.4 Changes in accounting policy and disclosures

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

a) Standards, amendments and interpretations applicable as at 30 June 2019:

- **IFRS 9, ‘Financial instruments’**; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- **IFRS 15, ‘Revenue from contracts with customers’**; effective from annual periods beginning on or after 1 January 2018. IFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in consolidated financial statements globally.
- **Amendment to IFRS 15, ‘Revenue from contracts with customers’**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- **Amendments to IFRS 4, ‘Insurance contracts’** regarding the implementation of IFRS 9, ‘Financial Instruments’; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.

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

2. ACCOUNTING POLICIES (Continued)

2.4 Changes in accounting policy and disclosures (Continued)

a) Standards, amendments and interpretations applicable as at 30 June 2019 (Continued):

- **Amendment to IAS 40, 'Investment property'** relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- **Amendments to IFRS 2, 'Share based payments'** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
- **Annual improvements 2014-2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
 - IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.
- **IFRIC 22, 'Foreign currency transactions and advance consideration';** effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

b) Standards, amendments and interpretations that are issued but not effective as at 30 June 2019:

- **Amendment to IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
- **Amendment to IAS 28, 'Investments in associates and joint venture';** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.
- **IFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

2. ACCOUNTING POLICIES (Continued)

2.4 Changes in accounting policy and disclosures (Continued)

b) *Standards, amendments and interpretations that are issued but not effective as at 30 June 2019 (Continued):*

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payment:

- a) Fixed payments (including in substance fixed payments), less any lease incentives receivable
- b) Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar economic environment with similar terms and conditions.

Right of use assets are measured at cost comprising the following:

- a) The amount of the initial measurement of lease liability
- b) Any lease payments made at or before the commencement date less any lease incentives received
- c) Any initial direct costs and
- d) Restoration costs

On adaption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principle of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 25% for local currency liabilities and 7% for foreign currency lease liabilities.

1 January 2019

Lease liabilities under IAS 17	68,053,531
- Short term leases recognised on a straight line basis as expense(-)	(817,121)

Total Lease liabilities under IFRS 16 (Undiscounted)	67,236,410
Total Lease liabilities under IFRS 16 (Discounted)	38,805,375

Short term lease liabilities	6,785,773
Long term lease liabilities	32,019,602

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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2. ACCOUNTING POLICIES (Continued)

2.4 Changes in accounting policy and disclosures (Continued)

b) Standards, amendments and interpretations that are issued but not effective as at 30 June 2019 (Continued):

The recognised right of use assets relate to the following types of assets:

	30 June 2019	1 January 2019
Property	28,067,825	30,167,446
Vehicles	6,660,017	8,637,929
Total right of use assets	34,727,842	38,805,375

The Group has TL 4,568,045 depreciation expense with regards to the booked right of use assets between 1 January 2019- 30 June 2019. (1 April 2019-30 June 2019; TL 2,477,597)

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

- **IFRS 17, 'Insurance contracts'**; effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- **Annual improvements 2015-2017**; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - IFRS 3, 'Business combinations', - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - IFRS 11, 'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - IAS 12, 'Income taxes' - a company accounts for all income tax consequences of dividend payments in the same way.
 - IAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- **Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement'**; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:
 - use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
 - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

2. ACCOUNTING POLICIES (Continued)

2.4 Changes in accounting policy and disclosures (Continued)

b) *Standards, amendments and interpretations that are issued but not effective as at 30 June 2019 (Continued):*

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, ‘Presentation of consolidated financial statements’, and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs:
 - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
 - ii) clarify the explanation of the definition of material; and
 - iii) incorporate some of the guidance in IAS 1 about immaterial information.
- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

2.5 Critical accounting estimates and judgments in applying accounting policies

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

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

Deferred acquisition costs (DAC)

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

Deferral periods can be the average life-time of the contracts (which are longer than the lapse assumptions). The Group management has reviewed the historical lapse development for pension contracts and changed the estimated life time as eight years from nine years. The amount of DAC is subject to Liability Adequacy Test each year. The Group has applied straight line method for the amortisation of DAC in the average-life time of the contacts.

Deferred income reserve (DIR)

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

Ultimate liability arising from claims made under insurance contracts

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

2. ACCOUNTING POLICIES (Continued)

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

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

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

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

Employee termination benefits

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

Doubtful receivables provisions

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

Provision for litigations

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

2.6 Changes in Accounting Estimates and Policies

The Group can make changes in their accounting policies or estimates based on valid arguments. If there is a change in an accounting estimate, the effect of the change in the accounting estimate shall be recognised prospectively by including it in profit or loss in the period of the change or in the period of the change and future periods, if the change affects both. However, if there is a change in the accounting policy, the effect of the change shall be recognized retrospectively by adjusting the opening balance of each affected component of equity.

Changes in accounting policies

The Group has reviewed its accounting policy for deferred acquisition costs for Return of Premium products (“ROP”) and concluded on a change. Up until 31 December 2018, the Group did not include the up-front commissions for ROP products produced by its bank channel in its deferred acquisition costs. However, in 2019, it is agreed that these up-front commissions are also within the scope of IFRS 15 Revenue from Contracts with Customers. Such decision resulted in a change in accounting policy and the effect of the change was recognised in the consolidated financial statements retrospectively. As such comparative consolidated financial statements have not been restated. The retrospective treatment of the change in accounting policy was reflected to the opening balances at 1 January 2019 only on the grounds of materiality.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2019

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

2. ACCOUNTING POLICIES (Continued)

2.6 Changes in Accounting Estimates and Policies (Continued)

	1 January 2019
Retained earnings (before ROP DAC impact)	621,121,214
Deferred commissions	10,589,928
Deferred tax impact	(2,329,784)
Total impact of ROP DAC on retained earnings	8,260,144
Retained earnings (after ROP DAC Impact)	629,381,358

3. SEGMENT INFORMATION

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

Life Protection

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

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

Life Savings

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

Personal Accident

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

3. SEGMENT INFORMATION (Continued)

Pension

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

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

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

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

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

Other: Adjustments included in other represent individually insignificant reclassifications.

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

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

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

3. SEGMENT INFORMATION (Continued)

January 1 - June 30, 2019	Life Insurance					Reconciliation to statement of profit and loss			Statement of profit or loss
	Pension	Life protection	Life savings	Personal accident	Total	Commissions expenses	Other	Net change in mathematical reserves	
Gross written premiums	-	321,595,099	4,524,403	42,590,685	368,710,187	-	-	-	368,710,187
Premium ceded to reinsurers	-	(10,071,949)	(150,488)	(2,659,415)	(12,881,852)	-	-	-	(12,881,852)
Premium written net of reinsurance	-	311,523,150	4,373,915	39,931,270	355,828,335	-	-	-	355,828,335
Net change in mathematical reserves	-	(134,475,492)	22,731,298	-	(111,744,194)	-	-	111,744,194	-
Net change in provision for unearned premiums reserves	-	(8,806,354)	6,404	(3,290,283)	(12,090,233)	-	-	-	(12,090,233)
Net premiums earned	-	168,241,304	27,111,617	36,640,987	231,993,908	-	-	111,744,194	343,738,102
Net change in mathematical reserves	-	-	-	-	-	-	-	(111,744,194)	(111,744,194)
Claim paid and change in outstanding claims	-	(20,747,444)	(24,563,497)	(1,965,304)	(47,276,245)	-	-	-	(47,276,245)
Commission income	-	4,484,815	235,962	622,459	5,343,236	-	-	-	5,343,236
Commission expense	-	(46,356,211)	(898)	(17,514,444)	(63,871,553)	501,990	-	-	(63,369,563)
<i>Commission expense</i>	-	(59,653,124)	(898)	(17,514,444)	(77,168,466)	501,990	-	-	(76,666,476)
<i>DAC</i>	-	13,296,913	-	-	13,296,913	-	-	-	13,296,913
Other income / (expense), net	-	(1,155,542)	-	(411,048)	(1,566,590)	-	431,863	-	(1,134,727)
Life and personal accident technical profit	-	104,466,922	2,783,184	17,372,650	124,622,756	-	-	-	125,556,609
Fund management charge	118,327,260	-	-	-	118,327,260	-	-	-	118,327,260
Management fee	3,783,043	-	-	-	3,783,043	-	-	-	3,783,043
<i>Account management fee, net of DIR</i>	37,883,260	-	-	-	37,883,260	-	-	-	37,883,260
<i>Account management fee</i>	40,859,032	-	-	-	40,859,032	-	-	-	40,859,032
<i>DIR</i>	(2,975,772)	-	-	-	(2,975,772)	-	-	-	(2,975,772)
Premium holiday charges	-	-	-	-	-	-	-	-	-
Deferred fee	20,024,614	-	-	-	20,024,614	-	-	-	20,024,614
Entry and deferred entry fees income	963,690	-	-	-	963,690	-	-	-	963,690
Pension income	180,981,867	-	-	-	180,981,867	-	-	-	180,981,867
Fund management charge	(12,101,084)	-	-	-	(12,101,084)	-	-	-	(12,101,084)
Commission expense, net of DAC	(37,543,875)	-	-	-	(37,543,875)	235,956	-	-	(37,307,919)
<i>Commission expense</i>	(31,746,309)	-	-	-	(31,746,309)	235,956	-	-	(31,510,353)
<i>DAC</i>	(5,797,566)	-	-	-	(5,797,566)	-	-	-	(5,797,566)
Other income / (expense), net	(8,954,070)	-	-	-	(8,954,070)	-	-	-	(8,954,070)
Pension expenses including commission	(58,599,029)	-	-	-	(58,599,029)	235,956	-	-	(58,363,073)
Pension technical profit	122,382,838	-	-	-	122,382,838	-	-	-	122,382,838
Total technical profit	122,382,838	104,466,922	2,783,184	17,372,650	247,005,594	-	-	-	247,005,594
General and administrative expenses	-	-	-	-	(175,812,352)	-	-	-	(175,812,352)
Net technical profit after overhead expenses	122,382,838	104,466,922	2,783,184	17,372,650	71,193,242	-	-	-	71,193,242
Foreign exchange gain/(loss), net	-	-	-	-	18,098,695	-	-	-	18,098,695
Investment and other income/(expense), net	-	-	-	-	59,508,967	-	-	-	59,508,967
Net financial income	-	-	-	-	77,607,662	-	-	-	77,607,662
Profit before taxes	-	-	-	-	148,800,904	-	-	-	148,800,904
Income tax expense	-	-	-	-	(32,798,508)	-	-	-	(32,798,508)
Profit for the year	-	-	-	-	116,002,396	-	-	-	116,002,396

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

3. SEGMENT INFORMATION (Continued)

January 1 – June 30, 2018	Life Insurance					Reconciliation to statement of profit or loss			Statement of profit or loss
	Pension	Life protection	Life savings	Personal accident	Total	Commissions expenses	Other expenses	Net change in mathematical reserves	
Gross written premiums	-	238,465,656	4,718,966	42,092,026	285,276,648	-	-	-	285,276,648
Premium ceded to reinsurers	-	(8,084,124)	(143,999)	(1,152,292)	(9,380,415)	-	-	-	(9,380,415)
Premium written net of reinsurance	-	230,381,532	4,574,967	40,939,734	275,896,233	-	-	-	275,896,233
Net change in mathematical reserves	-	(72,825,552)	27,896,739	-	(44,928,813)	-	-	44,928,813	-
Net change in provision for unearned premiums reserves	-	(14,648,957)	(6,073)	(6,052,532)	(20,707,562)	-	-	-	(20,707,562)
Net premiums earned	-	142,907,023	32,465,633	34,887,202	210,259,858	-	-	44,928,813	255,188,671
Net change in mathematical reserves	-	-	-	-	-	-	-	(44,928,813)	(44,928,813)
Claim paid and change in outstanding claims	-	(19,766,477)	(28,749,744)	(4,429,557)	(52,945,778)	-	-	-	(52,945,778)
Commission income	-	5,373,429	232,484	238,411	5,844,324	-	-	-	5,844,324
Commission expense	-	(44,273,328)	592	(17,633,616)	(61,906,352)	980,058	-	-	(60,926,294)
<i>Commission expense</i>	-	(48,255,972)	592	(17,633,616)	(65,888,996)	980,058	-	-	(64,908,938)
<i>DAC</i>	-	3,982,644	-	-	3,982,644	-	-	-	3,982,644
Other income / (expense), net	-	(3,740,934)	-	(515,145)	(4,256,079)	-	533,638	-	(3,722,441)
Life and personal accident technical profit	-	80,499,713	3,948,965	12,547,295	96,995,973	980,058	533,638	-	98,509,669
Fund management charge	113,178,739	-	-	-	113,178,739	-	-	-	113,178,739
Management fee	6,429,156	-	-	-	6,429,156	-	-	-	6,429,156
<i>Account management fee, net of DIR</i>	22,072,630	-	-	-	22,072,630	-	-	-	22,072,630
<i>Account management fee</i>	27,591,425	-	-	-	27,591,425	-	-	-	27,591,425
<i>DIR</i>	(5,518,795)	-	-	-	(5,518,795)	-	-	-	(5,518,795)
Premium holiday charge	-	-	-	-	-	-	-	-	-
Deferred fee	19,167,330	-	-	-	19,167,330	-	-	-	19,167,330
Entry and deferred entry fees income	1,616,146	-	-	-	1,616,146	-	-	-	1,616,146
Pension income	162,464,001	-	-	-	162,464,001	-	-	-	162,464,001
Fund management charge	(11,892,762)	-	-	-	(11,892,762)	-	-	-	(11,892,762)
Commission expense, net of DAC	(30,532,239)	-	-	-	(30,532,239)	2,218,082	-	-	(28,314,157)
<i>Commission expense</i>	(39,000,213)	-	-	-	(39,000,213)	2,218,082	-	-	(36,782,131)
<i>DAC</i>	8,467,974	-	-	-	8,467,974	-	-	-	8,467,974
Other income/(expense), net	(6,263,889)	-	-	-	(6,263,889)	-	15,447	-	(6,248,442)
Pension expenses including commission	(48,688,890)	-	-	-	(48,688,890)	2,218,082	15,447	-	(46,455,361)
Pension technical profit	113,775,111	-	-	-	113,775,111	-	-	-	113,775,111
Total technical profit	113,775,111	80,499,713	3,948,965	12,547,295	210,771,084	-	-	-	210,771,084
General and administrative expenses	-	-	-	-	(142,974,041)	-	-	-	(142,974,041)
Net technical profit after overhead expenses	-	-	-	-	67,797,043	-	-	-	67,797,043
Foreign exchange gain/(loss), net	-	-	-	-	5,708,940	-	-	-	5,708,940
Investment income/(expense), net	-	-	-	-	40,907,141	-	-	-	40,907,141
Net financial income	-	-	-	-	46,616,081	-	-	-	46,616,081
Profit before taxes	-	-	-	-	114,413,124	-	-	-	114,413,124
Income tax expense	-	-	-	-	(25,711,569)	-	-	-	(25,711,569)
Profit for the year	-	-	-	-	88,701,555	-	-	-	88,701,555

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT

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

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

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

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

Early Risk Detection Committee

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

Risk Management Framework

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

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

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

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

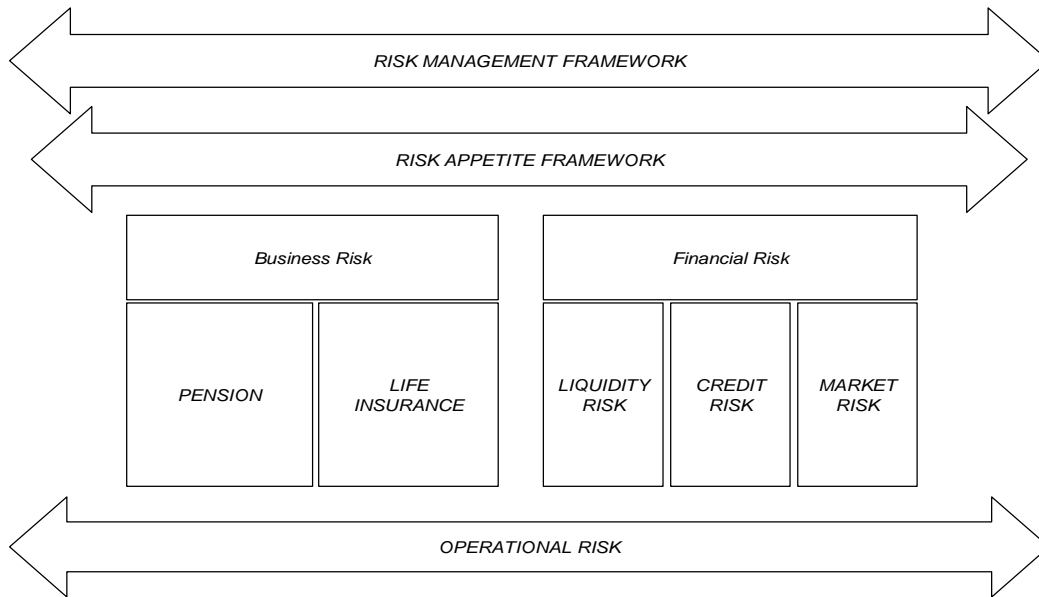
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

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

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



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

Risk policies

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

Business standards

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

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

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4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

Insurance Risk

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

a) Life insurance

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

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

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

b) *Personal accident (Non-Life)*

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

c) *Pensions*

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

Assessment and claims settlement

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

(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, 2019 and December 31, 2018, 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, 2019	December 31, 2018
Life	10%	10%
Personal Accident (Casualty)	15.4%	15.4%

As at June 30, 2019 and December 31, 2018 that part of total risk which is ceded to reinsurers is given below on a risk coverage basis.

June 30, 2019							
Life							
Natural death	Accidental Death	Accidental disability	Sickness disability	Dangerous Sickness	Public Transport	Unemployment	Accidental Treatment Cost
7.99%	12.21%	27.29%	53.64%	50.32%	14.91%	100.00%	1.02%
Personal Accident							
Accidental death		Accidental disability		Accidental treatment cost		Unemployment	
11.39%		18.75%		0.05%		100.00%	
December 31, 2018							
Life							
Natural death	Accidental Death	Accidental disability	Sickness disability	Dangerous Sickness	Public Transport	Unemployment	Accidental Treatment Cost
7.31%	18.32%	25.33%	59.38%	50.00%	16.10%	100.00%	0.84%
Personal Accident							
Accidental death		Accidental disability		Accidental treatment cost		Unemployment	
6.70%		11.21%		0.02%		100.00%	

Sensitivity to Insurance Risk

The Group's policy production strategy is based on optimal distribution of risk to reinsurance companies according to policy type, as well as to kind and size of risk taken. At June 30, 2019 and December 31, 2018 the Group has both proportional and non-proportional reinsurance treaties.

Outstanding claims are reviewed and updated periodically by claims department.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

Sensitivity to Insurance Risk (Continued)

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

June 30, 2019	Total gross risk liability	Share of reinsurer in total risk liability	Net risk liability
Life	42,507,864,495	3,395,109,570	39,112,754,925
Personal Accident	38,949,914,114	5,736,747,060	33,213,167,054
Total	81,457,778,609	9,131,856,630	72,325,921,979
December 31, 2018	Total gross risk liability	Share of reinsurer in total risk liability	Net risk liability
Life	40,816,692,690	2,983,296,647	37,833,396,043
Personal Accident	40,797,122,770	3,574,433,606	37,222,689,164
Total	81,613,815,460	6,557,730,253	75,056,085,207

The Group's gross provision for outstanding claims at June 30, 2019 and December 31, 2018 are as follows:

Outstanding Claims	June 30, 2019	December 31, 2018
Life	62,908,385	61,639,681
Personal Accident	9,258,425	10,452,319
Total	72,166,810	72,092,000

Financial Risk

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

a) *Market Risk*

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

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4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

a) Market Risk (Continued)

i) Foreign Currency Risk

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

Foreign currency sensitivity analysis as of June 30, 2019 and December 31, 2018 are as follows:

At June 30, 2019, on condition that all variables remain constant, effect of a 10% appreciation/devaluation of Eurobonds against TL on owners' equity is TL 3,782,858 / (3,782,858). As at December 31, 2018, on condition that all variables remain constant, effect of a 10% appreciation/devaluation of Eurobonds against TL on owners' equity is TL 23,576 / (23,576).

June 30, 2019:

Liabilities and assets in foreign currency	Effect on income/expense		
	USD (*)	EUR (*)	GBP (*)
Exchange rate variation (*)			
10%	(612,897)	31,447,291	657
-10%	612,897	(31,447,291)	(657)

December 31, 2018:

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

(*) All amounts are presented in TL.

ii) Interest Risk

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

In the following table, on condition that all other variables remain constant, it is disclosed that the effect 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.

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4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

ii) Interest Risk (Continued)

As at June 30, 2019 :

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

(*) Amounts are presented in TL.

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

As at June 30, 2018 :

Total of trading and available for sale financial assets Market interest increase / (decrease) (**)	Effect Profit and Loss		
	TL	USD (*)	EUR (*)
5%	(10,112,195)	(17,291,525)	(11,834)
-5%	9,619,438	14,059,051	10,379
1%	(2,355,429)	(33,499,584)	(23,560)
-1%	1,990,130	28,993,520	20,849

(*) Amounts are presented in TL.

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk

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

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

Maximum exposure to credit risk

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

	June 30, 2019	December 31, 2018
Cash and cash equivalents	683,012,955	633,233,563
Financial assets	1,054,332,410	843,339,644
Pension business receivables	237,760,573	196,178,322
Premium and other insurance receivables	37,876,601	33,872,232
Reinsurance share of insurance liabilities	14,855,313	11,884,286
Other financial assets	868,012	868,012
Total	2,028,705,864	1,719,376,059

c) Liquidity Risk

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

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4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk (Continued)

As at June 30, 2019, table of liquidity risk is as follows:

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

June 30, 2019	Carrying amount	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	5 years and over	No maturity date	Undiscounted Totals
Financial assets								
Cash and cash equivalents	683,012,955	67,248,806	337,626,864	182,437,524	-	-	-	587,313,195
Financial assets	1,054,332,410	-	26,836,076	91,625,935	135,059,356	756,450,368	40,667,884	1,050,639,619
- Available for sale financial investments	53,596,134	-	-	26,484,525	32,089,831	-	-	58,574,356
- Financial assets at fair value through profit or loss	134,749,330	-	26,836,078	26,484,525	32,089,831	-	40,667,884	126,078,317
- Available for sale asset backing financial investments, Policyholders’ portfolio	865,986,946	-	-	38,656,886	70,879,693	756,450,368	-	865,986,947
Premium and other insurance receivables	37,876,601	-	26,285,246	11,310,218	281,137	-	-	37,876,601
Pension business receivables	237,760,573	22,330,724	12,625,741	60,991,051	141,813,057	-	-	237,760,573
Other financial assets	868,012	-	-	-	-	-	868,012	868,012
Total	2,013,850,551	89,579,530	403,373,929	346,364,728	277,153,550	756,450,368	41,535,896	1,914,458,000
Financial liabilities								
Lease liabilities	36,742,024	36,742,024	-	-	-	-	-	36,742,024
Due to insurance and reinsurance companies	24,385,028	398,445	23,986,583	-	-	-	-	24,385,028
Pension business payables	533,722,334	300,696,958	30,476,496	16,363,914	143,358,598	42,826,367	-	533,722,334
Other payables and liabilities	100,729,233	62,249,768	20,002,173	10,310,311	8,166,981	-	-	100,729,233
Total	695,578,621	400,087,195	74,465,252	26,674,227	151,525,579	42,826,367	-	695,578,620
Liquidity surplus/(deficit)	1,318,271,930	(310,507,665)	328,908,677	319,690,501	125,627,971	713,624,001	41,535,896	1,218,879,380

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

c) *Liquidity Risk (Continued)*

As at December 31, 2018, table of liquidity risk is as follows:

December 31, 2018	Carrying amount	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	5 years and over	No maturity date	Undiscounted Totals
Financial assets								
Cash and cash equivalents	633,233,563	14,150,726	512,689,227	117,343,030	-	-	-	644,182,983
Financial assets	843,339,644	-	21,087,698	8,992,785	45,546,219	712,997,650	64,836,643	853,460,995
- Available for sale financial investments	58,068,689	-	-	8,992,785	10,124,965	53,026,888	-	72,144,638
- Financial assets at fair value through profit or loss	89,878,939	-	21,087,698	-	-	-	64,836,643	85,924,341
- Available for sale asset backing financial investments, Policyholders' portfolio	695,392,016	-	-	-	35,421,254	659,970,762	-	695,392,016
Premium and other insurance receivables	33,872,232	-	24,275,353	9,349,382	247,497	-	-	33,872,232
Pension business receivables	196,178,322	14,218,500	-	29,046,139	152,707,635	206,048	-	196,178,322
Other financial assets	868,012	-	-	-	-	-	868,012	868,012
Total	1,707,491,773	28,369,226	558,052,278	164,731,336	198,501,351	713,203,698	65,704,655	1,728,562,544
Financial liabilities								
Due to insurance and reinsurance companies	21,131,197	596,831	20,534,366	-	-	-	-	21,131,197
Pension business payables	495,513,386	228,838,966	9,273,840	27,821,521	146,544,370	83,034,689	-	495,513,386
Other payables and liabilities	37,809,080	17,469,173	13,524,278	-	6,815,629	-	-	37,809,080
Total	554,453,663	246,904,970	43,332,484	27,821,521	153,359,999	83,034,689	-	554,453,663
Liquidity surplus/(deficit)	1,153,038,113	(220,535,744)	514,719,794	136,909,815	45,141,352	630,169,009	67,704,655	1,174,108,881

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

4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity Risk (Continued)

Fair value of the financial instruments

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

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

Fair value hierarchy

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

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

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

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

	June 30, 2019			Total
	Level 1	Level 2	Level 3	
Financial assets:				
Available for sale financial assets (Note 6)	53,596,134	-	-	53,596,134
Financial assets held for trading (Note 6)	134,749,330	-	-	134,749,330
Financial investments with risks on policyholders classified as available for sale				
and held to maturity (Note 6) (*)	808,223,602	-	-	808,223,602
Total financial assets	996,569,066	-	-	996,569,066

(*) Time deposits amounting to TL 57,763,345 are not included. Carrying values of time deposits approximate their fair values due to their short term nature.

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

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

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4. INSURANCE AND FINANCIAL RISK MANAGEMENT (Continued)

d) Operational Risk

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

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

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

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

Capital Management

The Group’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, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, the required capital reserves (calculated in accordance with the above-mentioned local regulation) and current capital adequacy analysis is as follows:

	June 30, 2019	December 31, 2018
Total shareholders’ equity in the statutory consolidated financial statements (*)	411,095,435	393,778,371
Required minimum capital reserves	249,120,325	205,000,410
Capital surplus	161,975,110	188,777,961

(*) Excludes equalization reserve.

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5. CASH AND CASH EQUIVALENTS

As at June 30, 2019 and December 31, 2018, cash and cash equivalents are as follows:

	June 30, 2019	December 31, 2018
Banks	421,860,205	390,908,441
Other cash and cash equivalents (**)	261,278,065	242,325,122
Cheques given and payment orders	(125,315)	-
Total cash and cash equivalents	683,012,955	633,233,563
Blockage amount (*)	(124,212,908)	(138,430,843)
Time deposits more than 3 months	(79,019,690)	(104,228,602)
Accrued interest	(6,589,633)	(4,281,371)
Total cash and cash equivalents per statement of cash flow	473,190,724	386,292,747

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

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

Interest rates of time deposits are stated below:

	June 30, 2019	December 31, 2018
	Interest Rate	Interest Rate
	(%)	(%)
EUR	1.42	2.23
USD	3.54	4.69
TL	24.47	24.39

As of June 30, 2019, TL time deposit maturity varies between July 1, 2019 and November 7, 2019, foreign currency time deposits maturity varies between July 2, 2019 and December 17, 2019.

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

As at June 30, 2019 and December 31, 2018; the detail of cash and cash equivalents are as follows:

	June 30, 2019	December 31, 2018
Foreign currency cash and cash equivalents	310,194,394	156,029,348
- demand deposits	483,546	224,336
- time deposits	309,679,413	155,802,616
- credit card receivables	31,435	2,396
TL cash and cash equivalents	372,818,561	475,204,215
- demand deposits	15,013,075	11,926,385
- time deposits	96,684,171	220,955,104
- credit card receivables	261,246,630	242,322,726
- cheques given and payment orders	(125,315)	-
Total	683,012,955	631,233,563

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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6. FINANCIAL ASSETS

As at June 30, 2019 and December 31, 2018; the securities portfolio of the Group is as follows:

	June 30, 2019	December 31, 2018
Financial assets at fair value through profit or loss	134,749,330	89,878,939
Total available for sale financial assets and held to maturity	919,583,080	753,460,705
Available for sale financial investments	53,596,134	58,068,689
Available for sale asset backing financial investments and held to maturity policyholders' portfolio	865,986,946	695,392,016
Total securities portfolio	1,054,332,410	843,339,644

As at June 30, 2019 and December 31, 2018; financial assets as fair value through profit or loss are as follows:

	June 30, 2019		
	Cost	Fair value	Carrying value
Investment funds	90,279,209	98,652,168	98,652,168
Private sector bonds	30,420,564	33,536,893	33,536,893
Asset backed securities	2,560,269	2,560,269	2,560,269
Total financial assets at fair value through profit or loss	123,260,042	134,749,330	134,749,330
	December 31, 2018		
	Cost	Fair value	Carrying value
Investment funds	46,983,500	64,836,640	64,836,640
Private sector bonds	19,509,809	21,087,697	21,087,697
Asset backed securities	3,954,602	3,954,602	3,954,602
Total financial assets at fair value through profit or loss	70,447,911	89,878,939	89,878,939

As at June 30, 2019 and December 31, 2018; available for sale financial assets owned by the Group are as follows:

	June 30, 2019		
	Cost	Fair value	Carrying value
Treasury bills and government bonds - TL			
Private Sector bonds	38,276,800	28,658,519	28,658,519
Asset backed securities	17,800,000	21,219,570	21,219,570
Investment Funds	3,063,009	3,718,045	3,718,045
Total available for sale financial investments	59,139,809	53,596,134	53,596,134
	December 31, 2018		
	Cost	Fair value	Carrying value
Treasury bills and government bonds - TL	32,734,900	23,996,049	23,996,049
Private Sector bonds	26,004,643	28,895,065	28,895,065
Asset backed securities	4,738,869	5,177,575	5,177,575
Total available for sale financial investments	63,478,412	58,068,689	58,068,689

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

6. FINANCIAL ASSETS (Continued)

As at June 30, 2019 and December 31, 2018; available for sale financial assets backing insurance contracts are as follows:

	June 30, 2019		
	Cost	Fair value	Carrying value
Treasury bills and government bonds-TL	48,045,996	36,609,636	36,609,636
Eurobonds - USD	858,613,155	769,074,081	769,074,081
Eurobonds - EUR	2,517,929	2,539,884	2,539,884
Time deposits - TL	5,000,000	5,877,786	5,877,786
Time deposits - USD	51,836,157	51,885,559	51,885,559
Total available for sale asset backing financial investments and held to maturity policyholders' portfolio	966,013,237	865,986,946	865,986,946

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

As at June 30, 2019 and June 30, 2018; financial assets at fair value through profit or loss and available for sale financial assets movement table are as follows:

	2019	2018
Opening, January 1	843,339,644	547,825,900
Purchases	1,147,146,479	308,515,202
Disposals	(968,095,504)	(205,695,573)
Change in the valuation - unrealized gain and losses	(12,985,132)	7,510,267
Disposals through the redemption	(34,356,946)	
Unrealized exchange rate gains/(losses)	69,448,005	88,081,385
Change in balance recognized under equity	6,531,633	(39,559,379)
Change in balance recognized under life mathematical reserves	3,304,231	(21,212,573)
Closing, June 30	1,054,332,410	685,465,229

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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6. FINANCIAL ASSETS (Continued)

The maturity analysis of financial assets is as follows:

As at June 30, 2019 and December 31, 2018; the remaining contractual maturities of financial assets are as follows:

	June 30, 2019						Total
	No stated maturity	0-3 months	3-6 months	6 months to 1 year	1-3 years	More than 3 years	
Eurobonds	-	-	-	28,266,188	70,879,693	672,468,084	771,613,965
Investment funds	98,652,168	-	-	-	-	-	98,652,168
Government bonds and treasury bills	-	-	-	-	14,223,954	51,044,201	65,268,155
Private sector bonds	6,700,816	-	8,460,408	-	33,484,721	6,110,518	54,756,463
Time deposits	-	5,877,786	-	51,885,559	-	-	57,763,345
Asset backed securities	-	3,718,045	-	-	-	-	3,718,045
Derivative security	2,560,269	-	-	-	-	-	2,560,269
	107,913,253	9,595,831	8,460,408	80,151,747	118,588,368	729,622,803	1,054,332,410

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

The currency analysis of financial assets is as follows:

	June 30, 2019			
	Currency Type	Currency Amount	Rate	Amount TL
Financial assets available-for-sale	TL			53,596,134
				53,596,134
Financial assets at fair value through profit or loss	TL			134,749,330
				134,749,330
Financial investments with risks on policy holders	USD	142,649,066	5.7551	820,959,640
	EUR	387,727	6.5507	2,539,884
	TL			42,487,422
				865,986,946
Total securities portfolio				1,054,332,410

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6. FINANCIAL ASSETS (Continued)

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

7. REINSURANCE SHARE OF INSURANCE LIABILITIES

As at June 30, 2019 and December 31, 2018; reinsurance share of insurance liabilities are as follows:

	June 30, 2019	December 31, 2018
Reinsurers' share of outstanding claims	6,599,096	6,286,342
Reinsurers' share of unearned premiums reserve	7,076,297	4,536,303
Reinsurers' share of life mathematical reserve	1,179,920	1,061,641
	14,855,313	11,884,286

8. PREMIUM AND OTHER INSURANCE RECEIVABLES

As at June 30, 2019 and December 31, 2018; premium and other insurance receivables are as follows:

	June 30, 2019	December 31, 2018
Policyholders and reinsurance companies	37,876,601	33,872,232
Total premium and other insurance receivables	37,876,601	33,872,232

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

8. PREMIUM AND OTHER INSURANCE RECEIVABLES (Continued)

As at June 30, 2019 and December 31, 2018; maturity distribution of neither past due nor impaired insurance operations receivables is as follows:

	June 30, 2019	December 31, 2018
Receivables from policyholders and reinsurance companies		
Up to 3 months	8,020,755	7,003,356
3 to 6 months	5,813,380	4,862,872
6 to 9 months	3,563,115	3,002,957
9 to 12 months	1,019,770	1,097,190
	18,417,020	15,966,375

As at June 30, 2019 and December 31, 2018; an analysis of the aging of overdue but not impaired insurance operations receivables is as follows:

	June 30, 2019	December 31, 2018
Overdue 0-3 months	15,395,386	11,349,466
Overdue 3-6 months	799,664	263,310
Overdue 6-9 months	83,147	96,297
Overdue 9-12 months	31,142	26,756
Overdue 1 year	281,137	247,497
	16,590,476	11,983,326
Total	35,007,496	27,949,701

As of June 30, 2019, total of receivables from reinsurance companies and intermediaries are TL 2,869,105 (31 December 2018: TL 5,922,531).

As at June 30, 2019 and December 31, 2018; the collateral held by the Group as security for its receivables are as follows:

	June 30, 2019			Total (TL)
	USD	EUR	TL	
Guarantees received				
Letter of guarantees	345,306	-	13,660,863	14,006,169
Mortgage deed	-	-	309,700	309,700
Other guarantees	638,942	18,099	97,800	754,841
	984,248	18,099	14,068,363	15,070,710

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

8. PREMIUM AND OTHER INSURANCE RECEIVABLES (Continued)

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

9. PENSION BUSINESS RECEIVABLES AND PAYABLES

As at June 30, 2019 and December 31, 2018; pension business receivables are as follows:

	June 30, 2019	December 31, 2018
Receivables pension operations	22,330,714	14,218,550
Pension business receivables - deferred income reserves	214,925,403	181,490,957
Capital advance for pension funds	504,456	468,815
Total individual pension business receivables, net	237,760,573	196,178,322

As at June 30, 2019 and December 31, 2018; pension business payables are as follows:

	June 30, 2019	December 31, 2018
Temporary account of participants	262,035,409	252,495,745
Pension business payables - deferred income reserves (*)	271,686,925	235,276,708
Other payables from pension operations	-	7,740,933
Total pension business payables	533,722,334	495,513,386

(*) Reserve for account management fee deferred over 8 years based on the average deviation of the contract terms of pension portfolio.

10. OTHER ASSETS

As at June 30, 2019 and December 31, 2018; other assets are as follows:

	June 30, 2019	December 31, 2018
Other receivables from other related parties	15,360,735	5,700,785
Prepaid expenses	10,891,708	4,892,128
Advances given	933,052	307,928
Advances to personnel	505,149	535,351
Other receivables from third parties	291,689	412,109
Receivables from shareholders (Note 33)	259,511	20,221
Deposits and guarantees given	81,475	88,330
Receivables from subsidiary	-	3,725
Other	255,731	545,065
Total other assets	28,579,050	12,505,642

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

11. PROPERTY AND EQUIPMENT, NET

As of June 30, 2019 and June 30, 2018; tangible assets movement and its accumulated depreciation is as follows:

Cost	January 1, 2019	Additions	Disposals	Impairment	June 30, 2019
Machinery and equipment	12,217,595	191,546	-	-	12,409,141
Furniture and fixtures	18,952,495	1,102,696	(6,844)	-	20,048,347
Other tangible assets	28,709,148	911,307	-	(130,073)	29,490,382
Vehicles	-	1,721,735	-	-	1,721,735
Leased assets	646,011	-	-	-	646,011
	60,525,249	3,927,284	(6,844)	(130,073)	64,315,616

Accumulated depreciation	January 1, 2019	Period charge	Disposals		June 30, 2019
Machinery and equipment	(7,237,964)	(1,027,619)	-	-	(8,265,583)
Furniture and fixtures	(10,408,715)	(1,056,949)	3,849	-	(11,461,815)
Other tangible assets	(12,554,680)	(1,466,907)	-	-	(14,021,587)
Vehicles	-	(99,694)	-	-	(99,694)
Leased assets	(646,011)	-	-	-	(646,011)
	(30,847,370)	(3,651,169)	3,849	-	(34,494,690)

Net book value	29,677,879				29,820,926
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Cost	January 1, 2018	Additions	Disposals		June 30, 2018
Machinery and equipment	9,952,653	1,102,781	-	-	11,055,434
Furniture and fixtures	15,622,217	2,755,072	(8,968)	-	18,368,321
Other tangible assets	16,689,454	9,289,217	(52,677)	-	25,925,994
Leased assets	646,011	-	-	-	646,011
Advances given for tangible assets	1,242,249	-	(1,242,249)	-	-
	44,152,584	13,147,070	(1,303,894)		55,995,760

Accumulated depreciation	January 1, 2018	Period charge	Disposals		June 30, 2018
Machinery and equipment	(5,264,269)	(952,190)	-	-	(6,216,459)
Furniture and fixtures	(8,517,149)	(894,893)	-	-	(9,412,042)
Other tangible assets	(10,303,573)	(882,255)	1,762	-	(11,184,066)
Leased assets	(646,011)	-	-	-	(646,011)
	(24,731,002)	(2,729,338)	1,762		(27,458,578)

Net book value	19,421,582				28,537,182
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AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

11. PROPERTY AND EQUIPMENT, NET (Continued)

The Group’s right-of use assets movement is as follows:

Right of use assets	January 1, 2019	Additions	Disposals	June 30, 2019
Real estate	30,167,446	490,511	-	30,657,957
Motor vehicles	8,637,929	-	-	8,637,929
	38,805,375	490,511	-	39,295,886
Accumulated depreciation	January 1, 2019	Period charge	Disposals	June 30, 2019
Real estate	-	(2,590,131)	-	(2,590,131)
Motor vehicles	-	(1,977,913)	-	(1,977,913)
		(4,568,044)		(4,568,044)
Net book value	38,805,375		-	34,727,842

12. INTANGIBLE ASSETS, NET

As of June 30, 2019 and June 30, 2018; intangible assets movement and its accumulated amortization are as follows:

Cost	January 1, 2019	Additions	Transfer	June 30, 2019
Software	73,999,388	7,410,379	6,127,652	87,537,419
Capitalized software development costs	18,838,796	6,314,327	(6,127,652)	19,025,471
	92,838,184	13,724,706	-	106,562,890
Accumulated amortization	January 1, 2019	Period charge	Disposals	June 30, 2019
Software	(43,277,201)	(6,236,978)	-	(49,514,179)
Net book value	49,560,983			57,048,711
Cost	January 1, 2018	Additions	Transfer	June 30, 2018
Software	47,993,417	2,918,039	5,731,780	56,643,236
Capitalized software development costs	19,695,887	8,312,880	(5,731,780)	22,276,987
	67,689,304	11,230,919	-	78,920,223
Accumulated amortization	January 1, 2018	Additions	Transfer	June 30, 2018
Software	(35,087,170)	(3,105,476)	-	(38,192,646)
Net book value	32,602,134			40,727,577

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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13. OTHER FINANCIAL ASSETS

Other financial assets include equity participations that are classified as available for sale. As these equity participations do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and impracticable, they are stated at cost. As at June 30, 2019 and December 31, 2018; the details of other financial assets are as follows:

	June 30, 2019		December 31, 2018	
	Participation rate (%)	Amount	Participation rate (%)	Amount
Third Party				
Milli Reasürans A.Ş.	0.1494	575,082	0.1494	575,082
Emeklilik Gözetim Merkezi A.Ş.	5.5553	292,303	5.5553	292,303
Enternasyonal Turizm Yatırım A.Ş.	0.0001	2	0.0001	2
Endüstri Holding A.Ş.	0.0001	625	0.0001	625
Total		868,012		2,868,012

14. LEASE LIABILITIES

As at June 30, 2019 and January 1, 2019; lease liabilities are as follows:

	June 30, 2019	January 1, 2019
Short-term lease liabilities (undiscounted)	7,445,998	13,708,086
Long term lease liabilities (undiscounted)	54,377,933	53,528,323
Discount amount with lease's incremental borrowing rate of interest	(25,081,908)	(28,431,034)
Total	36,742,023	38,805,375

Movement of lease liabilities for the period ended June 30, 2019 and January 1, 2019 are as follows:

	2019
Opening balance, January 1	
IFRS 16 impact	38,805,375
IFRS 16 lease increase / decrease	490,512
Lease payments	(6,859,283)
Exchange rate valuation	723,267
Interest payments	3,582,152
Closing balance, June 30	36,742,023

15. DUE TO INSURANCE AND REINSURANCE COMPANIES

As at June 30, 2019 and December 31, 2018; due to insurance and reinsurance companies are as follows:

	June 30, 2019	December 31, 2018
Due to the intermediaries	21,458,424	18,924,268
Due to the reinsurance companies	2,528,159	1,610,099
Due to the policyholders	398,445	596,830
	24,385,028	21,131,197

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

16. OTHER PROVISIONS

As at June 30, 2019 and December 31, 2018; provision for expenses and lawsuit provisions are as follows:

	June 30, 2019	December 31, 2018
Personnel bonus provision	13,949,461	18,865,515
Provision for lawsuit against the Group (Note 34)	10,697,096	10,470,942
Bonus provision for sales activities	3,730,643	2,956,208
Commission provision	3,549,634	4,102,000
	31,926,833	36,394,665

17. TAXES

Corporate taxes

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

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

In Turkey, advance tax returns are filed on a quarterly basis. The prepaid taxes are calculated and paid at the rates valid for the earnings of the related years. Advance corporate income tax rate applied in 2019 is 22% (2018: 22%). The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

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

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

Transfer pricing

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

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

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

17. TAXES (Continued)

Corporate taxes (Continued)

Income tax

As at June 30, 2019 and December 31, 2018; prepaid income taxes are netted off with the current income tax payable as stated below:

	June 30, 2019	December 31, 2018
Income taxes payable	37,366,935	56,584,492
Prepaid income taxes (-)	(20,534,700)	(46,710,160)
Current tax liabilities / (assets)	16,832,235	9,874,332

Deferred taxes

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

Since the tax rate effective from January 1, 2018 has been changed to 22% as valid for 3 years, in the calculation of deferred tax as of June 30, 2019, 22% tax rate is used for temporary differences expected to be realized within 3 years.

Tax rate is applied as 22% for the calculation of deferred tax asset and liabilities. The details of deferred taxes are presented in the following tables. Since the tax rate effective from January 1, 2018 has been changed to 22% which is valid for 3 years, in the calculation of deferred tax as of June 30, 2019, 22% tax rate is used for temporary differences expected to be realized within 3 years and 20% tax rate is used for the temporary differences that belongs years after 2021.

	Cumulative temporary Differences		Deferred tax assets / (liabilities)	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Deferred income reserves	271,686,925	235,276,708	57,467,214	49,745,597
Incentive commission	1,591,750	1,426,750	350,185	313,885
Net difference between the carrying values and tax base values of tangible assets and intangible assets	(2,505,786)	449,334	(551,273)	98,853
Provision for employee termination benefit	14,053,636	11,934,859	3,091,800	2,625,669
Claims for Insured Customer Claims	5,772,865	5,789,552	1,154,573	1,157,910
Provision for lawsuits	2,158,486	1,450,211	474,867	319,046
Provisions for agency receivables	2,370,474	2,370,474	474,095	474,095
Unused vacation provision	4,435,927	4,803,637	975,904	1,056,800
Deposits internal rate of return-linear interest rate difference	343,052	348,475	75,472	76,664
Expense accruals	33,957,095	26,288,821	7,470,561	5,783,541
IFRS 16 Asset	1,789,014	-	393,583	-
Carry forward tax losses	(19,591)	-	(4,310)	-
Total deferred tax assets	335,633,847	290,138,821	71,372,671	61,652,060
Eurobond valuation difference	(8,615,624)	(409,722)	(1,895,437)	(90,139)
Pension business receivables	(214,925,403)	(181,490,957)	(45,817,223)	(38,901,526)
Price difference in coupon bond held for trading	(703,811)	-	(154,838)	-
Profit commissions	(1,823,878)	-	(401,253)	-
Derivative Securities	(2,560,269)	(3,954,602)	(563,259)	(870,012)
DAC ROP	(10,589,928)	-	(2,329,784)	-
Deferred acquisition cost	(357,563,764)	(344,173,051)	(71,593,245)	(70,266,278)
Total deferred tax liabilities	(596,782,677)	(530,028,332)	(122,755,039)	(110,127,955)
Deferred tax assets/ (liabilities) accounted for under equity over the fair value reserve for available for sale financial assets	38,460,562	43,521,609	8,461,323	9,574,754
Effect of rate change of corporation tax	-	-	261,066	261,066
Deferred tax liabilities, net	(222,688,268)	(196,367,902)	(42,659,979)	(38,640,075)

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17. TAXES (Continued)

Deferred taxes (Continued)

Movement of deferred tax liabilities for the period ended June 30, 2019 and 2018 are as follows:

	2019	2018
Opening balance, January 1	(38,640,075)	(56,076,964)
IFRS 15 impact		10,976,891
ROP DAC impact (*)	(2,329,784)	
Charged to profit or loss	(1,263,881)	(1,738,647)
Reversal of deferred tax liability recognized in other comprehensive income due to fair value losses on available for sale financial assets	-	(24,240)
Cancellation available for sale financial assets that are recognized in shareholders' equity of deferred tax assets	(9,574,754)	-
Deferred tax asset/(liability) recognized in other comprehensive income due to fair value losses on available for sale financial assets	8,461,323	8,101,076
Deferred tax asset of actuarial loss on employment termination provision	687,192	
Effect of rate change of corporation tax		261,066
Closing balance, June 30	(42,659,979)	(38,500,818)

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

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

(*) Effects of ROP DAC impact has been explained in Note 2.6.

Income tax expenses for the period ended June 30, 2019 and December 31, 2018; are as follows:

	January 1 - June 30, 2019	January 1 - December 31, 2018
Income tax expense recognized in profit or loss:		
- Current tax charge	(36,709,160)	(57,524,212)
- Deferred tax charge	(1,879,131)	(3,533,485)
Adjustments recognized in the period for current tax of prior periods	5,789,783	2,761,061
Income tax expense	(32,798,508)	(58,296,636)

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

	January 1 - June 30, 2019	January 1 - December 31, 2018
Profit before taxes	148,800,904	258,880,311
Tax rate	22%	22%
Taxes on income per statutory tax rate	(32,736,199)	(56,953,668)
Revenue that is exempt from taxation	(662,152)	939,720
Non-deductible expenses	599,843	(2,282,688)
Income tax expense	(32,798,508)	(58,296,636)

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18. EMPLOYMENT TERMINATION BENEFITS

	June 30, 2019	December 31, 2018
Provision for employment termination benefits	14,053,636	11,934,859
Total	14,053,636	11,934,859

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

The amount payable consists of one month's salary limited to a maximum of TL 6,018 (December 31, 2018: TL 5,434) for each year of service as of June 30, 2019.

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

	June 30, 2019	December 31, 2018
Estimated salary increase rate	10.00%	10.00%
Discount rate	15.40%	15.40%

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

	2019	2018
Opening balance, January 1	11,934,859	12,440,746
Paid during the period	(2,608,581)	(1,850,938)
Service cost	684,778	1,574,355
Interest cost	918,984	696,142
Actuarial loss	3,123,596	
Closing balance, June 30	14,053,636	12,860,305

19. DEFERRED EXPENSES

As at June 30, 2019 and 2018; movements of deferred expenses are as follows:

	2019	2018
Deferred acquisition costs, gross January 1	354,762,979	329,136,667
Acquisition costs deferred during the period	48,195,291	41,817,062
Amortization	(45,394,506)	(29,811,767)
Deferred acquisition costs - June 30	357,563,764	341,141,962
Deferred commission costs, gross January 1	37,123,339	37,580,763
Commission cost deferred during the period	4,949,853	6,370,624
Deferred commission costs - June 30	42,073,192	43,951,387
Total deferred expenses	399,636,956	385,093,349

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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20. OTHER PAYABLES AND LIABILITIES

As at June 30, 2019 and December 31, 2018; other payables and liabilities are as follows:

	June 30, 2019	December 31, 2018
Payables to shareholders	40,213,472	166,000
Taxes and funds payable	19,453,489	15,476,969
Payables to suppliers	21,764,256	10,265,090
Payables to related parties	10,506,409	3,945,530
Unused vacation provision	5,481,682	4,803,637
Deferred commission income	2,685,299	2,011,993
Payables to personnel	618,776	1,134,337
Other deferred income	2,052	2,055
Deposits and guarantees	3,798	3,469
Total	100,729,233	37,809,080

21. INSURANCE CONTRACT LIABILITIES

Insurance contract liabilities as at June 30, 2019 and December 31, 2018; are as follows:

	June 30, 2019	December 31, 2018
Gross insurance contract liabilities		
Life mathematical reserves (*)	923,479,482	728,756,640
Reserve for unearned premiums	133,779,735	119,149,509
Claims provision	72,166,810	72,092,000
	1,129,426,027	919,998,149
Reinsurance share of insurance contract liabilities		
Mathematical reserves, ceded (Note 7)	1,179,920	1,061,641
Reserve for unearned premiums, ceded (Note 7)	7,076,297	4,536,303
Claims provision, ceded (Note 7)	6,599,096	6,286,342
	14,855,313	11,884,286
Net insurance contract liabilities		
Life mathematical reserves	922,299,562	727,694,999
Reserve for unearned premiums	126,703,438	114,613,206
Claims provision	65,567,714	65,805,658
Net insurance liabilities	1,114,570,714	908,113,863

(*) As of June 30, 2019, the negative fair value difference of financial assets at insuree's risk amounting to TL 29,191,402 (December 31, 2018: negative fair value difference of financial assets at insuree's risk amounting to TL 33,090,194), deferred taxes on the fair value difference of financial assets at insuree's risk amounting to TL 547,729 (December 31, 2018: TL 594,561) and reinsurers share of TL 1,179,920. (December 31, 2018: 1,061,641) have been included in the above mentioned mathematical reserve table.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

21. INSURANCE CONTRACT LIABILITIES (Continued)

Movements in insurance liabilities and reinsurance assets

Claims:

June 30, 2019	Gross	Ceded	Net
Total at the beginning of the year	72,092,012	6,286,336	65,805,676
Change during period	74,798	312,760	(237,962)
Total at the end of the period	72,166,810	6,599,096	65,567,714

June 30, 2019			
Reported claims	55,209,544	4,759,421	50,450,123
Incurred but not reported	16,957,266	1,839,675	15,117,591
Total at the end of the period	72,166,810	6,599,096	65,567,714

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

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

Claims paid and change in outstanding claims provision for the period ended June 30, 2019 and 2018 are as follows:

	January 1 - June 30, 2019	April 1 - June 30, 2019	January 1 - June 30, 2018	April 1 - June 30, 2018
Cash paid for claims settled during the period	47,514,187	21,478,007	50,697,604	26,377,822
- Surrender and maturity from life savings	24,759,739	11,814,992	26,722,807	14,957,468
- Death and disability claims (*)	19,571,147	8,278,764	20,536,607	9,701,925
- Surrender from life protection	3,183,301	1,384,251	3,438,190	1,718,429
Change in outstanding claims provision	(237,942)	81,151	2,248,174	(1,299,079)
Claims paid and change in outstanding claims provision	47,276,245	21,559,158	52,945,778	25,078,743

(*) The amounts are presented net off reinsurance.

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21. INSURANCE CONTRACT LIABILITIES (Continued)

Reserve for unearned premiums:

June 30, 2019	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the year	119,149,509	(4,536,303)	114,613,206
Premiums written during the period	368,710,187	(12,881,852)	355,828,335
Premiums earned during the period	(354,079,961)	10,341,858	(343,738,103)
Reserve for unearned premiums at the end of the period	133,779,735	(7,076,297)	126,703,438
June 30, 2018	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the year	122,134,002	(4,830,432)	117,303,570
Premiums written during the period	285,276,648	(9,380,415)	275,896,233
Premiums earned during the period	(264,249,431)	9,060,761	(255,188,670)
Reserve for unearned premiums at the end of the period	143,161,219	(5,150,086)	138,011,133

Life mathematical reserves

	2019	2018
	Mathematical reserve TL	Mathematical reserve TL
Total at the beginning of the year, January 1	761,252,272	472,049,221
Additions	217,095,154	166,752,799
Disposals	(25,128,813)	(25,470,692)
Total at the end of the period, June 30 (*)	953,218,613	613,331,328

(*) As of June 30, 2019, the negative fair value difference of financial assets at insuree’s risk amounting to TL 29,191,402 (December 31, 2018: negative fair value difference of financial assets at insuree’s risk amounting to TL 33,090,194), deferred taxes on the fair value difference of financial assets at insuree’s risk amounting to TL 547,729 (December 31, 2018: TL 594,561) and reinsurers share of TL 1,179,920. (December 31, 2018: 1,061,641) have been included in the above mentioned mathematical reserve table.

Claims development tables

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

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

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21. INSURANCE CONTRACT LIABILITIES (Continued)

Claims development tables (Continued)

As at June 30, 2019; claim development table of the Group is as follows:

Accident year	2012 and earlier	2013	2014	2015	2016	2017	2018	2019	Total
Current estimate of claims									
Accident year	5,617,671	6,362,668	5,134,419	5,156,961	7,367,489	5,394,333	6,516,138	5,134,893	46,684,572
1 year later	128,597	553,059	1,393,380	822,684	1,015,812	1,755,093	2,186,961	-	7,855,586
2 year later	-	6,020	69,756	135,686	231,638	43,151	-	-	486,251
3 year later	12,753	18,376	15,262	49,626	24,161	-	-	-	120,178
4 year later	-	43	10,895	33,308	-	-	-	-	44,246
5 year later	-	340	18,371	-	-	-	-	-	18,711
6 year later	-	-	-	-	-	-	-	-	-
7 year later	-	-	-	-	-	-	-	-	-
Total	5,759,021	6,940,506	6,642,083	6,198,265	8,639,100	7,192,577	8,703,099	5,134,893	55,209,544
Incurred but not reported									16,957,266
Total gross provision for outstanding claims as at June 30, 2019									72,166,810

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

Accident year	2010 and earlier	2011	2012	2013	2014	2015	2016	2017	Total
Current estimate of claims									
Accident year	4,180,005	1,655,233	6,786,688	5,431,623	5,324,234	7,940,605	5,545,251	12,525,740	49,389,379
1 year later	56,321	54,783	712,930	1,377,374	837,575	1,211,085	2,317,200	-	6,567,268
2 year later	122,860	534	30,410	67,525	143,564	176,874	-	-	541,767
3 year later	-	12,362	18,376	15,074	49,626	-	-	-	95,438
4 year later	129,497	-	43	10,895	-	-	-	-	140,435
5 year later	-	-	8,740	-	-	-	-	-	8,740
6 year later	-	-	-	-	-	-	-	-	-
7 year later	-	-	-	-	-	-	-	-	-
Total	4,488,683	1,722,912	7,557,187	6,902,491	6,354,999	9,328,564	7,862,451	12,525,740	56,743,027
Incurred but not reported									15,348,973
Total gross provision for outstanding claims as at December 31, 2018									72,092,000

22. EQUITY

Share capital of the Group as at June 30, 2019 and December 31, 2018; are as follows:

	June 30, 2019		December 31, 2018	
	Shareholding		Shareholding	
	%	TL	%	TL
Hacı Ömer Sabancı Holding A.Ş.	40.00	72,000,007	40.00	72,000,007
Aviva International Holdings Ltd.	40.00	72,000,007	40.00	72,000,007
Other	0.09	166,026	0.09	166,026
Publicly Traded	19.91	35,833,960	19.91	35,833,960
Total share capital	100.00	180,000,000	100.00	180,000,000

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

22. EQUITY (Continued)

Profit and other capital reserves:

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

	June 30, 2019	December 31, 2018
Profit reserves	135,728,079	44,498,235
Other capital reserves	837,095	837,095
Total	136,565,174	45,335,330

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

Profit reserves

As at June 30, 2019 and December 31, 2018; details of profit reserves is as follows:

	June 30, 2019	December 31, 2018
Legal reserves	54,794,243	36,132,751
Extraordinary reserves	80,922,342	8,353,990
Statutory reserves	11,494	11,494
Total	135,728,079	44,498,235

Movement of profit reserves is presented below:

	June 30, 2019	December 31, 2018
Opening balance, January 1	44,498,235	53,117,686
Transfers	91,229,844	(8,619,451)
Closing balance	135,728,079	44,498,235

Profit reserves

As of 30 June 2019, the Group's profit reserves consists of 54,794,243 TL (31 December 2018: 36,132,751 TL) legal reserves, 11,494 TL (31 December 2018: 11,494 TL) statute reserves and 80,922,342 TL (31 December 2018: 8,353,990 TL) extraordinary reserves.

Other capital reserves

As of June 30, 2019 capital reserves of the Group amounting to TL 837,095 consist of the amount of TL 512,783 as a result of addition of TL 66,028,020 to capital, which is difference resulted between the amount of TL 82,320,000 that is pre-merger nominal paid capital of Aviva Emeklilik and TL 15,779,197 that is capital increase amount of Ak Emeklilik; participants' capitalization issue amounting to TL 324,312.

AVIVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

22. EQUITY (Continued)

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:

	2019	2018
Opening balance, January 1	(39,141,204)	(3,130,948)
Unrealized gains and losses due to changes in the fair values of available for sale financial assets net of taxes	5,094,674	(8,277,499)
Closing balance, June 30	(34,046,530)	(11,408,447)

Dividend per share

In 2019, the Group has distributed TL 100,000,000 dividend to shareholders with respect to 2018 gross distributable profit after accounting legal reserves (TL 0.0055 per share) (2018: TL 48,309,200 and TL 0.0040).

23. EARNINGS PER SHARE

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

	January 1- June 30, 2019	April 1- June 30, 2019	January 1- June 30, 2018	April 1- June 30, 2018
Profit for the period	116,002,396	64,697,687	88,701,555	52,416,463
Weighted average number of shares with nominal value of TL 0.01 nominal value per share	18,000,000,000	18,000,000,000	11,800,000,000	11,800,000,000
Earnings per share	0.0064	0.0036	0.0075	0.0044

As of June 30, 2019 capital of the Group consists of 18,000,000,000 shares with nominal value of TL 0.01 (December, 2018: 11,800,000,000 shares with nominal value of TL 0.01).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

24. WRITTEN PREMIUMS

The distribution of written premiums is as follows:

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

	January 1- June 30, 2018			April 1- June 30, 2018		
	Gross	Reinsurer share	Net	Gross	Reinsurer share	Net
Non-life	42,092,027	(1,152,293)	40,939,734	21,677,461	(762,329)	20,915,132
Life (Life protection + savings)	243,184,621	(8,228,122)	234,956,499	123,144,977	(3,323,647)	119,821,330
Total premium income	285,276,648	(9,380,415)	275,896,233	144,822,438	(4,085,976)	140,736,462

25. INCOME GENERATED FROM PENSION BUSINESS

Inome generated from pension business for the periods ended June 30, 2019 and June 30, 2018; are as follows:

	January 1- June 30, 2019	April 1 - June 30, 2019	January 1- June 30, 2018	April 1 - June 30, 2018
Fund management income	118,327,260	59,653,586	113,178,739	57,551,413
Management fee	41,666,303	15,999,480	28,501,786	12,424,232
Entry and deferred entry fees income	20,024,614	8,372,525	19,167,330	9,292,613
Premium holiday charges	963,690	441,678	1,616,146	774,222
Total	180,981,867	84,467,269	162,464,001	80,042,480

26. FOREIGN EXCHANGE GAINS / (LOSSES), NET

Foreign exchange gains / (losses) for the periods ended June 30, 2019 and 2018; are as follows:

	January 1- June 30, 2019	April 1 - June 30, 2019	January 1- June 30, 2018	April 1 - June 30, 2018
Foreign exchange gains	32,221,060	10,157,669	23,970,389	19,307,031
Foreign exchange losses	(14,357,964)	(6,573,919)	(18,261,449)	(14,434,036)
Total	17,863,096	3,583,750	5,708,940	4,872,995

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

27. COMMISSION INCOME AND COMMISSION EXPENSE

Commission income for the periods ended June 30, 2019 and June 30, 2018; are as follows:

	January 1 - June 30, 2019	April 1 - June 30, 2019	January 1 - June 30, 2018	April 1 - June 30, 2018
Commission income from reinsurance companies (net)	5,343,236	3,836,666	5,844,324	4,370,361
Total	5,343,236	3,836,666	5,844,324	4,370,361

Commission expense for the periods ended June 30, 2019 and June 30, 2018; are as follows:

	January 1 - June 30, 2019	April 1 - June 30, 2019	January 1 - June 30, 2018	April 1 - June 30, 2018
Commission expenses due to personal accident insurance	(17,185,865)	(8,815,574)	(16,873,104)	(8,082,663)
-Change in commission expenses	(19,717,612)	(7,745,077)	(18,995,753)	(9,906,530)
-Change in deferred acquisition cost	2,531,747	(1,070,497)	2,122,649	1,823,867
Commission expenses due to life insurance	(46,183,698)	(26,001,441)	(44,053,190)	(23,638,193)
-Change in commission expenses	(48,645,393)	(25,681,614)	(46,534,742)	(24,460,662)
-Change in deferred acquisition cost	2,461,695	(319,827)	2,481,552	822,469
	(63,369,563)	(34,817,015)	(60,926,294)	(31,720,856)

28. INVESTMENT AND OTHER INCOME

Investment income for the periods ended June 30, 2019 and June 30, 2018; are as follows:

	January 1 - June 30, 2019	April 1 - June 30, 2019	January 1 - June 30, 2018	April 1 - June 30, 2018
Interest income	49,943,390	11,017,328	31,179,892	11,738,140
Income from financial assets at fair value through profit or loss	23,775,150	5,141,425	11,624,683	5,108,177
-Income from available for sale financial assets	26,168,240	5,875,903	19,555,209	6,629,963
Net income from sale of financial assets	(4,915,994)	10,267,075	5,639,299	5,966,490
Income from financial assets at fair value through profit or loss	(9,352,970)	231,099	7,147,863	4,041,338
Income from available for sale financial assets	4,436,976	10,035,976	(1,508,564)	1,925,152
Dividend and realization income from other financial assets	14,395,156	21,365,920	3,706,198	3,631,512
Interest expense regarding IFRS 16	(3,582,093)	(1,821,332)		
Investment management expenses	676,578	654,515	(271,049)	(191,293)
Other income, net	5,391,024	1,661,070	2,201,405	3,290,411
Total investment and other income/(expense), net	61,908,061	43,144,576	42,455,745	24,435,260

29. PENSION EXPENSES INCLUDING COMMISSION

Pension expenses including commission for the periods ended June 30, 2019 and June 30, 2018; are as follows:

	January 1 - June 30, 2019	April 1 - June 30, 2019	January 1 - June 30, 2018	April 1 - June 30, 2018
Fund management charge	(12,101,084)	(6,014,851)	(11,892,762)	(5,679,615)
Commission expense, net of DAC	(36,740,954)	(17,012,672)	(28,298,709)	(15,084,444)
- Commission expense	(30,943,388)	(14,315,210)	(36,766,683)	(18,795,208)
- Change in deferred acquisition cost	(5,797,566)	(2,697,462)	8,467,974	3,710,764
Takasbank commission expense	(2,674,300)	(1,279,567)	(2,608,000)	(1,268,516)
Other expense	(6,846,735)	(3,250,314)	(3,655,890)	(1,771,800)
Total pension expenses	(58,363,073)	(27,557,404)	(46,455,361)	(23,804,375)

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30. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the periods ended June 30, 2019 and June 30, 2018; are as follows:

	January 1- June 30, 2019	April 1 - June 30, 2019	January 1- June 30, 2018	April 1 - June 30, 2018
Personnel expenses	(104,877,825)	(53,590,449)	(84,142,122)	(42,306,306)
Outsourced expenses including IT services	(30,927,283)	(15,215,334)	(27,522,746)	(14,535,554)
Depreciation and amortization	(14,456,191)	(5,225,186)	(5,834,814)	(3,134,750)
Management expenses	(4,080,822)	(2,029,655)	(7,341,696)	(3,811,383)
Representation and hosting expenses	(3,860,143)	(816,800)	(4,344,624)	(1,198,161)
Travelling and transportation expenses	(4,862,078)	(2,455,574)	(6,807,483)	(3,477,070)
Communication expenses	(2,581,021)	(1,348,247)	(2,444,653)	(1,258,000)
Advertising and marketing expenses	(1,516,419)	(965,176)	(1,978,511)	(1,104,490)
Office supplies expenses	(1,538,369)	(706,941)	(1,267,168)	(676,016)
Broker expenses	(1,468,249)	(783,552)	(2,455,875)	1,187,563
Other marketing, sales and distribution expenses	(720,454)	(439,221)	(983,844)	(593,248)
Change in deferred acquisition cost	16,726,585	6,555,537	1,567,551	1,382,811
Other expenses	(24,983,387)	(11,560,518)	(4,713,885)	(3,020,190)
Total	(179,145,656)	(88,581,116)	(148,269,870)	(72,544,794)

Personnel expenses for the period ended June 30, 2019 and June 30, 2018; are as follows:

	January 1- June 30, 2019	April 1 - June 30, 2019	January 1- June 30, 2018	April 1 - June 30, 2018
Salaries	(58,829,035)	(29,214,255)	(47,254,109)	(24,011,052)
Commission and promotion expenses	(15,520,949)	(9,273,712)	(10,859,441)	(6,455,819)
Social security expenses	(11,603,782)	(6,015,798)	(8,800,739)	(4,174,841)
Other salary expenses	(10,713,112)	(4,366,190)	(8,549,510)	(3,491,734)
Other personnel expenses	(5,525,050)	(3,156,954)	(4,706,323)	(2,250,670)
Employee termination benefit expenses	(1,603,762)	(801,880)	(2,294,171)	(1,587,052)
Unused vacation expenses	(623,220)	(553,273)	(1,444,208)	(222,514)
Notice pay expense	(458,915)	(208,387)	(233,621)	(112,624)
Total	(104,877,825)	(53,590,449)	(84,142,122)	(42,306,306)

31. OTHER INCOME/(EXPENSE), NET

Other income and expenses for the periods ended June 30, 2019 and 2018 are as follows:

	January 1- June 30, 2019	April 1 - June 30, 2019	January 1- June 30, 2018	April 1 - June 30, 2018
Other expense:				
Other operating expense	(970,990)	(461,322)	(3,644,217)	(3,183,936)
Other expense	(163,737)	(9,025)	(78,224)	(37,166)
Total other income / (expense), net	(1,134,727)	(470,347)	(3,722,441)	(3,221,102)

32. BLOCKED SECURITIES AND BANK DEPOSITS

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

	June 30, 2019	June 30, 2018
Blocked securities	811,838,414	499,910,156
Blocked bank deposits (*)	181,049,065	160,166,181
Total	992,887,479	660,076,337

(*) 124,212,908 TRY is the company's blocked bank deposit amount and 56,836,157 TRY is the policyholder's blocked bank deposit amount in favour of Ministry of Finance and Treasury.

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33. RELATED PARTY BALANCES AND TRANSACTIONS

As at June 30, 2019 and December 31, 2018 balances with related parties are as follows:

	June 30, 2019	December 31, 2018
Akbank T.A.Ş. - Credit card receivables	259,802,574	240,634,056
Other cash and cash equivalents	259,802,574	240,634,056
Akbank T.A.Ş.- Bank deposit	71,751,810	44,677,472
Banks	71,751,810	44,677,472

As of June 30, 2019 and December 31, 2018, The Group’s portfolio of financial assets classified as held for trading and financial assets issued by related parties of the Group are as follows:

	June 30, 2019	December 31, 2018
Other receivables from related parties		
Akbank T.A.Ş.	-	1,547,544
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	-	8,460
Aksigorta A.Ş.	-	-
	-	1,556,004

	June 30, 2019	December 31, 2018
Receivables from main operations		
Sabancı Üniversitesi	185,712	38,237
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	91,842	(1,735)
Other	(37,214)	(98,220)
	240,340	(61,718)

	June 30, 2019	December 31, 2018
Other payables to related parties		
Ak Sigorta A.Ş.	333,852	99,397
Bimsa Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş.	4,638,063	2,614,859
Vista Turizm ve Seyahat A.Ş.	217,216	200,662
Ak Portföy Yönetimi A.Ş.	-	135,292
EnerjiSA A.Ş.	66,525	106,243
EnerjiSA Toroslar	5,225	-
TeknoSA İç ve Dış Tic. A.Ş.	52,103	39,093
Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş.	-	-
	5,312,984	3,195,546

	June 30, 2019	December 31, 2018
Advances given		
BimSA Uluslararası İş, Bilgi ve Yönetim Sistemleri A.Ş.	-	20,582
	-	20,582

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

33. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	June 30, 2019	December 31, 2018
Payables from main operations		
Akbank T.A.Ş	18,511,659	17,272,337
Ak Portföy Yönetimi A.Ş.	1,993,825	2,117,546
Emeklilik Gözetim Merkezi A.Ş.	254,744	187,982
	20,760,228	19,577,865
	June 30, 2019	December 31, 2018
Expense accruals		
Aviva International Holdings Ltd.	182,000	182,000
Hacı Ömer Sabancı Vakfı	4,499,651	-
Sabancı Dijital Teknoloji Hizmetleri A.Ş., Ak Portföy Yönetimi A.Ş.	946,471	567,984
	5,628,122	749,984
	June 30, 2019	December 31, 2018
Income accruals		
Akbank T.A.Ş.	6,521,857	4,250,000
	6,521,857	4,250,000
	June 30, 2019	December 31, 2018
Shareholders:		
Hacı Ömer Sabancı Holding	-	2,052
Aviva International Holdings Ltd	2,484	-
Other	-	163,948
Payables to shareholders	2,484	166,000
Shareholders:		
Aviva International Holdings Ltd.	233,492	11,667
Other	26,019	8,554
Receivables from shareholders	259,511	20,221

Transactions with related parties for the period ended June 30, 2019 and June 30, 2018 are as follows:

	1 January– 30 June 2019	1 April– 30 June 2019	1 January– 30 June 2018	1 April– 30 June 2018
Services Purchased				
Akbank T.A.Ş.	86,265,238	41,403,440	81,256,280	42,239,184
- Commission paid	85,132,540	40,745,742	80,303,677	41,760,280
- Paid administrative expenses	1,132,698	657,698	952,603	478,904
Bimsa Uluslararası İletişim ve Bilgi Sistemleri A.Ş.	13,293,038	7,792,832	10,382,930	5,118,300
Ak Portföy Yönetimi A.Ş.	11,087,647	6,350,001	7,809,597	2,995,339
Vista Turizm ve Seyahat A.Ş.	3,111,734	600,882	3,100,962	2,376,018
Teknosa İç ve Dış Ticaret A.Ş.	235,740	(895,921)	244,269	183,037
AkSigorta A.Ş.	2,634,638	1,552,198	2,209,928	1,319,225
Emeklilik Gözetim Merkezi A.Ş.	1,603,031	786,512	1,027,386	417,331
Anadolu Yakası Elektrik Dağıtım A.Ş.	507,110	204,123	338,962	127,166
EnerjiSA Elektrik Enerjisi Toptan Satış	-	-	266	-
Other	900,066	513,036	123,852	47,992
	119,638,242	58,307,103	106,494,432	54,823,592

AVIVASA EMEKLİLİK VE HAYAT A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2019**

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

33. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

	1 January– 30 June 2019	1 April– 30 June 2019	1 January– 30 June 2018	1 April– 30 June 2018
Financial income				
Akbank (interest income)	23,495,832	6,265,860	10,103,570	5,549,804
Akbank (rediscount on derivative securities)	-	-	4,940,204	4,940,204
	23,495,832	6,265,860	15,043,774	10,490,008
	1 January– 30 June 2019	1 April– 30 June 2019	1 January– 30 June 2018	1 April– 30 June 2018
Services Provided				
Enerjisa Enerji Üretim A.Ş. and subsidiaries	339,943	(573,376)	290,574	(1,379)
Akbank T.A.Ş. and subsidiaries	476,286	(376,569)	3,329,753	2,935,264
Kordsa Global Endüstriyel İplik ve Kordbezi San. ve Tic A.Ş.	749,353	395	550,648	3,098
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş.	634,987	1,761	518,145	(708)
Temsa Global Sanayi and Ticaret A.Ş. and subsidiaries	492,971	(4,088)	439,979	(19,156)
Enerjisa Elektrik Üretim A.Ş. and subsidiaries	1,291,256	952,350	1,024,146	409,592
Çimsa Çimento Sanayi ve Ticaret A.Ş. and subsidiaries	325,932	23,693	308,351	16,499
Akçansa Çimento Sanayi ve Ticaret A.Ş. and subsidiaries	267,765	(6,995)	251,260	(12,341)
Aksigorta A.Ş.	244,011	(1,476)	221,832	(1,444)
Teknosa İç ve Dış Ticaret A.Ş. and subsidiaries	171,329	(4,898)	154,793	1,823
Bimsa Uluslararası İş. Bilgi ve Yönetim Sistemleri A.Ş.	297,290	127,851	132,933	1,008
Yünsa Yünlü Sanayi ve Ticaret A.Ş.	143,366	(18,283)	129,010	(704)
Exsa Export Sanayi Mamülleri Satış ve Araştırma A.Ş.	8,833	-	6,592	-
Sabancı Üniversitesi	185,914	185,707	148,558	145,571
Other	239,478	5,284	214,850	73,079
	5,868,714	311,356	7,721,424	3,550,202

Benefits provided to executive management

For the period ended June 30, 2019 and 2018, wages and other benefits provided to Chairman and members of the Board of Directors, general manager, general coordinator, senior managers and assistant general managers are TL 6,972,587 and TL 4,034,536 respectively.

AVİVASA EMEKLİLİK VE HAYAT A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2019

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

34. CONTINGENCIES

Provision for lawsuits

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

As at June 30, 2019 and December 31, 2018; provisions for lawsuits against the Group are as follows:

	June 30, 2019	December 31, 2018
Lawsuits provision under other provision:	10,697,096	10,470,942
Insurance lawsuits against the Group	2,158,486	1,450,210
Business lawsuits against the Group	5,908,317	6,390,439
Other lawsuits against the Group	2,630,293	2,630,293
Lawsuits provision under claims provision	33,967,154	31,736,212
Total lawsuits provision	44,664,250	42,207,154

35. COMMITMENTS

As at June 30, 2019 and December 31, 2018, total insurance risk accepted by the Group under normal courses of the insurance business is detailed in Note 4.

As at June 30, 2019 and December 31, 2018, letters of guarantee given to suppliers and government institutions are as follows:

	June 30, 2019	December 31, 2018
Letters of guarantee	8,907,448	-
Total	8,907,448	-

36. SUBSEQUENT EVENTS

The Group’s consolidated financial statements as of 30 June 2019 is approved at 5 August 2019 by the Board of Directors. The Group has signed an insurance brokerage agreement with Acıbadem Sağlık ve Hayat Sigorta A.Ş. (“Acıbadem Sigorta”). As a consequence, AvivaSA Sigorta Aracılığı A.Ş. which is the 100% subsidiary of AvivaSA Hayat Emeklilik A.Ş. will operate as Acıbadem Sigorta’a agency for marketing and selling of health insurance products.

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