Anadolu Hayat Emeklilik Anonim Şirketi

December 31, 2017 Consolidated Financial Statements Together With Independent Auditors' Report Thereon

(Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)

January 29, 2018

This report includes 4 pages of independent auditors' report and 97 pages of financial information together with their explanatory notes

(Convenience translation of a report and consolidated financial statements originally issued in Turkish)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Anadolu Hayat Emeklilik Anonim Şirketi

A) Report on the Audit of the Consolidated Financial Statements

1) Opinion

We have audited the consolidated financial statements of Anadolu Hayat Emeklilik Anonim Şirketi (the Company), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the prevailing accounting principles and standards as per the insurance legislation and Turkish Accounting Standards decree for the matters not regulated by insurance legislation; "Insurance Accounting and Financial Reporting Legislation".

2) Basis for Opinion

We conducted our audit in accordance with standards on auditing as issued by the Capital Markets Board of Turkey and Independent Auditing Standards (InAS) which are part of the Turkish Auditing Standards as issued by the Public Oversight Accounting and Auditing Standards Authority of Turkey (POA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the *Code of Ethics for Independent Auditors* (Code of Ethics) as issued by the POA, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Key Audit Matters

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

Key audit matter	***How our audit addressed the key audit matter***
Estimates and assumptions used in calculation of insurance contract liabilities	
As of December 31, 2017, the Company has insurance liabilities of TL 1.880.844.424 representing 11% of the Company's total liabilities. The measurement of insurance contract liabilities involves judgement over uncertain future outcomes, mainly the ultimate total settlement value of long-term liabilities,	The audit procedures regarding the insurance contract liabilities were performed with the use of an actuarial auditor, who is part of our team, and together with manually calculated components of insurance contract liabilities, audit evidence about key controls over calculation methods used by Company's

including those for guarantees provided to policyholders. Liabilities related to life insurance group comprise of actuarial mathematical reserves which are calculated according to formulas and principles given in approved technical basis of tariffs and profit sharing reserves which consist of profit sharing calculated in previous years and a certain percentage of current year's income, determined in the approved profit sharing tariffs, including other beneficiaries for the contracts which the Company is liable to give profit sharing. Accounting policies and actuarial assumptions used for the mentioned insurance contract liabilities are explained in note 2 and 17. Given their magnitude in terms of financial statement and significant uncertainty of estimates containing, insurance contract liabilities has been considered as a key audit matter.	actuaries were obtained; reconciliation of input data related to the Company's insurance contract liabilities with system and other source data was tested; Tariffs and profit sharing reserves which are components of Life group insurance contract liabilities were tested on calculation data by using sampling method and compliance of the explanatory information regarding to insurance contract liabilities with the accounting and reporting regulations in force due to the insurance legislation was reviewed.

4) Other matter

The consolidated financial statements of the Company which were prepared in accordance with the accounting principles and standards in force as of December 31, 2016 were subject to full-scope audit by another independent audit firm. In their independent auditor's report dated January 30, 2017, independent audit firm expressed unqualified opinion on the consolidated financial statements prepared at December 31, 2016.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Insurance Accounting and Financial Reporting Legislation and designing, implementing and maintaining internal systems relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

6) Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

B) Report on Other Legal and Regulatory Requirements

1) Auditors' report on Risk Management System and Committee prepared in accordance with paragraph 4 of Article 398 of Turkish Commercial Code ("TCC") 6102 is submitted to the Board of Directors of the Company on January 29, 2018.

2) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January 1 – December 31, 2017 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.

3) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The name of the engagement partner who supervised and concluded this audit is Seda Akkuş Tecer.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Seda Akkuş Tecer, SMMM
Partner

January 29, 2018
İstanbul, Türkiye

ANADOLU HAYAT EMEKLİLİK ANONİM ŞİRKETİ
CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2017

We confirm that the consolidated financial statements and related disclosures and footnotes as at December 31, 2017 which were prepared in accordance with the accounting principles and standards in force as per the regulations of T.C. Başbakanlık Hazine Müsteşarlığı are in compliance with the "Code Related to the Financial Reporting of Insurance, Reinsurance and Private Pension Companies" and the financial records of our Company.

Istanbul, January 29, 2018

M. Uğur Erkan	Orhan Bozkurt	N. Cem Özcan	F. Demet Işıksaçan
Member of the Board of Directors / Chief Executive Officer	Vice Chief Executive Officer	Accounting Manager	Actuary (Registration Number:37)

CONTENTS **PAGE**

(Currency: Turkish Lira (TL))

ASSETS			
I- Current Assets	**Note**	**Audited Current Period December 31, 2017**	**Audited Prior Period December 31, 2016**
A- Cash and Cash Equivalents	**14**	**581,758,087**	**326,886,784**
1- Cash	14	5,654	8,370
2- Cheques Received		-	-
3- Banks	14	385,859,525	146,204,151
4- Cheques Given and Payment Orders	14	(24)	(2,745)
5- Bank Guaranteed Credit Card Receivables with Maturities Less Than Three Months	14	195,892,932	180,677,008
6- Other Cash and Cash Equivalents		-	-
B- Financial Assets and Financial Investments with Risks on Policyholders	**11**	**2,223,752,989**	**2,373,082,951**
1- Available-for-Sale Financial Assets	11	591,320,170	747,069,736
2- Held to Maturity Investments		-	-
3- Financial Assets Held for Trading	11	62,317,618	36,591,886
4- Loans and Receivables	11	37,836,112	19,007,705
5- Provision for Loans and Receivables		-	-
6- Financial Investments with Risks on Saving Life Policyholders	11	1,551,190,636	1,580,922,429
7- Company’s Own Equity Shares		-	-
8- Diminution in Value of Financial Investments	11	(18,911,547)	(10,508,805)
C- Receivables from Main Operations	**12**	**14,809,280,499**	**11,449,563,544**
1- Receivables from Insurance Operations	12	37,898,538	28,651,470
2- Provision for Receivables from Insurance Operations	12	(2,574)	(2,574)
3- Receivables from Reinsurance Operations		-	-
4- Provision for Receivables from Reinsurance Operations		-	-
5- Cash Deposited to Insurance and Reinsurance Companies		-	-
6- Loans to the Policyholders	12	30,170,168	31,647,263
7- Provision for Loans to the Policyholders		-	-
8- Receivables from Individual Pension Operations	12	14,741,214,367	11,389,267,385
9- Doubtful Receivables from Main Operations	12	117,996	117,996
10- Provision for Doubtful Receivables from Main Operations	12	(117,996)	(117,996)
D- Due from Related Parties	**12**	**1,567**	**5,221**
1- Due from Shareholders		-	-
2- Due from Associates		-	-
3- Due from Subsidiaries		-	-
4- Due from Joint Ventures		-	-
5- Due from Personnel	12	1,567	5,221
6- Due from Other Related Parties		-	-
7- Rediscount on Receivables from Related Parties		-	-
8- Doubtful Receivables from Related Parties		-	-
9- Provision for Doubtful Receivables from Related Parties		-	-
E- Other Receivables	**12**	**19,352,221**	**10,663,493**
1- Finance Lease Receivables		-	-
2- Unearned Finance Lease Interest Income		-	-
3- Deposits and Guarantees Given		85,685	82,836
4- Other Miscellaneous Receivables	47	19,341,866	10,628,177
5- Rediscount on Other Miscellaneous Receivables		(75,330)	(47,520)
6- Other Doubtful Receivables		-	-
7- Provision for Other Doubtful Receivables		-	-
F- Prepaid Expenses and Income Accruals	**4.2**	**39,071,002**	**23,523,085**
1- Deferred Commission Expense		26,432,495	17,170,562
2- Accrued Interest and Rent Income		233,714	204,671
3- Income Accruals		-	-
4- Other Prepaid Expenses		12,404,793	6,147,852
G- Other Current Assets	**4.2**	**21,210**	**18,199**
1- Stocks to be Used in the Following Months		-	-
2- Prepaid Taxes and Funds		8,133	8,133
3- Deferred Tax Assets		-	-
4- Job Advances		13,077	10,066
5- Advances Given to Personnel		-	-
6- Inventory Count Differences		-	-
7- Other Miscellaneous Current Assets		-	-
8- Provision for Other Current Assets		-	-
I- Total Current Assets		**17,673,237,575**	**14,183,743,277**

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

(Currency: Turkish Lira (TL))

ASSETS			
II- Non-Current Assets	**Note**	**Audited Current Period December 31, 2017**	**Audited Prior Period December 31, 2016**
A- Receivables from Main Operations		**-**	**-**
1- Receivables from Insurance Operations		-	-
2- Provision for Receivables from Insurance Operations		-	-
3- Receivables from Reinsurance Operations		-	-
4- Provision for Receivables from Reinsurance Operations		-	-
5- Cash Deposited for Insurance and Reinsurance Companies		-	-
6- Loans to the Policyholders		-	-
7- Provision for Loans to the Policyholders		-	-
8- Receivables from Individual Pension Business		-	-
9- Doubtful Receivables from Main Operations		-	-
10- Provision for Doubtful Receivables from Main Operations		-	-
B- Due from Related Parties		**-**	**-**
1- Due from Shareholders		-	-
2- Due from Associates		-	-
3- Due from Subsidiaries		-	-
4- Due from Joint Ventures		-	-
5- Due from Personnel		-	-
6- Due from Other Related Parties		-	-
7- Rediscount on Receivables from Related Parties		-	-
8- Doubtful Receivables from Related Parties		-	-
9- Provision for Doubtful Receivables from Related Parties		-	-
C- Other Receivables		**485,339**	**764,981**
1- Finance Lease Receivables		-	-
2- Unearned Finance Lease Interest Income		-	-
3- Deposits and Guarantees Given		-	-
4- Other Miscellaneous Receivables		709,944	1,064,916
5- Rediscount on Other Miscellaneous Receivables		(224,605)	(299,935)
6- Other Doubtful Receivables		-	-
7- Provision for Other Doubtful Receivables		-	-
D- Financial Assets	**9,45.d**	**20,324,696**	**18,551,738**
1- Investments in Equity Shares		-	-
2- Investments in Associates	9,45.d	20,324,696	18,551,738
3- Capital Commitments to Associates		-	-
4- Investments in Subsidiaries		-	-
5- Capital Commitments to Subsidiaries		-	-
6- Investments in Joint Ventures		-	-
7- Capital Commitments to Joint Ventures		-	-
8- Financial Assets and Financial Investments with Risks on Policyholders		-	-
9- Other Financial Assets		-	-
10- Impairment in Value of Financial Assets		-	-
E- Tangible Assets		**160,222,265**	**162,607,274**
1- Investment Properties	7	141,944,134	144,262,511
2- Impairment for Investment Properties		-	-
3- Owner Occupied Property	6	4,610,000	4,610,000
4- Machinery and Equipments	6	29,556,763	24,339,733
5- Furniture and Fixtures	6	3,741,718	3,824,369
6- Motor Vehicles	6	431,268	486,876
7- Other Tangible Assets (Including Leasehold Improvements)	6	3,850,717	3,637,120
8- Tangible Assets Acquired Through Finance Leases	6	533,750	533,750
9- Accumulated Depreciation	6	(24,446,085)	(19,087,085)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		-	-
F- Intangible Assets	**8**	**28,011,790**	**31,273,866**
1- Rights	8	69,128,445	44,936,482
2- Goodwill		-	-
3- Pre-operating Expenses		-	-
4- Research and Development Costs		-	-
5- Other Intangible Assets		-	-
6- Accumulated Amortisation (Depreciation)	8	(41,116,655)	(26,661,466)
7- Advances Paid for Intangible Assets		-	12,998,850
G- Prepaid Expenses and Income Accruals		**2,476,061**	**530,611**
1- Deferred Commission Expense		-	-
2- Income Accruals		-	-
3- Other Prepaid Expenses and Income Accruals		2,476,061	530,611
H- Other Non-Current Assets		**-**	**-**
1- Effective Foreign Currency Accounts		-	-
2- Foreign Currency Accounts		-	-
3- Stocks to be Used in the Following Years		-	-
4- Prepaid Taxes and Funds		-	-
5- Deferred Tax Assets		-	-
6- Other Miscellaneous Non-Current Assets		-	-
7- Amortisation on Other Non-Current Assets		-	-
8- Provision for Other Non-Current Assets		-	-
II- Total Non-Current Assets		**211,520,151**	**213,728,470**
TOTAL ASSETS		**17,884,757,726**	**14,397,471,747**

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

(Currency: Turkish Lira (TL))

LIABILITIES			
III- Short-Term Liabilities	**Note**	**Audited Current Period December 31, 2017**	**Audited Prior Period December 31, 2016**
A- Financial Liabilities	**20**	**-**	**45,376,520**
1- Borrowings from Financial Institutions		-	-
2- Finance Lease Liabilities		-	-
3- Deferred Leasing Costs		-	-
4- Current Portion of Long Term Debts		-	-
5- Principal Installments and Interests on Bonds Issued		-	-
6- Other Financial Assets Issued		-	-
7- Valuation Differences of Other Financial Assets Issued		-	-
8- Other Financial Liabilities	20	-	45,376,520
B- Payables Arising from Main Operations	**19**	**14,982,910,289**	**11,598,054,883**
1- Payables Arising from Insurance Operations	19	13,836,127	14,097,447
2- Payables Arising from Reinsurance Operations		-	-
3- Cash Deposited by Insurance and Reinsurance Companies	19,10	1,648,069	1,084,011
4- Payables Arising from Individual Pension Business	19	14,964,479,508	11,581,732,535
5- Payables Arising from Other Main Operations		2,946,585	1,140,890
6- Discount on Payables from Other Main Operations		-	-
C- Due to Related Parties	**19**	**99,315**	**117,850**
1- Due to Shareholders	19,45	57,577	62,231
2- Due to Associates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel	9	41,670	55,571
6- Due to Other Related Parties	19	68	48
D- Other Payables	**19**	**22,985,648**	**20,144,860**
1- Deposits and Guarantees Received	19	995,786	823,067
2- Medical Treatment Payables to Social Security Institution		-	-
3- Other Miscellaneous Payables	19,47	21,989,862	19,321,793
4- Discount on Other Miscellaneous Payables		-	-
E- Insurance Technical Provisions	**17**	**1,880,844,424**	**1,818,688,743**
1- Reserve for Unearned Premiums - Net	17	45,766,580	29,184,804
2- Reserve for Unexpired Risks - Net		-	9,479
3- Mathematical Provisions - Net	17	1,725,732,929	1,682,433,974
4- Provision for Outstanding Claims - Net	17	87,007,263	90,385,972
5- Provision for Bonus and Discounts - Net		294,374	459,163
6- Other Technical Provisions - Net	17	22,043,278	16,215,351
F- Provisions for Taxes and Other Similar Obligations		**19,540,559**	**13,013,112**
1- Taxes and Funds Payable		6,154,582	5,174,343
2- Social Security Premiums Payable		2,054,778	1,836,850
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
4- Other Taxes and Similar Payables		27	76,744
5- Corporate Tax Payable	35	55,107,000	39,530,000
6- Prepaid Taxes and Other Liabilities Regarding Current Period Income	35	(43,775,828)	(33,604,825)
7- Provisions for Other Taxes and Similar Liabilities		-	-
G- Provisions for Other Risks	**23**	**18,517,006**	**15,679,205**
1- Provision for Employee Termination Benefits		-	-
2- Provision for Pension Fund Deficits		-	-
3- Provisions for Costs	23	18,517,006	15,679,205
H- Deferred Income and Expense Accruals	**19**	**2,955,075**	**5,581,134**
1- Deferred Commission Income	19	155,766	190,391
2- Expense Accruals	19	2,793,463	1,635,679
3- Other Deferred Income and Expense Accruals	19	5,846	3,755,064
I- Other Short-Term Liabilities		**-**	**-**
1- Deferred Tax Liabilities		-	-
2- Inventory Count Differences		-	-
3- Other Various Short-Term Liabilities		-	-
III – Total Short-Term Liabilities		**16,927,852,316**	**13,516,656,307**

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

(Currency: Turkish Lira (TL))

LIABILITIES			
IV- Long-Term Liabilities	**Note**	**Audited Current Period December 31, 2017**	**Audited Prior Period December 31, 2016**
A- Financial Liabilities		**-**	**-**
1- Borrowings from Financial Institutions		-	-
2- Finance Lease Liabilities		-	-
3- Deferred Leasing Costs		-	-
4- Bonds Issued		-	-
5- Other Financial Assets Issued		-	-
6- Valuation Differences of Other Financial Assets Issued		-	-
7- Other Financial Liabilities		-	-
B- Payables Arising from Main Operations		**-**	**-**
1- Payables Arising from Insurance Operations		-	-
2- Payables Arising from Reinsurance Operations		-	-
3- Cash Deposited by Insurance and Reinsurance Companies		-	-
4- Payables Arising from Individual Pension Business		-	-
5- Payables Arising from Other Operations		-	-
6- Discount on Payables from Other Operations		-	-
C- Due to Related Parties		**-**	**-**
1- Due to Shareholders		-	-
2- Due to Associates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		-	-
6- Due to Other Related Parties		-	-
D- Other Payables		**-**	**-**
1- Deposits and Guarantees Received		-	-
2- Medical Treatment Payables to Social Security Institution		-	-
3- Other Miscellaneous Payables		-	-
4- Discount on Other Miscellaneous Payables		-	-
E-Insurance Technical Provisions		**-**	**-**
1- Reserve for Unearned Premiums - Net		-	-
2- Reserve for Unexpired Risks - Net		-	-
3- Mathematical Provisions - Net		-	-
4- Provision for Outstanding Claims - Net		-	-
5- Provision for Bonus and Discounts - Net		-	-
6- Other Technical Provisions - Net		-	-
F-Other Liabilities and Relevant Accruals		**-**	**-**
1- Other Liabilities		-	-
2- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
3- Other Liabilities and Expense Accruals		-	-
G- Provisions for Other Risks	**22,23**	**13,724,571**	**12,709,099**
1- Provision for Employee Termination Benefits	22,23	13,724,571	12,709,099
2- Provision for Pension Fund Deficits		-	-
H-Deferred Income and Expense Accruals		**-**	**-**
1- Deferred Commission Income		-	-
2- Expense Accruals		-	-
3- Other Deferred Income and Expense Accruals		-	-
I- Other Long-Term Liabilities	**21**	**9,057,907**	**1,461,964**
1- Deferred Tax Liabilities	21	9,057,907	1,461,964
2- Other Long-Term Liabilities		-	-
IV- Total Long-Term Liabilities		**22,782,478**	**14,171,063**

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

(Currency: Turkish Lira (TL))

EQUITY			
V- Equity	**Note**	**Audited Current Period December 31, 2017**	**Audited Prior Period December 31, 2016**
A- Paid in Capital	**2.13,15**	**430,000,000**	**430,000,000**
1- (Nominal) Capital	2.13,15	430,000,000	430,000,000
2- Unpaid Capital		-	-
3- Positive Capital Restatement Differences		-	-
4- Negative Capital Restatement Differences		-	-
5- Register in Progress Capital		-	-
B- Capital Reserves		-	-
1- Share Premiums		-	-
2- Cancellation Profits of Equity Shares		-	-
3- Profit on Assets Sale That Will Be Transferred to Capital		-	-
4- Currency Translation Adjustments		-	-
5- Other Capital Reserves		-	-
C- Profit Reserves		**175,125,944**	**143,606,602**
1- Legal Reserves	15	128,969,833	106,543,950
2- Statutory Reserves	15	15,753,835	1,321,820
3- Extraordinary Reserves	15	22,371,536	8,489,678
4- Special Funds		-	-
5- Revaluation of Financial Assets	15,16	9,775,232	27,264,010
6- Other Profit Reserves	15	(1,744,492)	(12,856)
D- Retained Earnings		**102,405,178**	**101,780,905**
1- Retained Earnings		102,405,178	101,780,905
E- Accumulated Losses		-	-
1- Accumulated Losses		-	-
F-Net Profit for the Period		**226,591,810**	**191,256,870**
1- Net Profit for the Period		226,591,810	191,256,870
2- Net Loss for the Period			-
3- Profit not Available for Distribution		-	-
V- Total Equity		**934,122,932**	**866,644,377**
TOTAL EQUITY AND LIABILITIES		**17,884,757,726**	**14,397,471,747**

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

(Currency: Turkish Lira (TL))

I-TECHNICAL SECTION	Note	Audited Current Period December 31, 2017	Audited Prior Period December 31, 2016
A- Non-Life Technical Income	**5**	**668,113**	**448,281**
1- Earned Premiums (Net of Reinsurer Share)		668,113	448,281
1.1- Written Premiums (Net of Reinsurer Share)	24	643,045	624,669
1.1.1- Written Premiums, gross		925,330	835,356
1.1.2- Written Premiums, ceded	10	(282,285)	(210,687)
1.1.3- Premiums Transferred to Social Security Institutions		-	-
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)		15,589	(166,909)
1.2.1- Reserve for Unearned Premiums, gross		12,022	(174,600)
1.2.2- Reserve for Unearned Premiums, ceded	10	3,567	7,691
1.2.3 – Reserve for Unearned Premiums, Social Security Institution Share		-	-
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		9,479	(9,479)
1.3.1- Reserve for Unexpired Risks, gross		11,455	(11,455)
1.3.2- Reserve for Unexpired Risks, ceded		(1,976)	1,976
2- Investment Income - Transferred from Non-Technical Section		-	-
3- Other Technical Income (Net of Reinsurer Share)		-	-
3.1- Other Technical Income, gross		-	-
3.2- Other Technical Income, ceded		-	-
4- Accrued Salvage and Subrogation Income		-	-
B- Non-Life Technical Expense	**5**	**(1,213,707)**	**(1,013,807)**
1- Incurred Losses (Net of Reinsurer Share)		(398,277)	(450,502)
1.1- Claims Paid (Net of Reinsurer Share)		(500,107)	(440,010)
1.1.1- Claims Paid, gross		(664,012)	(622,673)
1.1.2- Claims Paid, ceded	10	163,905	182,663
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)		101,830	(10,492)
1.2.1- Change in Provisions for Outstanding Claims, gross		188,500	79,629
1.2.2- Change in Provisions for Outstanding Claims, ceded	10	(86,670)	(90,121)
2- Change in Provision for Bonus and Discounts (Net of Reinsurer and Less the Amounts Carried Forward)		-	(904)
2.1- Provision for Bonus and Discounts, gross		(2,037)	(2,395)
2.2- Provision for Bonus and Discounts, ceded	10	2,037	1,491
3- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)		(12,283)	(12,834)
4- Operating Expenses	32	(803,147)	(549,567)
5- Change in Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
5.1- Change in Mathematical Provisions, gross		-	-
5.2 - Change in Mathematical Provisions, ceded		-	-
6- Change in Other Technical Provisions (Net of Reinsurer and Less the Amounts Carried Forward)		-	-
6.1- Change in Other Technical Provisions, gross		-	-
6.2- Change in Other Technical Provisions, ceded		-	-
C- Net Technical Income-Non-Life (A – B)		**(545,594)**	**(565,526)**
D- Life Technical Income	**5**	**741,971,367**	**700,849,526**
1- Earned Premiums (Net of Reinsurer Share)		544,073,328	475,432,266
1.1- Written Premiums (Net of Reinsurer Share)	24	560,670,693	487,850,880
1.1.1- Written Premiums. gross		574,747,973	500,565,012
1.1.2- Written Premiums. ceded	10	(14,077,280)	(12,714,132)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)		(16,597,365)	(12,418,614)
1.2.1- Reserve for Unearned Premiums. gross		(16,952,528)	(12,201,672)
1.2.2- Reserve for Unearned Premiums. ceded	10	355,163	(216,942)
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
1.3.1- Reserve for Unexpired Risks. gross		-	-
1.3.2- Reserve for Unexpired Risks. ceded		-	-
2- Investment Income	26	190,796,913	214,833,562
3- Unrealised Gains on Investments		-	-
4- Other Technical Income (Net of Reinsurer Share)		7,101,126	10,583,698
4.1- Other Technical Income. gross		7,101,126	10,583,698
4.2- Other Technical Income. ceded		-	-
5- Accrued Salvage Income		-	-

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

(Currency: Turkish Lira (TL))

I-TECHNICAL SECTION	Note	Audited Current Period December 31, 2017	Audited Prior Period December 31, 2016
E- Life Technical Expense	**5**	**(609,361,173)**	**(588,363,510)**
1- Incurred Losses (Net of Reinsurer Share)		(403,401,308)	(448,861,326)
1.1- Claims Paid (Net of Reinsurer Share)		(395,009,732)	(434,691,400)
1.1.1- Claims Paid, gross		(401,052,249)	(441,215,466)
1.1.2- Claims Paid, ceded	10	6,042,517	6,524,066
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)		(8,391,576)	(14,169,926)
1.2.1- Change in Provisions for Outstanding Claims, gross		(7,916,842)	(15,056,693)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10	(474,734)	886,767
2- Change in Provision for Bonus and Discounts (Net of Reinsurer and Less the Amounts Carried Forward)		164,789	(143,322)
2.1- Provision for Bonus and Discounts, gross		207,650	(338,699)
2.2- Provision for Bonus and Discounts, ceded		(42,861)	195,377
3- Change in Life Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)		(36,529,790)	2,267,138
3.1- Change in Life Mathematical Provisions, gross		(36,675,412)	2,631,401
3.1.1- Change in Actuarial Mathematical Provisions, gross		(12,184,777)	10,258,365
3.1.2- Change in Profit Share Provisions (Provision for Financial Investments with Risks on Saving Life Policyholders), gross		(24,490,635)	(7,626,964)
3.2- Change in Life Mathematical Provisions, ceded	10	145,622	(364,263)
3.2.1- Change in Actuarial Mathematical Provisions, ceded		145,622	(364,263)
3.2.2- Change in Profit Share Provisions (Provision for Financial Investments with Risks on Saving Life Policyholders). ceded		-	-
4- Change in Other Technical Provisions (Net of Reinsurer and Less the Amounts Carried Forward)		(5,815,644)	(4,956,762)
5- Operating Expenses	32	(163,779,220)	(136,669,238)
6- Investment Expenses		-	-
7- Unrealized Losses on Investments		-	-
8- Investment Income Transferred to the Non-Life Technical Section		-	-
F- Net Technical Income- Life (D – E)		**132,610,194**	**112,486,016**
G- Pension Business Technical Income	**5.25**	**300,557,250**	**236,760,325**
1- Fund Management Income	25	216,742,273	173,816,154
2- Management Fee	25	32,957,056	21,201,113
3- Entrance Fee Income	25	42,607,643	37,075,268
4- Management Expense Charge in case of Suspension	25	7,675,127	4,514,878
5- Income from Individual Service Charges		-	-
6- Increase in Value of Capital Allowances Given as Advance		-	-
7- Other Technical Expense	25	575,151	152,912
H- Pension Business Technical Expense	**5**	**(233,432,598)**	**(215,669,232)**
1- Fund Management Expense		(31,082,195)	(24,572,325)
2- Decrease in Value of Capital Allowances Given as Advance		-	-
3- Operating Expenses	32	(187,910,279)	(181,706,419)
4- Other Technical Expenses		(13,271,344)	(9,224,477)
5- Fine Payments		(1,168,780)	(166,011)
I- Net Technical Income - Pension Business (G – H)		**67,124,652**	**21,091,093**

(Currency: Turkish Lira (TL))

II-NON-TECHNICAL SECTION	**Note**	**Audited Current Period December 31, 2017**	**Audited Prior Period December 31, 2016**
C- Net Technical Income – Non-Life (A-B)		**(545,594)**	**(565,526)**
F- Net Technical Income – Life (D-E)		**132,610,194**	**112,486,016**
I - Net Technical Income – Pension Business (G-H)		**67,124,652**	**21,091,093**
J- Total Net Technical Income (C+F+I)		**199,189,252**	**133,011,583**
K- Investment Income	**26**	**126,213,332**	**124,345,342**
1- Income from Financial Assets		72,195,653	63,413,825
2- Income from Disposal of Financial Assets		5,650,125	6,752,452
3- Valuation of Financial Assets		29,599,339	16,579,813
4- Foreign Exchange Gains	36	6,434,339	4,785,452
5- Income from Associates	26	4,784,915	3,289,135
6- Income from Subsidiaries and Joint Ventures		-	-
7- Income from Property, Plant and Equipment	7,26	5,089,954	27,699,339
8- Income from Derivative Transactions		-	-
9- Other Investments	26	2,459,007	1,825,326
10- Income Transferred from Life Section		-	-
L- Investment Expense		**(26,127,788)**	**(21,483,949)**
1- Investment Management Expenses (inc. interest)		(2,229,571)	(2,284,577)
2- Diminution in Value of Investments	34	(2,000)	(995,480)
3- Loss from Disposal of Financial Assets		(949,592)	(5,235,169)
4- Investment Income Transferred to Non-Life Technical Section		-	-
5- Loss from Derivative Transactions		-	-
6- Foreign Exchange Losses	36	(2,196,351)	(1,283,125)
7- Depreciation and Amortisation Expenses	6,8	(20,750,274)	(11,685,598)
8- Other Investment Expenses		-	-
M- Income and Expenses From Other and Extraordinary Operation		**(17,575,986)**	**(5,086,106)**
1- Provisions	47	(6,659,218)	(3,992,100)
2- Rediscounts	47	47,520	1,964
3- Specified Insurance Accounts		-	-
4- Monetary Gains and Losses		-	-
5- Deferred Taxation (Deferred Tax Assets)	21	(9,888,342)	(158,032)
6- Deferred Taxation (Deferred Tax Liabilities)		-	-
7- Other Income		4,471	25,717
8- Other Expenses and Losses		(1,080,417)	(963,655)
9- Prior Year's Income		-	-
10- Prior Year's Expenses and Losses		-	-
N- Net Profit for the Period	**37**	**226,591,810**	**191,256,870**
1- Profit for the Period		281,698,810	230,786,870
2- Corporate Tax Provision and Other Fiscal Liabilities	35	(55,107,000)	(39,530,000)
3- Net Profit for the Period	37	**226,591,810**	191,256,870
4- Monetary Gains and Losses		-	-

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

(Currency: Turkish Lira (TL))

	Note	**Audited Current Period December 31, 2017**	**Audited Prior Period December 31, 2016**
A. Cash flows from operating activities			
1. Cash provided from insurance activities		606,264,945	681,083,186
2. Cash provided from reinsurance activities		564,058	-
3. Cash provided from individual pension business		323,587,268	259,757,540
4. Cash used in insurance activities		(366,577,628)	(585,308,184)
5. Cash used in reinsurance activities		-	(421,112)
6. Cash used in individual pension business		(225,662,625)	(210,922,935)
7. Cash provided by / (used in) operating activities		**338,176,018**	**144,188,495**
8. Interest paid		-	(4,742,954)
9. Income taxes paid		(49,701,003)	(30,778,000)
10. Other cash inflows		44,052,898	15,955,195
11. Other cash outflows		(71,481,042)	(36,929,021)
12. Net cash provided by operating activities		**261,046,871**	**87,693,715**
B. Cash flows from / (used in) investing activities			
1. Proceeds from disposal of tangible assets		1,815,572	936,973
2. Acquisition of tangible assets	**6,7.8**	(17,529,384)	(26,334,644)
3. Acquisition of financial assets		(192,031,312)	(426,814,105)
4. Proceeds from disposal of financial assets		188,310,253	288,132,051
5. Interests received		150,171,407	143,420,869
6. Dividends received		8,843,774	7,256,819
7. Other cash inflows		38,501,262	142,647,519
8. Other cash outflows		(349,268,463)	(110,449,237)
9. Net cash used in investing activities		**(171,186,891)**	**18,796,245**
C. Cash flows from / (used in) financing activities			
1. Equity shares issued		-	-
2. Cash provided from loans and borrowings		-	-
3. Finance lease payments		-	-
4. Dividends paid	38	(144,463,510)	(103,406,281)
5. Other cash inflows		-	-
6. Other cash outflows		-	-
7. Net cash used in financing activities		**(144,463,510)**	**(103,406,281)**
D. Effect of exchange rate fluctuations on cash and cash equivalents			
E. Net decrease in cash and cash equivalents		**(54,603,530)**	**3,083,679**
F. Cash and cash equivalents at the beginning of the period	**14**	269,159,270	266,075,591
G. Cash and cash equivalents at the end of the period	**14**	**214,555,740**	**269,159,270**

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

(Currency: Turkish Lira (TL))

Audited - Changes in Equity - December 31, 2016

	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets	Inflation Adjustments	Currency Translation Adjustments	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit for the Period	Retained Earnings	Total
I - Balance at the end of the year period – December 31, 2015		**410,000,000**	**-**	**33,818,533**	**-**	**-**	**90,517,091**	**308,179**	**1,210,053**	**145,882,820**	**101,289,300**	**783,025,976**
II – Change in Accounting Standards		-	-	-	-	-	-	-	-	-	-	-
III – Restated balances (I+II) – January 1, 2016		**410,000,000**	**-**	**33,818,533**	**-**	**-**	**90,517,091**	**308,179**	**1,210,053**	**145,882,820**	**101,289,300**	**783,025,976**
A- Capital increase (A1+A2)		20,000,000	-	-	-	-	-	(10,000,000)	(10,000,000)	-	-	-
1- In cash		-	-	-	-	-	-	-	-	-	-	-
2- From reserves		20,000,000	-	-	-	-	-	(10,000,000)	(10,000,000)	-	-	-
B- Purchase of own shares		-	-	-	-	-	-	-	-	-	-	-
C- Gains or losses that are not included in the statement of income		-	-	-	-	-	-	-	(1,137,890)	-	-	(1,137,890)
D- Change in the value of financial assets	15	-	-	(6,554,523)	-	-	-	-	-	-	-	(6,554,523)
E- Currency translation adjustments		-	-	-	-	-	-	-	-	-	-	-
F- Other gains or losses	15	-	-	-	-	-	-	-	-	3,474,999	(14,774)	3,460,225
G- Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-
H- Net profit for the period		-	-	-	-	-	-	-	-	191,256,870	-	191,256,870
I – Dividends paid	38	-	-	-	-	-	-	-	-	(103,406,281)	-	(103,406,281)
J - Transfers from retained earnings	15	-	-	-	-	-	16,026,859	11,013,641	18,404,659	(45,951,538)	506,379	-
IV - Balance at the end of the period – December 31, 2016		**430,000,000**	**-**	**27,264,010**	**-**	**-**	**106,543,950**	**1,321,820**	**8,476,822**	**191,256,870**	**101,780,905**	**866,644,377**

Audited - Changes in Equity - December 31, 2017

	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets	Inflation Adjustments	Currency Translation Adjustments	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit for the Period	Retained Earnings	Total
I - Balance at the end of the year period – December 31, 2016		**430,000,000**	**-**	**27,264,010**	**-**	**-**	**106,543,950**	**1,321,820**	**8,476,822**	**191,256,870**	**101,780,905**	**866,644,377**
II – Change in Accounting Standards		-	-	-	-	-	-	-	-	-	-	-
III – Restated balances (I+II) – January 1, 2017		**430,000,000**	**-**	**27,264,010**	**-**	**-**	**106,543,950**	**1,321,820**	**8,476,822**	**191,256,870**	**101,780,905**	**866,644,377**
A- Capital increase (A1+A2)		-	-	-	-	-	-	-	-	-	-	-
1- In cash		-	-	-	-	-	-	-	-	-	-	-
2- From reserves		-	-	-	-	-	-	-	-	-	-	-
B- Purchase of own shares		-	-	-	-	-	-	-	-	-	-	-
C- Gains or losses that are not included in the statement of income		-	-	-	-	-	-	-	(1,731,636)	-	-	(1,731,636)
D- Change in the value of financial assets	15	-	-	(17,488,778)	-	-	-	-	-	-	-	(17,488,778)
E- Currency translation adjustments		-	-	-	-	-	-	-	-	-	-	-
F- Other gains or losses	15	-	-	-	-	-	-	-	-	3,946,396	624,273	4,570,669
G- Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-
H- Net profit for the period		-	-	-	-	-	-	-	-	226,591,810	-	226,591,810
I – Dividends paid	38	-	-	-	-	-	-	-	-	(144,463,510)	-	(144,463,510)
J - Transfers from retained earnings	15	-	-	-	-	-	22,425,883	14,432,015	13,881,858	(50,739,756)	-	-
IV - Balance at the end of the period – December 31, 2017		**430,000,000**	**-**	**9,775,232**	**-**	**-**	**128,969,833**	**15,753,835**	**20,627,044**	**226,591,810**	**102,405,178**	**934,122,932**

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

(Currency: Turkish Lira (TL))

	Note	Audited Current Period December 31, 2017(**)	Audited Prior Period December 31, 2016
I.DISTRIBUTION OF THE PERIOD PROFIT			
1.1. PERIOD PROFIT(*)		287,198,810	235,326,870
1.2. TAXES AND DUTIES PAYABLE		(55,107,000)	(39,530,000)
1.2.1. Corporate Tax (Income Tax)		(55,107,000)	(39,530,000)
1.2.2. Income Tax Deductions		-	-
1.2.3. Other Taxes and Legal Duties		-	-
A. CURRENT PERIOD PROFIT (1.1 – 1.2)		**232,091,810**	**195,796,870**
1.3. ACCUMULATED LOSSES (-)		-	-
1.4. FIRST LEGAL RESERVES (-)		11,510,134	9,740,722
1.5. OTHER STATUTORY RESERVES (-)		-	-
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A - (1.3 + 1.4 + 1.5)]		**220,581,676**	**186,056,148**
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)		-	(37,272,492)
1.6.1. To owners of ordinary shares		-	(37,272,492)
1.6.2. To owners of privileged shares		-	-
1.6.3 To owners of redeemed shares		-	-
1.6.4 To holders profit sharing bonds		-	-
1.6.5 To holders of profit and loss sharing certificates		-	-
1.7. DIVIDENDS TO PERSONNEL (-)		-	(4,463,510)
1.8. DIVIDENDS TO BOARD OF DIRECTORS (-)		-	-
1.9. DIVIDENDS TO FOUNDERS			
1.10. SECOND DIVIDEND TO SHAREHOLDERS (-)		-	(102.727.508)
1.10.1. To owners of ordinary shares		-	(102.727.508)
1.10.2.To owners of privileged shares		-	-
1.10.3. To owners of redeemed shares		-	-
1.10.4. To holders profit sharing bonds		-	-
1.10.5. To holders of profit and loss sharing certificates		-	-
1.11. SECOND LEGAL RESERVES (-)		-	(12,296,351)
1.12. STATUTORY RESERVES(-)		-	(14,432,015)
1.13. EXTRAORDINARY RESERVES		-	(14,864,272)
1.14. OTHER RESERVES		-	-
1.15. SPECIAL FUNDS		-	-
II. DISTRIBUTION OF RESERVES		-	-
2.1. APPROPRIATED RESERVES		-	-
2.2. SECOND LEGAL RESERVES (-)		-	-
2.3. DIVIDENDS TO SHAREHOLDERS (-)		-	-
2.3.1. To owners of ordinary shares		-	-
2.3.2. To owners of privileged shares		-	-
2.3.3. To owners of redeemed shares		-	-
2.3.4. To holders of profit sharing bonds		-	-
2.3.5. To holders of profit and loss sharing certificates		-	-
2.4. DIVIDENDS TO PERSONNEL (-)		-	-
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)		-	-
III. EARNINGS PER SHARE		-	-
3.1. TO OWNERS OF ORDINARY SHARES		0.53975	0.45534
3.2. TO OWNERS OF ORDINARY SHARES (%)		53.975	45.534
3.3. TO OWNERS OF PRIVILEGED SHARES		0.53975	0.45534
3.4. TO OWNERS OF PRIVILEGED SHARES (%)		53.975	45.534
IV. DIVIDEND PER SHARE			-
4.1. TO OWNERS OF ORDINARY SHARES		-	-
4.2. TO OWNERS OF ORDINARY SHARES (%)		-	-
4.3. TO OWNERS OF PRIVILEGED SHARES		-	-
4.4. TO OWNERS OF PRIVILEGED SHARES (%)		-	-

(*) Consolidated current year profit is used for profit distribution as per the "Profit Share Guidebook" issued by the Capital Markets Board on January 23, 2014 dated. Provision for dividend expense amounting to TL 5,500,000 is added to the profit for the year ended December 31, 2017.

(**) As of the reporting date, the General Assembly Meeting has not been held; therefore, only distributable net profit is presented in the 2017 profit distribution table above.

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

Anadolu Hayat Emeklilik Anonim Şirketi

Notes to the Consolidated Financial Statements
As at December 31, 2017

(Currency: Turkish Lira (TL))

1 General information

1.1 Name of the Company and the ultimate owner of the group

Anadolu Hayat Emeklilik Anonim Şirketi (the "Company") has been operating since May 31, 1990 and the shareholding structure of the Company is presented below. As at December 31, 2017, the shareholder having direct or indirect control over the shares of the Company is Türkiye İş Bankası AŞ ("İş Bankası") by 84.89% of the outstanding shares of the Company.

	December 31, 2017		December 31, 2016	
Name	**Shareholding amount (TL)**	**Shareholding rate (%)**	**Shareholding amount (TL)**	**Shareholding rate (%)**
Türkiye İş Bankası AŞ[1]	274,742,663	63,89	273,194,212	63.53
Anadolu Anonim Türk Sigorta Şirketi	86,000,000	20,00	86,000,000	20.00
Milli Reasürans TAŞ	4,299,999	1,00	4,299,999	1.00
Publicly traded	64,957,338	15,11	66,505,789	15.47
Paid in capital	**430,000,000**	**100,00**	**430,000,000**	**100.00**

(1) The rate of publicly traded shares is 17%. As at December 31, 2017, Türkiye İş Bankası AŞ. owns the 1.89% of the publicly traded shares.

1.2 Domicile and the legal structure of the Company, country and the address of the registered office (address of the operating center if it is different from the registered office)

The Company was registered in Turkey and has the status of 'Incorporated Company' in accordance with the regulations of Turkish Commercial Code. The address of the Company's registered office is Meltem Sokak No: 10 İş Kuleleri Kule: 2 Kat: 16, Levent 34330 Beşiktaş/İstanbul.

1.3 Business of the Company

The activities of the Company involve providing individual and group insurance and reinsurance services relating to group life, individual life, retirement and related personal accident branches, establishing retirement funds, developing internal rules and regulations related to these funds, carrying out retirement, annual income insurance, portfolio management and custody contracts for the assets of the funds held in custody.

As at December 31, 2017, the Company has 26 individual pension investment funds (December 31, 2016: 26).

(Currency: Turkish Lira (TL))

1 General information *(continued)*

1.4 Description of the main operations of the Company

The Company issues policies in insurance branches specified in the above note 1.3 – *Business of the Company* and contracts in individual pension business by conducting it operations in accordance with the Insurance Law No. 5684 (the "Insurance Law") issued on June 14, 2007 dated and 26552 numbered Official Gazette and Individual Pension Savings and Investment System Law No. 4632 (the "Individual Pension Law") and other communiqués and regulations in force issued by the Prime Ministry Undersecretariat of the Treasury of the Turkish Republic (the "Turkish Treasury") based on the Insurance Law and the Individual Pension Law.

The Company's shares are listed on the Borsa Istanbul ("BIST"). In accordance with Article 136 (5) in Section VIII of the Capital Markets Law, insurance companies have to comply with their own specific laws and regulations in matters of establishment, auditing, supervision/oversight, accounting and financial reporting; therefore, the Company performs its operations accordingly.

1.5 The average number of the personnel during the period in consideration of their categories

The average number of the personnel during the period in consideration of their categories is as follows:

	December 31, 2017	December 31, 2016
Senior level managers	8	8
Directors	118	107
Officers	391	372
Contracted personnel	3	3
Sales personnel	502	542
Other	10	11
Total	**1,032**	**1,043**

1.6 Wages and similar benefits provided to the senior management

For the year ended as of December 31, 2017, wages and similar benefits provided to the senior management including chairman, members of the board of the directors, general manager, and deputy general managers amounted to TL 5,854,792 (December 31, 2016: TL 5,202,992).

1.7 Explanation about the distribution of investment income and operating expenses (personnel expenses, administrative expenses, research and development expenses, marketing and selling expenses, and expenses for the services bought from third parties) in the financial statements

Procedures and principles related to keys used in the financial statements of the companies are determined in accordance with the January 4, 2008 dated and 2008/1 numbered "Communiqué Related to the Procedures and Principles for the Keys Used in the Financial Statements Being Prepared In Accordance With Insurance Accounting Plan" issued by the Turkish Treasury. In accordance with the above mentioned Communiqué, known and exactly distinguishable operating expenses are directly recorded under life, non-life or individual pension segments. Other non-distinguishable expenses, which are not exactly distinguished, are distributed between insurance segments and individual pension segment in accordance with the number of policies and contracts at the end of last 3 years and arithmetic average of contribution premium and earned premium within the last 3 years in accordance with the August 9, 2010 dated and 2010/9 numbered "Amendments Communiqué Related to the Procedures and Principles for the Keys Used in the Financial Statements Being Prepared In Accordance With Insurance Accounting Plan" issued by the Turkish Treasury. Amendment is effective from January 1, 2011. The portion of insurance segments calculated as described above is distributed between life and non-life branches in accordance with the average of 3 ratios calculated by dividing "number of the policies produced within the last three years", "gross premiums written within the last three years", and "number of the claims reported within the last three years" to the "total number of the policies", "total gross written premiums", and the "total number of the claims reported", respectively.

(Currency: Turkish Lira (TL))

1 General information *(continued)*

1.7 Explanation about the distribution of investment income and operating expenses (personnel expenses, administrative expenses, research and development expenses, marketing and selling expenses, and expenses for the services bought from third parties) in the financial statements *(continued)*

Income from the assets invested against non-life technical provisions is transferred to technical section from non-technical section.

Income from the assets invested against mathematical and profit sharing provisions is recorded under technical section, remaining income is transferred to the non-technical section.

As at the reporting period, distribution of the operating expense between life, non-life and pension branches is presented in note 5 – *Segment distribution.*

1.8 Information on the financial statements as to whether they comprise an individual company or a group of companies

The accompanying financial statements comprise only the consolidated financial information of the Company. As further detailed in note 2.2 - *Consolidation*, the Company has prepared consolidated financial statements as at December 31, 2017, separately.

In the capital's 20% share of the business portfolio of the company with the subsidiary in position management, Inc.'s (the"İş Portföy") as of the date of the financial statements December 31, 2017 prepared by the equity method have been consolidated. İş Portföy Registered with the Istanbul trade registry on October 23, 2000 and November 6, 2000, dated and published in the Turkish trade registry Gazette No. 5168 was established by the purpose, 3794, law and other relevant legislation in accordance with the provisions of capital market Law No. 2499 differs by the company specified in the articles of association of capital market activities.. İş Portföy, capital market law and other relevant legislation under the provisions of a portfolio of capital market instruments, the portfolio management agreement with clients are managed by a trustee. Also within the scope of portfolio management business portfolio of domestic and foreign investment funds, investment companies and investment partnerships and similar initiatives with domestic and foreign private persons and legal entities in accordance with the provisions of the legislation of the portfolio also manages. In addition, İş Portföy, provides investment advisory services.

1.9 Name or other identity information about the reporting entity and the changes in this information after previous reporting period

Trade name of the Company	: Anadolu Hayat Emeklilik Anonim Şirketi
Registered address of the head office	: Meltem Sokak No:10 İş Kuleleri Kule:2 Kat:16 Levent 34330 Beşiktaş/İstanbul
The web page of the Company	: www.anadoluhayat.com.tr
E-mail address of the Company	: hizmet@anadoluhayat.com.tr
Phone	: 0212 317 70 70
Fax	: 0212 317 70 77

There has been no change in the aforementioned information subsequent to the previous reporting period.

1.10 Events after the reporting period

Consolidated financial statements prepared for the year ended as of December 31, 2017 was approved by Board of Directors on January 29, 2018.

2 Summary of significant accounting policies

2.1 Basis of preparation

2.1.1 Information about the principles and the specific accounting policies used in the preparation of the financial statements

The Company maintains its books of account and prepares its financial statements in accordance with the Turkish Accounting Standards ("TAS"), Turkish Financial Reporting Standards ("TFRS"), and other accounting and financial reporting principles, statements and guidance (collectively "the Reporting Standards") in accordance with the "Communiqué Related to the Financial Reporting of Insurance, Reinsurance, and Individual Pension Companies" as promulgated by the Turkish Treasury based on Article 18 of the Insurance Law.

In Article 4 of related communiqué; insurance contracts, subsidiaries, jointly controlled partnerships and subsidiaries consolidated financial statements and the accounting, financial statements and footnotes to be announced publicly relating to the regulation of procedures and principles determined by Turkish Treasury stated that it would be issued with communiqué.

Comparative financial statements with prior period and other companies' financial statements provided that regulated to content and form of financial statements of companies which were published as "Communiqué on Presentation of Financial Statements" in Official Gazette April 18, 2008 dated and 26851 numbered.

2.1.2 Other accounting policies appropriate for the understanding of the financial statements

Accounting in hyperinflationary countries

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on TAS 29 – *Financial Reporting in Hyperinflationary Economies* as at December 31, 2004. *TAS 29* requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting period, and that corresponding figures for previous years be restated in the same terms.

With respect to the April 4, 2005 dated and 19387 numbered declaration of the Turkish Treasury, the Company restated its financial statements as at December 31, 2004 and prepared opening financial statements of 2005 in accordance with the "Restatement of Financial Statements in Hyperinflationary Periods" of the Capital Markets Board ("CMB") Communiqué No: 25 of Series XI, "Communiqué on Accounting Standards in Capital Markets" published in the Official Gazette dated January 15, 2003 and numbered 25290. Inflation accounting is no longer applied starting from January 1, 2005, in accordance with the same declaration of the Turkish Treasury. Accordingly, as at December 31, 2017, non-monetary assets and liabilities and items included in shareholders' equity including paid-in capital recognised or recorded before January 1, 2005 are measured as restated to December 31, 2004 in order to reflect inflation adjustments. Non-monetary assets and liabilities and items included in shareholders' equity including paid-in capital recognised or recorded after January 1, 2005 are measured at their nominal costs or values.

Other accounting policies

Information regarding to other accounting polices is explained above in the section of note 2.1.1 – *Information about the principles and the special accounting policies used in the preparation of the financial statements* and each on its own caption in following sections of this report.

2.1.3 Functional and presentation currency

The Company's financial statements are presented in the currency of the primary economic environment in which the entity operates. The results and financial position of the Company are expressed in TL, which is the functional and presentation currency of the Company.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

2.1.4 Rounding level of the amounts presented in the financial statements

Financial information presented in TL has been rounded to the nearest TL values.

2.1.5 Basis of measurement used in the preparation of the financial statements

The accompanying financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until December 31, 2004, except for the financial assets at fair value through profit or loss, available-for-sale financial assets, financial investments with risks on saving life policyholders classified as available-for-sale financial assets, derivative financial instruments, investment properties and owner occupied properties which are measured at their fair values unless reliable measures are available.

2.1.6 Accounting policies, changes in accounting estimates and errors

Explanations regarding to the Company's accounting policies are presented in note 3 – Critical accounting estimates and judgements in applying accounting policies.

2.2 Consolidation

"Circular Related to the Preparation of the Consolidated Financial Statements of Insurance, Reinsurance, and Individual Pension Companies" issued by the Turkish Treasury in the December 31, 2008 dated and 27097 numbered Official Gazette, has been in force since March 31, 2009. Accordingly, consolidated financial statements are prepared using the equity method of accounting to consolidate the Company's associate; İş Portföy Yönetimi AŞ.

Accordingly, consolidated financial statements are prepared using the equity method of accounting to consolidate the Company's associate; İş Portföy Yönetimi AŞ.

2.3 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

2 Summary of significant accounting policies *(continued)*

2.4 Foreign currency transactions

Transactions are recorded in TL, which is the Company’s functional currency. Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates ruling at the reporting period and foreign currency exchange differences are offset and all exchange differences are recognised in the statement of income.

Foreign currency exchange differences of unrecognised gains or losses arising from the difference between their fair value and the discounted values calculated per effective interest rate method of foreign currency available-for-sale financial assets are recorded in “Revaluation of financial assets” under equity and the realised gain or losses are recognised directly in the statement of income. Foreign currency exchange differences of unrecognised gains or losses arising from financial investments with risks on saving life policyholders classified as available-for-sale financial assets, 5% of the difference is recorded under equity and the remaining 95% belonging to policyholders is recorded as ‘insurance technical provisions – life mathematical provisions’.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.5 Tangible assets

Except owner occupied properties, tangible assets are recorded at their historical costs that have been adjusted according to the inflation rates until the end of December 31, 2004. There have been no other inflationary adjustments for these tangible assets for the following years and therefore they have been recorded at their costs indexed to the inflation rates for December 31, 2004. Tangible assets that have been purchased after January 1, 2005 have been recorded at their costs excluding their exchange rate differences and finance expenses less impairment losses if any.

The Company has changed historical cost basis method with revaluation method for owner occupied properties. Fair values of owner occupied properties have been reflected in the financial statements instead of historical cost values since the third quarter of 2015.

The fair values of owner occupied properties were provided by CMB licensed real estate companies. The fair values excluding the accumulated depreciation are reflected in the financial statements.

Increase arising from the revaluation of owner occupied properties is presented under the “other profit reserves” in equity excluding tax.

Gains/losses arising from the disposal of the tangible assets are calculated as the difference between the net carrying value and the proceeds from the disposal of related tangible assets and reflected to the statement of income of the related period.

Maintenance and repair costs incurred in the ordinary course of the business are recorded as expense.

There are no pledges, mortgages and other encumbrances on tangible fixed assets.

There are no changes in accounting estimates that have significant effect on the current period or that are expected to have significant effect on the following periods.

2.5 Tangible assets *(continued)*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Depreciation rates and estimated useful lives are as follows:

Tangible assets	**Estimated useful lives (years)**	**Depreciation rates (%)**
Buildings	50 years	2.00
Machinery and equipment	3-16 years	6.25-33.33
Fixtures and furniture	4-13 years	7.69-25.00
Vehicles	5 years	20.00
Other tangible assets (includes leasehold improvements)	5 years	20.00
Leased assets	4-15 years	6.66-25.00

2 Summary of significant accounting policies *(continued)*

2.6 Investment properties

Investment properties are held either to earn rentals and/or for capital appreciation or for both.

Investment properties are measured initially at cost including transaction costs and then measured at fair value. The change arising from fair value is recognised in the income statement.

The difference arising between sale prices and carrying value of an investment property is recognised in profit or loss.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

When the investment property recorded at fair value is reclassified as tangible assets, the fair value of the investment property at the reclassification date is accepted as historical cost value.

2.7 Intangible assets

The Company’s intangible assets consist of computer software.

Intangible assets are recorded at cost in compliance with “TAS 38 – *Accounting for intangible assets*”. The cost of the intangible assets purchased before December 31, 2004 are restated from the purchasing dates to December 31, 2004, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged on a straight-line basis over their estimated useful lives (3 years) over the cost of the asset.

Costs associated with developing or maintaining computer software programs are recognised as expense when incurred. Costs that are directly associated with the development of identifiable and unique software products that are controlled by the Company and will probably provide more economic benefits than costs in one year are recognised as intangible assets. Costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

2 Summary of significant accounting policies *(continued)*

2.8 Financial assets

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Securities are recognised and derecognised at the date of settlement.

Financial assets are classified in four categories; as financial assets held for trading, available-for-sale financial assets, held to maturity financial assets, and loans and receivables.

Financial assets at fair value through profit or loss are presented as financial assets held for trading in the accompanying financial statements and trading securities and derivatives are included in this category. Financial assets at fair value through profit or loss measured at their fair values and gain/loss arising due to changes in the fair values of related financial assets are recorded in the statement of income. Interest income earned on trading purpose financial assets and the difference between their fair values and acquisition costs are recorded as interest income in the statement of income. In case of disposal of such financial assets before their maturities, the gains/losses on such disposal are recorded under trading income/losses. Accounting policies of derivatives are detailed in note 2.10 – *Derivative financial instruments.*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables those are not interest earning are measured by discounting of future cash flows less impairment losses, and interest earning loans and receivables are measured at amortised cost less impairment losses.

Held to maturity financial assets are the financial assets with fixed maturities and fixed or pre-determined payment schedules that the Company has the intent and ability to hold until maturity, excluding loans and receivables. Subsequent to initial recognition, held to maturity financial assets and loans and receivables are measured at amortised cost using effective interest rate method less impairment losses, if any.

Available-for-sale financial assets are the financial assets other than assets held for trading purposes, held-to-maturity financial assets and loans and receivables.

Available-for-sale financial assets are initially recorded at cost and subsequently measured at their fair values. Assets that are not traded in an active market are measured by valuation techniques, including recent market transactions in similar financial instruments, adjusted for factors unique to the instrument being valued; or discounted cash flow techniques for the assets which do not have a fixed maturity. Unrecognised gains or losses derived from the difference between their fair value and the discounted values calculated per effective interest rate method are recorded in “Revaluation of financial assets” under shareholders’ equity. Upon disposal, the realised gain or losses are recognised directly in the statement of income.

The determination of fair values of financial instruments not traded in an active market is determined by using valuation techniques. Observable market prices of the quoted financial instruments which are similar in terms of interest, maturity and other conditions are used in determining the fair value.

Associates are classified as financial assets in the financial statements. Associates, traded in an active market or whose fair value can be reliably measured, are recorded at their fair values. Associates that are not traded in an active market and whose fair value cannot be reliably set are reflected in financial statements at their costs after deducting impairment losses, if any.

2 Summary of significant accounting policies *(continued)*

2.8 Financial assets *(continued)*

Specific instruments

Financial investments with risks on saving life policyholders are the financial assets invested against the savings of the life policyholders. Financial investments with risks on saving life policyholders could be classified as financial assets held for trading purpose, available for sale financial assets or held to maturity investments by considering the benefits of the policyholders and measured in accordance with the principles as explained above.

When such investments are classified as available-for-sale financial assets, 5% of the difference between the fair values and amortised costs, calculated by using effective interest method, of the financial assets is recorded under equity and the remaining 95% belonging to policyholders is recorded as 'insurance technical provisions – life mathematical provisions'. As at December 31, 2017, 95% of the difference between fair values and amortised costs of those assets backing liabilities amounting to TL (3,652,790) (December 31, 2016: TL (10,421,955)) is recorded in life mathematical provisions.

Receivables from individual pension operations consist of 'capital advances given to pension investment funds', 'receivable from pension investment funds for fund management fees', 'entrance fee receivable from participants' and 'receivables from clearing house on behalf of the participants'.

'Receivable from pension investment funds for fund management fee' are the fees charged to the pension investment funds against for the administration of related pension investment funds which consist of fees which are not collected in the same day.

Capital advances given to pension investments funds during their establishment are recorded under 'capital advances given to pension investment funds'.

'Receivables from the clearing house on behalf of the participants' is the receivable from clearing house on fund basis against the collections of the participants. Same amount is also recorded as payables to participants for the funds sold against their collections under the 'payables arising from individual pension businesses.

Loans to the policyholders are loans that are provided to the policyholders from saving component of the life insurance policies based on the fund amounts and fund unit prices. Valuation of the loans to the policyholders based on the fund amounts and fund unit prices as at the reporting date.

Derecognition

A financial asset is derecognised when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realised, expire or are surrendered.

2 Summary of significant accounting policies *(continued)*

2.9 Impairment on assets

Impairment on financial assets

Financial assets or group of financial assets are reviewed at each reporting period to determine whether there is objective evidence of impairment. If any such indication exists, the Company estimates the amount of impairment. Impairment loss incurs if, and only if, there is objective evidence that the expected future cash flows of financial asset or group of financial assets are adversely affected by an event(s) ("loss event(s)") incurred subsequent to recognition. The losses expected to incur due to future events are not recognised even if the probability of loss is high.

Loans and receivables are presented net of specific allowances for uncollectability. Specific allowances are made against the carrying amounts of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts.

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans measured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the statement of operations. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Impairment on tangible and intangible assets

On each reporting period, the Company evaluates whether there is an indication of impairment of fixed assets. If there is an objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the "*TAS 36* – Impairment of Assets" and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

Rediscount and provision expenses of the period are detailed in *Note 47*.

2.10 Derivative financial instruments

As of the reporting date, the Company does not have any derivative financial instruments. Derivative instruments are treated as held for trading financial assets in compliance with the standard TAS 39 – *Financial Instruments: Recognition and measurement*.

Derivative financial instruments are initially recognised at their fair value. The receivables and liabilities arising from the derivative transactions are recognised under the off-balance sheet accounts through the contract amounts.

Derivative financial instruments are subsequently re-measured at fair value and positive fair value differences are presented either as "financial assets held for trading" and negative fair value differences are presented as "other financial liabilities" in the accompanying financial statements. All unrealised gains and losses on these instruments are included in the statement of income.

2 Summary of significant accounting policies *(continued)*

2.11 Offsetting of financial assets

Financial assets and liabilities are off-set and the net amount is presented in the balance sheet when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the Reporting Standards, or for gains and losses arising from a group of transactions resulting from the Company's similar activities like trading transactions.

2.12 Cash and cash equivalents

Cash and cash equivalents, which is a base for the preparation of the statement of cash flows includes cash on hand, other cash and cash equivalents, demand deposits and time deposits at banks having original maturity less than 3 months which are ready to be used by the Company or not blocked for any other purpose.

2.13 Capital

The shareholding structure of the Company is presented in note 1.1 - *Name of the Company and the ultimate owner of the group*. As of December 31, 2017, the Company's issued capital is TL 430,000,000 (December 31, 2016: TL 430,000,000).

Sources of the capital increases during the period

None.

Privileges on common shares representing share capital

As at December 31, 2017, the share capital of the Company was amounted TL 430,000,000 (December 31, 2016: TL 430,000,000), divided into 43,000,000,000 shares (December 31, 2016: 43,000,000,000 shares) with each has a nominal value of TL 0.01. The Company's share capital was divided into groups comprised of 100,000,000 Group A shares having a nominal values of TL 1,000,000 for each and the rest of amount by Group B shares having a nominal values of TL 1,000,000 for each. Among eleven members of the Board of Directors, seven are elected among candidates nominated by Group A shareholders while four are elected among candidates nominated by Group B shareholders.

Registered capital system in the Company

The Company has accepted the registered capital system set out in accordance with the Law No: 2499 and applied the system as of June 15, 2000 upon the permission no: 67/1039 granted by the Capital Markets Board. As at December 31, 2017, the registered capital of the Company is TL 900,000,000 (December 31, 2016: TL 900,000,000).

Repurchased own shares by the Company

None.

2 Summary of significant accounting policies *(continued)*

2.14 Insurance and investment contracts – classification

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

Investment contracts are those contracts which transfer financial risk with no 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.

The Company mainly issues policies under personal accident, risk and saving life insurance branches and individual pension contracts.

Saving component of the life products can be measured separately by the Company. However, insurance and saving components are not separated due to accounting policy requirements specified to account all risks and rewards without considering the basis of measurement.

2.15 Insurance contracts and investment contracts with discretionary participation feature

Discretionary participation feature (“DPF”) within insurance contracts and investment contracts is the right to have following benefits in addition to the guaranteed benefits.

(i) that are likely to comprise a significant portion of the total contractual benefits,

(ii) whose amount or timing is contractually at the discretion of the Issuer; and

(iii) that are contractually based on:

(1) the performance of a specified pool of contracts or a specified type of contract;

(2) realised and/or unrealised investments returns on a specified pool of assets held by the Issuer; or

(3) the profit or loss of the Company, Fund or other entity that issues the contract.

As at the reporting period, the Company does not have any insurance or investment contracts that contain a DPF.

2.16 Investment contracts without DPF

In the context of the saving life products, if the investment return, obtained from the savings of the policyholders which is invested by the Company results a lower yield rate than the technical interest rate, the Company compensates the difference; if investment return results higher yield than the guaranteed technical interest rate, the difference is distributed to the policyholders as profit sharing bonus. Due to contractual and competitive constraints in practice, the Company has classified these contracts as investment contracts without DPF.

For such products, investment income obtained from assets backing liabilities is recorded within income statement or equity in accordance with the accounting policies mentioned above; and whole contract is presented as a liability under life mathematical provisions.

2 Summary of significant accounting policies *(continued)*

2.17 Liabilities

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity. Financial liabilities of the Company are measured at their discounted values. A financial liability is derecognised when it is extinguished.

Payables arising from individual pension business consist of payables to participants, participants' temporary accounts, and payables to individual pension agencies. The payables to participants are the account in which the contribution of participants that transferred to investments on behalf of individual pension contract owners and income from these investments are recorded. The temporary account of participants includes the contributions of participants that have not yet been transferred to the investment. This account also includes the entrance fee deducted portion of the participants' fund amounts, obtained from the fund share sales occur in the case of system leaves. This account consists of the amounts of participants that will be transferred to other individual pension companies or participants' own accounts. Payables to individual pension agencies are Company's liabilities to individual pension agencies in return of their services.

2.18 Taxes

Corporate tax

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

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. The 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.

The prepaid taxes are calculated and paid at the rates valid for the earnings of the related years. 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 periods. As at December 31, 2017 and 2016, the Company does not have any deductible tax losses.

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 25th 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.

According to the "General Communiqué on Corporate Tax" promulgated in Official Gazette no 28178 dated January 19, 2012, fair value of derivative transactions and option premiums are accepted as income or expense in the corporate tax statement if those transactions are performed at Derivative Exchange Market and not if those transactions are performed with entities as previously.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.18 Taxes *(continued)*

Deferred tax

In accordance with TAS 12 – *Income taxes*, deferred tax assets and liabilities are recognised on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the financial statements if, and only if, the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity.

In case where gains/losses resulting from the subsequent measurement of the assets are recognised in the statement of income, then the related current and/or deferred tax effects are also recognised in the statement of income. On the other hand, if such gains/losses are recognised as an item under equity, then the related current and/or deferred tax effects are also recognised directly in the equity.

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.

2.19 Employee benefits

Employee termination benefits

In accordance with existing Turkish Labour Law, the Company is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at December 31, 2017 is TL 4,732.48 (December 31, 2016: TL 4,297.21).

The Company accounted for employee termination benefits using actuarial method in compliance with the TAS 19 – *Employee Benefits*. The major actuarial assumptions used in the calculation of the total liability as at December 31, 2017 and 2016 are as follows:

	December 31, 2017	**December 31, 2016**
Discount rate	%4,34 - %4,75	2.81% - 5.25%
Expected rate of salary/limit increase	%7,30	6.90%

Other benefits

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

2 Summary of significant accounting policies *(continued)*

2.20 Provisions

A provision is made for an existing obligation resulting from past events if it is probable that the commitment will be settled and a reliable estimate can be made of the amount of the obligation. Provisions are calculated based on the best estimates of management on the expenses to incur as of the reporting period and, if material, such expenses are discounted to their present values. If the amount is not reliably estimated and there is no probability of cash outflow from the Company to settle the liability, the related liability is considered as "contingent" and disclosed in the footnotes to the financial statements.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, the Company discloses the contingent asset.

2.21 Revenue recognition

Written premiums and claims paid

Written premiums represent premiums on policies written during the period net of taxes, premiums of the cancelled policies which were produced in prior periods and premium ceded to reinsurance companies. Premiums ceded to reinsurance companies are accounted as "written premiums, ceded" in the profit or loss statement.

Claims are recognised as expense as they are paid. Outstanding claims provision is provided for both reported unpaid claims at the reporting period and incurred but not reported claims. Reinsurer's shares of claims paid and outstanding claims provisions are off-set against these reserves.

Commission income and expense

As further disclosed in *Note 2.24*, commissions paid to the agencies related to the production of the insurance policies and the commissions received from the reinsurance firms related to the premiums ceded are recognised over the life of the contract by deferring commission income and expenses within the calculation of reserve for unearned premiums for the policies produced before January 1, 2008 and recognising deferred commission income and deferred commission expense in the financial statements for the policies produced after January 1, 2008.

In order to net-off the receivable accounts in compliance with the matching principle, the Company reserves a provision of commissions to intermediaries over the accrued but uncollected receivables from policyholders balance as at the reporting period. While the commissions to intermediaries for non-life branches are not accrued, the commission amount that has to be paid in case of the collection of receivables is calculated on the basis of policy for life branch.

Reinsurance commissions are accounted for based on reinsurer agreements. According to the Circular no: 2007/25 issued by the Turkish Treasury on December 28, 2007, starting from January 10, 2008, deferred reinsurance commissions are presented in "Deferred Income" account in the balance sheet.

2 Summary of significant accounting policies *(continued)*

2.21 Revenue recognition *(continued)*

Interest income and expense

Interest income and expense are recognised in the statement of income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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 or liability.

Trading income/expense

Trading income/expense includes gains and losses arising from disposals of financial assets held for trading purpose and available-for-sale financial assets. Trading income and trading expenses are recognised as “Income from disposal of financial assets” and “Loss from disposal of financial assets” in the accompanying consolidated financial statements.

Dividends

Dividend income is recognised when the Company’s right to receive payment is ascertained.

Income from individual pension business

Fund management fee is recognised as income, charged to the pension investment funds against the hardware, software, personnel and accounting services provided, and fee is shared between the Company and the portfolio managers in accordance with the agreement signed between parties. Total of fund management fee charged to the pension investment funds is recognised as “Fund management income” under technical income and portion of the portfolio manager is recognised as “Fund management expense” under technical expenses.

According to the ‘’Individual Pension System Communiqué’’ promulgated in Official Gazette no 28178 dated May 25, 2015 and within the changes enacted since January 1, 2016 total entrance fee and management fee that can be made in first 5 years of contract does not exceed 8,5% of gross minimum wage that is valid for the first 6 months of the relevant year. The management fees can be levied on contributions or pension investment funds of the participants and is recognised as “Management fee” under pension business technical income. Entrance fees are received by the Company from participants during the access into the system and for the opening of a new individual pension account or during first time at a different company if the pension contract is already concluded, the aforementioned income is recognised as “Entrance fee income” under pension business technical income.

If no payment is made within three months after the contribution paid at maturity date, case of suspension occurs and management expense is charged. The aforementioned expense is recognised as “Management expense charge in the case of suspension”.

The difference in value of the pension investment fund shares, obtained due to capital advance on the date of establishment, to the date of selling of those shares to the participants is recorded in the income statement as “increase in value of capital allowances given as advances”.

According to the amendments, promulgated in Official Gazette no 29812 dated August 25, 2016 and effective from January 1, 2017, made to the personal pension savings and investments system law, automatic enrolment to individual pension system that enables employees to be automatically included to an individual pension plan, has come into effect. According to the automatic enrolment system’s regulations, maximum of 0,85% fund management fee could be applied to participants; entrance and management fees are not applied.

2 Summary of significant accounting policies *(continued)*

2.22 Leasing transactions

Tangible assets acquired by way of finance leasing are recognised in tangible assets and the obligations under finance leases arising from the lease contracts are presented under finance lease payables account in the financial statements. In the determination of the related assets and liabilities, the lower of the fair value of the leased asset and the present value of leasing payments is considered. Financial costs of leasing agreements are expanded in lease periods at a fixed interest rate.

If there is impairment in the value of the assets obtained through financial lease and in the expected future benefits, the leased assets are valued with net realisable value. Depreciation for assets obtained through financial lease is calculated in the same manner as tangible assets.

Payments made under operating leases are recognised in the statement of income on a straight-line basis over the term of the lease.

2.23 Dividend distribution

In accordance with the Articles of Association of the Company, first dividend distribution is made from distributable profit based on the rates and amounts set out by the Capital Markets Board. In regards to the profit share distribution policy of the Company, two options are presented to the General Assembly; 30% of distributable profit at a minimum as bonus shares or in cash. Based on its articles of association, the Company makes at a maximum of 3% of profit share payments to its employees following the appropriation of first profit share, limited to a maximum of three-month salary.

Dividend payables are recorded as liability in the financial statements when they are announced.

2.24 Reserve for unearned premiums

In accordance with the "Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" ("Communiqué on Technical Reserves") which was issued in 26606 numbered and August 7, 2007 dated Official Gazette and put into effect starting from January 1, 2008, the reserve for unearned premiums represents the proportions of the gross premiums written without deductions of commission or any other allowance, in a period that relate to the period of risk subsequent to the reporting period for all short-term insurance policies.

In the case of personal accident insurance, annual life insurance and life insurance which of the renewal date exceeds one year, reserve for unearned premiums is calculated for the portion of the remaining part which is left after deducting savings from gross premium written for the year. In accordance with the "Communiqué on Amendments to the Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" issued in 28356 numbered and July 17, 2012 dated Official Gazette and effective from June 30, 2012, reserve for unearned premiums is calculated from remaining amount of gross written premiums by deducting saving component and expenses related with saving component for life insurance and life insurance with saving components having longer than one year maturity. Insurance policies covering possibilities of life and death or both and personal accident, disability by illness and serious illness insurance policies are considered as life insurance policies and their premiums are classified as life insurance premiums.

According to the 2009/9 Numbered Circular Related to Application of Technical Reserves issued on March 27, 2009 reserve for unearned premiums is calculated by taking into account that all polices become active at 12:00 at noon and end at 12:00 at noon.

2 Summary of significant accounting policies *(continued)*

2.25 Reserve for unexpired risks

In accordance with the Communiqué on Technical Reserves, in each accounting period, the companies while providing reserve for unearned premiums should perform adequacy test covering the preceding 12 months in regard with the probability of future claims and compensations of the outstanding policies will arise in excess of the reserve for unearned premiums already provided. In performing this test, it is required to multiply the reserve for unearned premiums, net with the expected claim/premium ratio.

Expected claim/premium ratio is calculated by dividing incurred losses (provision for outstanding claims, net at the end of the period + claims paid, net – provision for outstanding claims, net at the beginning of the period) to earned premiums (written premiums, net + reserve for unearned premiums, net at the beginning of the period – reserve for unearned premiums, net at the end of the period). In the calculation of earned premiums; deferred commission expenses paid to the agencies and deferred commission income received from the reinsurance firms which were netted off from reserve for unearned premiums both at the beginning of the period and at the end of the period are not taken into consideration.

In accordance with the "Communiqué on Amendments to the Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" issued in 28356 numbered and July 17, 2012 dated Official Gazette and effective from June 30, 2012, the test is performed on branch basis and in case where the expected claim/premium ratio is higher than 95%, reserve calculated by multiplying the exceeding portion of the expected claim/premium ratio with the reserve for unearned premiums of that specific branch is added to the reserves of that branch. The difference between the gross amount and the net amount is considered as the reinsurer's share. Turkish Treasury is authorised to change test methods and require additional reserve for unexpired risks on branch basis.

As at December 31, 2017, related test have not resulted any reserve for unexpired risks (December 31, 2016: TL 9,479).

2.26 Provision for outstanding claims

Claims are recorded in the year in which they occur, based on reported claims or on the basis of estimates when not reported. Provision for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting period as well as the corresponding handling costs.

Change in measurement of technical reserves became effective as at September 30, 2010 according to the Turkish Treasury Circular which were published as "Communiqué on Amendments to Communiqué on Technical Reserves" in Official Gazette dated July 28, 2010 and numbered 27655.

Following the changes made by the mentioned circular issued by Treasury, the Circulars, that include explanations regarding accounting of income from salvage and subrogation and methodological changes on Actuarial Chain ladder method, numbered 2010/12, 2010/13, 2010/14 and the sector announcement numbered 2010/29 issued, which became effective as at December 31, 2010, in order to clarify uncertainties on measurement of technical reserves and accounting of income from salvage and subrogation.

Additional amendments effective from 30 June 2012 are issued in the "Communiqué on Amendments to the Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" in 28356 numbered and July 17, 2012 dated Official Gazette. Test IBNR method ceased in the calculation of provision for outstanding claims. In accordance with the previous communiqués and sector announcements companies should perform actuarial chain ladder method for the non-life insurance branches engaged more than five years and had sufficient data. Upon issuance the Circular on Outstanding Claims Reserve numbered 2014/16 issued by the Turkish Treasury, the Circulars numbered 2010/12, 2010/14 and 2010/16 are repealed.

2 Summary of significant accounting policies *(continued)*

2.26 Provision for outstanding claims *(continued)*

In accordance with the aforementioned Circular numbered 2014/16, IBNR calculation can be made with the other methods by the companies if the calculation method rests upon actuarial basis and amount obtained from this method is greater than the amount calculated by the Actuarial Chain Ladder Method. In this context, Company maintains to calculate IBNR amount according to the repealed Circulars numbered 2010/12 and 2010/14.

Claims incurred before the accounting periods but reported subsequent to those dates are accepted as incurred but not reported ("IBNR") claims. According to the "Communiqué on Provision for IBNR Claims in Life Branch" numbered 2010/14, IBNR calculation is changed. In accordance with the related regulations, last five or more than five years' weighted average calculated by dividing total gross amount of incurred but not reported claims to average annual guarantee of the related years. As of the current reporting period, IBNR is calculated by multiplying weighted average IBNR ratio by the average guarantee amount of last twelve months before reporting period. Accordingly, as at the reporting period, the Company has provided for IBNR, net off ceded amounting to TL 9,935,571 (December 31, 2016: TL 7,337,853).

According to the 7th article 6th sub clause of the "Circular on Change in Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested against Those Technical Reserves"; provision for the outstanding claims of the period cannot be less than the result of the actuarial chain ladder method determined by Turkish Treasury. The Company has selected "Standard chain ladder method" for personal accident branch as stated in the "Communiqué on Technical Reserves and Circular on Actuarial Chain Ladder Method" dated September 20, 2010 and numbered 2010/12. Accordingly, as at the reporting period, the Company has provided for IBNR, net off ceded amounting to TL 18,704 (December 31, 2016: TL 109,853).

According to the Sector Announcement dated July 18, 2012 and numbered 2012/13 published by the Turkish Treasury, insurance, reinsurance and individual pension companies are required to perform adequacy test to assess the adequacy of provision for outstanding claims at the end of the each reporting period. Companies performed actuarial chain ladder method are not obliged to record additional provision for outstanding claims. As at December 31, 2017, this adequacy test has not resulted in additional provision for outstanding claims.

2.27 Mathematical provisions

In accordance with the Communiqué on Technical Reserves, companies operating in life and non-life insurance branches are obliged to allocate adequate mathematical reserves based on actuarial basis to meet liabilities against policyholders and beneficiaries for long-term life, health and personal accident insurance contracts. Mathematical provisions are composed of actuarial mathematical provisions and profit sharing provisions. Actuarial mathematical provisions, according to formulas and basis in approved technical basis of tariffs for over one year-length life insurance, are calculated by determining the difference between present value of liabilities that the Company meets in future and current value of premiums paid by policyholder in future (prospective method). In life insurance where saving plan premiums are also generated, actuarial mathematical provisions consist of total saving plan portions of premiums. Provision for profit sharing consist of profit sharing calculated in previous years and a certain percentage of current year's income, determined in the approved profit sharing tariffs, obtained from the financial assets backing liabilities of the Company against the policyholders and other beneficiaries for the contracts which the Company is liable to give profit sharing. The valuation method used in calculation of the profit to be shared for saving life contracts is the same with the valuation basis of portfolio on which assets on which the Company invests the provisions allocated due to liabilities against the beneficiaries are included in the framework of basis defined in the note 2.8 – *Financial assets* above.

2 Summary of significant accounting policies *(continued)*

2.28 Equalisation provision – Provision for bonus and discounts

According to "Communiqué on Technical Reserves", companies should book equalisation provision for guarantees of loan and earthquakes in order to offset fluctuations in the rate of indemnification and to meet catastrophic risks in the accounting period.

In accordance with the Communiqué on Technical Reserves issued by the Turkish Treasury on March 27, 2009 numbered 2009/9, the insurance companies should recognise equalisation provision for disability and death occurred because of an earthquake and tariffs that include additional guarantee in life and casualty branches. With the circular released on July 28, 2010 and numbered 27655 "Circular on Change in Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves", the calculation of equalisation provision is revised. In accordance with the Communiqué on Technical Reserves, the companies which give additional guarantee in life use their own statistical data for equalisation provision calculation. The companies not having sufficient data for calculation will accept 11% of death net premium (including damage payments) as earthquake premium and 12% of that amount is calculated as equalisation provision. In accordance with the Communiqué on Technical Reserves, booking provisions should continue until reaching 150% of the highest net premium amount of the last five financial years. Equalisation provisions amounting to TL 22,043,278 are presented under "other technical reserves" within short-term liabilities in the accompanying financial statements (December 31, 2016: TL 16,215,351).

In accordance with Regulation on Technical Reserves, insurance companies are required to account for the bonus or discounts provided to policyholders and beneficiaries in accordance with the current year technical income. As of December 31, 2017, the Company accounted for bonus provision amounting to TL 294,374 (December 31, 2016: TL 459,163).

2.29 Related parties

Parties are considered related to the Company if;

(a) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with the Company (this includes parent, subsidiaries and fellow subsidiaries);
- has an interest in the Company that gives it significant influence over the Company; or
- has joint control over the Company;

(b) the party is an associate of the Company;

(c) the party is a joint venture in which the Company is a venturer;

(d) the party is member of the key management personnel of the Company and its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or any individual referred to in (d) or (e) which significant voting power in such entity resides with directly or indirectly, or

(g) the party is a post-employment benefit plan for the benefit of employees of the Company, or of any entity that is a related party of the Company.

2 Summary of significant accounting policies *(continued)*

2.29 Related parties *(continued)*

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

A number of transactions are entered into with related parties in the normal course of business.

2.30 Earnings per share

Earnings per share presented in the income statement is calculated by dividing the net profit into the weighted average number of the outstanding shares throughout the financial year. Companies in Turkey can increase their capital by distributing "bonus shares" to shareholders from the prior years' profit. Such "bonus share" distributions are considered as issued shares in the earnings per share calculations. Accordingly, weighted average number of equity shares used in the calculations is calculated by considering the retrospective effects of share distributions.

2.31 Events after the reporting period

"Events After the Reporting Period"; post-reporting date events that provide additional information about the Company's position at the reporting periods (adjusting events) are reflected in the consolidated financial statements. Post-reporting date events that are not adjusting events are disclosed in the notes when material.

2.32 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2017 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2017. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at January 1, 2017

TAS 7 Statement of Cash Flows (Amendments)

In December 2017, POA issued amendments to TAS 7 'Statement of Cash Flows'. The amendments are intended to clarify TAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The amendment is not applicable for the Group and will not have an impact on the consolidated financial position or performance.

2 Summary of significant accounting policies *(continued)*

2.32 The new standards, amendments and interpretations *(continued)*

TAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

In December 2017, POA issued amendments to TAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Group applies this relief, it shall disclose that fact. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Annual Improvements to TFRSs - 2014-2016 Cycle

In December 2017, POA issued Annual Improvements to TFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after January 1, 2018.

- TFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with TFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after January 1, 2017.

- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

2 Summary of significant accounting policies *(continued)*

2.32 New standards and interpretations not yet adopted *(continued)*

TFRS 15 Revenue from Contracts with Customers
In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). TFRS 15 effective date is January 1, 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

TFRS 9 Financial Instruments

TFRS 9 "Financial Instruments" standard (2017 version) has been published on Official Gazette dated January 19, 2017 and numbered 29953 in order to be implemented for accounting periods on and after January 1, 2018. The general purpose of the standard is to determine financial reporting principles related to financial assets and financial liabilities towards representing required appropriate and beneficial information of the company to financial statement readers for evaluating its future cash flow amounts, timing and uncertainty.

Classification and Measurement of Financial Assets:

Financial assets are classified through depending upon business model for managing financial assets and contractual cash flow characteristics over amortised cost in the recognition following being recorded and reflecting fair value to other comprehensive income or to profit or loss in scope of TFRS 9.

Impairment:

In scope of TFRS 9, provision for loss is made for financial assets, whose fair value is recognized based on amortised cost and expected credit loss with respect to credit commitment and financial collateral agreement. The Company evaluates whether there is a significant increase in credit risk of financial instrument or not on each financial reporting date since such financial instrument has initially included in financial statements. Provided that there exists a significant increase in credit risk of a financial instrument since its initial inclusion in financial statements the Company measures provision for loss related to aforementioned financial instrument based on an amount which is equal to lifetime expected credit loss. Provided that there exists no significant increase in credit risk of financial instrument since its inclusion in financial statement the company shall classify the aforementioned financial assets as first level and measures provision for loss related aforementioned financial instrument based on an amount which is equal to 12 months expected credit loss. The purpose of impairment is to include lifetime expected losses of all financial instruments, which have a significant increase in their credit risks since being initially included in financial statements, through considering all supportable information including those which are reasonable or prospective as separate or collective.

2 Summary of significant accounting policies *(continued)*

2.32 New standards and interpretations not yet adopted *(continued)*

Hedge accounting:

The purpose of hedge accounting is representation of impact of risk management activities, which are carried out through utilizing appropriate financial instruments to manage certain risks which may affect profit or loss (or other comprehensive income when equity instrument investments, in which fair value changes are preferred to be presented under other comprehensive income), in financial statements. Such approach aims to transfer context of instruments, for which hedge accounting is applied, in order to provide understanding of purpose and impact of hedging instruments.

The Company shall continue to implement hedge accounting provisions of TAS 39 as accounting policy. Hedge accounting provisions shall be applied prospectively.

The Company does not anticipate a significant impact on its balance sheet and equities except for impairment calculations. A detailed review with respect to impacts of provision shall be performed in following periods. The Company shall continue to benefit from provisional exemption clauses for TFRS 9, included in TFRS 4, until the date, on which IFRS 17 shall be applicable.

TFRS 4 Insurance Contracts (Amendments)

In December 2017, POA issued amendments to TFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

a. 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 TFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and
b. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying TFRS 9 Financial instruments until 2021. The entities that defer the application of TFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—TAS 39.

These amendments are to be applied for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

TFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation issued by POA on December 2017 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The amendments will not have a significant impact on the financial position or performance of the Group.

2 Summary of significant accounting policies *(continued)*

2.32 New standards and interpretations not yet adopted *(continued)*

TFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

In December 2017, POA issued amendments to TFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:
a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to TAS 28 Investments in Associates and Joint Ventures (Amendments)

In December 2017, POA issued amendments to TAS 28 *Investments in Associates and Joint Ventures*. The amendments clarify that a company applies TFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

TFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with TAS 28 Investments in Associates and Joint Ventures. In this amendment, POA clarified that the exclusion in TFRS 9 applies only to interests a company accounts for using the equity method. A company applies TFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments are effective for annual periods beginning on or after January 1, 2019, with early application permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

TAS 40 Investment Property: Transfers of Investment Property (Amendments)

In December 2017, POA issued amendments to TAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company.

2 Summary of significant accounting policies *(continued)*

2.32 New standards and interpretations not yet adopted *(continued)*

TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

iii) The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted by the POA, thus they do not constitute part of TFRS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

Annual Improvements – 2010–2012 Cycle

IFRS 13 Fair Value Measurement

As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

Annual Improvements – 2011–2013 Cycle

IFRS 16 Leases

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

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in “IAS 12 Income Taxes” when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:
(a) whether an entity considers uncertain tax treatments separately;
(b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
(c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
(d) how an entity considers changes in facts and circumstances.

2 Summary of significant accounting policies *(continued)*

2.32 New standards and interpretations not yet adopted *(continued)*

An entity shall apply this Interpretation for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognized at the date of initial application.

The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognized over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. IFRS 17 will become effective for annual reporting periods beginning on or after January 1, 2021; early application is permitted.

The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)
In October 2017, the IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortized cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortized cost some prepayable financial assets with so-called negative compensation.

The amendments are effective from annual periods beginning on or after January 1, 2019, with early application permitted.

The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB announced *Annual Improvements to IFRS Standards 2015–2017 Cycle,* containing the following amendments to IFRSs:

- IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements* — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 *Income Taxes* — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

2 Summary of significant accounting policies *(continued)*

2.32 New standards and interpretations not yet adopted *(continued)*

- IAS 23 *Borrowing Costs* — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalization rate on general borrowings.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

3 Critical accounting estimates and judgments in applying accounting policies

The notes given in this section are provided in addition to the commentary on the management of insurance risk note 4.1 – *Management of insurance risk* and note 4.2 – *Financial risk management*.

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 4.1 – Management of insurance risk

Note 4.2 – Financial risk management

Note 10 – Reinsurance assets and liabilities

Note 11 – Financial assets

Note 12 – Loans and receivables

Note 17 – Insurance contract liabilities and reinsurance assets

Note 17 – Deferred commissions

Note 19 – Trade and other payables, deferred income

Note 21 – Deferred tax

Note 23 – Other liabilities and provisions

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk

4.1 Management of insurance risk

Objective of managing risks arising from insurance contracts and policies used to minimise such risks:

Insurance risk is defined as coverage for exposures that exhibit a possibility of financial loss due to applying inappropriate and insufficient insurance techniques. In line with the nature of an insurance contract, as the risk is coincidental, the risk amount cannot be predictable.

Insurance risk represents the possibility of the non-coverage of the claims paid by the premiums collected.

As of December 31, 2017, the Company's life insurance claims/premiums ratio stands at 19%. Low claims/premiums ratio, which is calculated by the proportion of claims to risk premiums collected, indicates that the Company makes significant profit. The Company adopts central risk assessment policy. The Company applies this policy to the all marketing channels produced. In its life policy production, the Company has no sales channel with continuous risk exposure. The Company analyses its claims/premiums ratio periodically in order to identify its insurance risks.

As of December 31, 2017, the Company's personal accident insurance claims/premiums ratio is 91%. Since personal accident insurance portfolio has an insignificant share in the Company's general portfolio, this ratio would be low when no compensation is paid and this ratio would be high when compensation is paid.

Claims/premium ratio of the Company as of the financial statement periods is presented below:

	December 31, 2017	**December 31, 2016**
Life insurance	19%	18%
Personal accident	91%	116%

The Company shares its significant risks associated with natural disasters, such as; earthquake, terrorism or large-scale accidents, with reinsurers by entering into catastrophic excess of loss agreements.

As at December 31, 2017 and 2016, risk portion transferred to reinsurers in terms of risk guarantee is presented as below:

	December 31, 2017	**December 31, 2016**
Death by natural cause	10%	11%
Death by accident	41%	42%
Disability by accident	47%	51%
Disability by illness	63%	68%

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.1 Management of insurance risk *(continued)*

Sensitivity to insurance risk

The Company's policy production strategy follows an effective risk management in the policy production process considering the nature, extent, and accurate distribution of the risk incurred.

Reinsurer agreements include claims surplus, excess of loss and quota reinsurances. In 2017, the Company retains the risk, stemming from insurance contracts, which varies with regards to provided coverage, product and portfolio and transfers the exceeding portion to reinsurers via reinsurance agreements. The limits regarding the maximum risk that can be retained by the Company is audited by Treasury.

Determination of insurance risk concentrations by management and the common characteristics of insurance risk concentrations (nature, location and currency)

The Company produces life and personal accident branch policies. The Company's gross and net insurance risk concentrations (after reinsurance) in terms of insurance branches are summarised as below:

	December 31, 2017		
Branches	**Total gross risk liability[1]**	**Reinsurer's share of risk liability**	**The company's net claims liability**
Life insurance	73,110,300,352	14,199,914,493	58,910,385,859
Personal accident	10,523,501,056	3,002,551,823	7,520,949,233
Total	**83,633,801,408**	**17,202,466,316**	**66,431,335,092**

	December 31, 2016		
Branches	**Total gross risk liability[1]**	**Reinsurer's share of risk liability**	**The company's net claims liability**
Life insurance	60,095,588,515	14,614,515,723	45,481,072,792
Personal accident	9,344,816,113	2,408,845,973	6,935,970,140
Total	**69,440,404,628**	**17,023,361,696**	**52,417,042,932**

(1) Represents the maximum insurance amount based on death by natural cause, death by accident, disability by accident and disability by illness.

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.1 Management of insurance risk *(continued)*

Determination of insurance risk concentrations by management and the common characteristics of insurance risk concentrations (nature, location and currency) *(continued)*

The Company issues insurance contracts mainly in Turkey. Gross and net insurance risk concentrations of the insurance contracts (after reinsurance) based on geographical regions are summarised as below:

	December 31, 2017		
Claims liability[1]	**Total gross claims liability**	**Reinsurer's share of claims liability**	**Total net claims liability**
Marmara Region	31,323,914	705,056	30,618,858
Central Anatolia Region	11,769,193	564,256	11,204,937
Aegean Region	12,310,813	504,540	11,806,273
Mediterranean Region	8,369,251	189,958	8,179,293
Black Sea Region	5,999,374	89,330	5,910,044
South-eastern Anatolia Region	3,008,392	46,441	2,961,951
Eastern Anatolia Region	2,953,253	61,201	2,892,052
Foreign countries (other)	3,483,779	4,199	3,479,580
Total	**79,217,969**	**2,164,981**	**77,052,988**

	December 31, 2016		
Claims liability[1]	**Total gross claims liability**	**Reinsurer's share of claims liability**	**Total net claims liability**
Marmara Region	31,593,699	1,324,417	30,269,282
Central Anatolia Region	14,785,448	291,616	14,493,832
Aegean Region	12,010,422	188,896	11,821,526
Mediterranean Region	9,388,670	180,766	9,207,904
Black Sea Region	6,338,256	121,794	6,216,462
South-eastern Anatolia Region	3,960,531	131,647	3,828,884
Eastern Anatolia Region	3,549,014	76,476	3,472,538
Foreign countries (other)	3,628,068	230	3,627,838
Total	**85,254,108**	**2,315,842**	**82,938,266**

(1) Total claims liability includes the actual estimated compensation amounts. IBNR provision and outstanding claims adequacy provision are not included in the calculation.

Comparison of incurred claims with past estimations

Incurred claim development table is disclosed in note 17 - *Insurance liabilities and reinsurance assets.*

Effects of the changes in assumptions used in the measurement of insurance assets and liabilities showing the effect of each change separately that has significant effect on financial statements

In the current period, there are no material changes in the assumptions of measurement of insurance assets and liabilities.

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management

This note presents information about the Company's exposure to each of the below risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Company's risk management program focuses on minimising the negative effects of the ambiguities in financial markets on the Company's financial statements. The Company is mostly exposed to interest risk and price risk in relation with financial investments, to credit risk in relation with insurance receivables and exchange rate risk due to policies and assets in foreign currencies.

The risk is managed by a specific department which is in line with the approved policies by the Board of Directors. Several risk policies have been prepared by the Board of Directors in order to manage the exchange risk, interest risk, credit risk, using the derivative and non-derivative financial instruments risks.

Credit risk

Credit risk is basically defined as the possibility that counterparty will fail to meet its obligations in accordance under agreed terms of a contract. When the Company's field of activity and third party relations is considered, its credit risk is deemed to be relatively at minimum. The balance sheet items that the Company is exposed to credit risk are as follows:

- Cash at banks
- Other cash and cash equivalents
- Available for sale financial assets
- Financial assets held for trading
- Held-to-maturity financial assets
- Premium receivables from policyholders
- Receivables from intermediaries (agencies)
- Receivables from reinsurance companies related to claims paid and commissions accrued
- Reinsurance shares of insurance liabilities
- Due from related parties
- Other receivables

The review of the Company's third party relations are presented below.

Reinsurers: Reinsurance contracts are the most common method to manage insurance risk. This does not, however, discharge the Company's liability as the primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The Company works with international reinsurance companies with strong financial status. In this perspective, the level of risk exposure is also considered to be at minimum.

Agencies: Agencies working with the Company expose it to a limited level of credit risk. Since the Company's products are issued with long-term use, commissions given to agencies are also long term in nature; therefore, the Company has consistent payables to agencies.

Policyholders: Overdue premium receivables are not considered as a significant risk exposure to the Company because if the Company has unpaid premiums, all guarantees related to the insurance will be invalid.

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

As at December 31, 2017 and 2016, the Company's credit risk exposure by types of financial instruments is as follows. Banks and other cash and cash equivalents are also included in the credit risk.

	Receivables[(1)]					**Banks and other cash and cash equivalent assets**
	Receivables from insurance activities		**Other receivables**			
December 31, 2017	**Related party**	**Third party**	**Related party**	**Third party**	**Financial assets**	
Maximum credit risk exposure as at the reporting period (A+B+C)	-	68,066,132	1,567	19,352,221	2,079,044,988	581,752,457
- Secured portion of maximum risk by guarantees, provisions, etc.	-	-	-	-	-	-
A. Net book value of neither past due nor impaired financial assets	-	55,784,024	1,567	19,352,221	2,079,044,988	581,752,457
B. Net book value of past due but not impaired assets	-	12,282,108	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
- Gross book value	-	120,570				
- Impairment	-	(120,570)				
- Secured portion of net book value by guarantees, provisions, etc.	-	-	-	-	-	-

	Receivables[(1)]					**Banks and other cash and cash equivalent assets**
	Receivables from insurance activities		**Receivables from insurance activities**			
December 31, 2016	**Related party**	**Third party**	**Related party**	**Third party**	**Financial assets**	
Maximum credit risk exposure as at the reporting period (A+B+C)	**-**	**60,296,159**	**5,221**	**10,663,493**	**2,224,197,390**	**326,881,159**
- Secured portion of maximum risk by guarantees, provisions, etc.	-	-	-	-	-	-
A. Net book value of neither past due nor impaired financial assets	-	52,083,765	5,221	10,663,493	2,224,197,390	326,881,159
B. Net book value of part due but not impaired assets	-	8,212,394	-	-	-	-
C. Net book value of impaired assets	-	-	-	-	-	-
- Gross book value	-	120,570				
- Impairment	-	(120,570)				
- Secured portion of net book value by guarantees, provisions, etc.	-	-	-	-	-	-

(1) Receivables from individual pension activities are not included in the credit risk table since those receivables are followed both side of the balance sheet as asset and liability and they are held on behalf of participants by İstanbul Takas ve Saklama Bankası A.Ş. (the "Istanbul Settlement and Custody Bank Inc").

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the net funding obligations. Liquidity risk arises from the events trigger decreasing funds such as deterioration in the market conditions or downgrading of credit ratings. As at December 31, 2017 and 2016, maturity analyses of the Company's assets and liabilities are presented in the table below:

December 31, 2017	**Without maturity**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**5 years and over**	**Unallocated**	**Total**
Cash and cash equivalents	18,662,808	268,602,921	294,492,358	-				**581,758,087**
Financial assets and investments with risks on policyholders		164,384,392	6,556,676	22,472,553	869,709,905	923,912,457	236,717,006	**2,223,752,989**
Receivables from main operations	-	3,920,427	7,515,084	14,178,346	-	-	14,783,666,642	**14,809,280,499**
Due from related parties	-	-	1,567	-	-	-	-	**1,567**
Other receivables	-	18,180,114	-	-	-		1,172,107	**19,352,221**
Prepaid expenses and income accruals, short term	-	-	-	-	-	-	39,071,002	**39,071,002**
Other current assets	-	-	-	-	-	-	21,210	**21,210**
Other receivables	-	-	-	485,339	-	-	-	**485,339**
Financial assets (Associates)	-	-	-	-	-	-	20,324,696	**20,324,696**
Tangible assets	-	-	-	-	-	-	160,222,265	**160,222,265**
Intangible assets	-	-	-	-	-	-	28,011,790	**28,011,790**
Prepaid expenses and income accruals, long term	-	-	-	-	-	-	2,476,061	**2,476,061**
Deferred tax assets	-	-	-	-	-	-	-	-
Total assets	**18,662,808**	**455,087,854**	**308,565,685**	**37,136,238**	**869,709,905**	**923,912,457**	**15,271,682,779**	**17,884,757,726**
Financial liabilities	-	-	-	-	-	-	-	-
Payables arising from main operations	-	19,096,298	-	1,648,069	-	-	14,962,165,922	**14,982,910,289**
Due to related parties	-	41,670	-	57,577	-	-	68	**99,315**
Other payables	-	12,796,416	-	-	-	-	10,189,232	**22,985,648**
Insurance technical provisions	-	-	-	-	-	-	1,880,844,424	**1,880,844,424**
Provisions for taxes and other similar obligations	-	8,209,360	-	-	-	-	11,331,199	**19,540,559**
Deferred income and expense accruals	-	-	-	-	-	-	2,955,075	**2,955,075**
Other short term liabilities	-	-	-	-	-	-	-	-
Provisions for other risks	-	1,074,652	11,000,000	-	-	13,724,571	6,442,354	**32,241,577**
Deferred tax liabilities	-	-	-	-	-	-	9,057,907	**9,057,907**
Shareholders' equity	-	-	-	-	-	-	934,122,932	**934,122,932**
Total liabilities	-	41,218,396	11,000,000	1,705,646	-	13,724,571	17,817,109,113	**17,884,757,726**
Net liquidity surplus/(deficit)	**18,662,808**	**413,869,458**	**297,565,685**	**35,430,592**	**869,709,905**	**910,187,886**	**(2,545,426,334)**	**-**

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

Liquidity risk *(continued)*

December 31, 2016	**Without maturity**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**5 years and over**	**Unallocated**	**Total**
Cash and cash equivalents	23,509,678	282,900,725	20,476,381	-	-	-	-	**326,886,784**
Financial assets and investments with risks on policyholders	-	106,551,047	-	297,729,037	838,592,069	901,603,121	228,607,677	**2,373,082,951**
Receivables from main operations	-	2,980,438	5,932,433	11,523,631	-	-	11,429,127,042	**11,449,563,544**
Due from related parties	-	-	5,221	-	-	-	-	**5,221**
Other receivables	-	9,020,596	-	-	-		1,642,897	**10,663,493**
Prepaid expenses and income accruals, short term	-	-	-	-	-	-	23,523,085	**23,523,085**
Other current assets	-	-	-	-	-	-	18,199	**18,199**
Other receivables	-	-	-	764,981	-	-	-	**764,981**
Financial assets (Associates)	-	-	-	-	-	-	18,551,738	**18,551,738**
Tangible assets	-	-	-	-	-	-	162,607,274	**162,607,274**
Intangible assets	-	-	-	-	-	-	31,273,866	**31,273,866**
Prepaid expenses and income accruals, long term	-	-	-	-	-	-	530,611	**530,611**
Deferred tax assets	-	-	-	-	-	-	-	**-**
Total assets	**23,509,678**	**401,452,806**	**26,414,035**	**310,017,649**	**838,592,069**	**901,603,121**	**11,895,882,389**	**14,397,471,747**
Financial liabilities	-	45,376,520	-	-	-	-	-	**45,376,520**
Payables arising from main operations	-	17,202,842	-	1,084,011	-	-	11,579,768,030	**11,598,054,883**
Due to related parties	-	55,571	-	62,231	-	-	48	**117,850**
Other payables	-	15,968,739	-	-	-	-	4,176,121	**20,144,860**
Insurance technical provisions	-	-	-	-	-	-	1,818,688,743	**1,818,688,743**
Provisions for taxes and other similar obligations	-	7,011,193	-	-	-	-	6,001,919	**13,013,112**
Deferred income and expense accruals	-	-	-	-	-	-	5,581,134	**5,581,134**
Other short term liabilities	-	-	-	-	-	-	-	**-**
Provisions for other risks	-	900,000	-	9,540,000	-	12,709,099	5,239,205	**28,388,304**
Deferred tax liabilities	-	-	-	-	-	-	1,461,964	**1,461,964**
Shareholders’ equity	-	-	-	-	-	-	866,644,377	**866,644,377**
Total liabilities	**-**	**86,514,865**	**-**	**10,686,242**	**-**	**12,709,099**	**14,287,561,541**	**14,397,471,747**
Net liquidity surplus/(deficit)	**23,509,678**	**314,937,941**	**26,414,035**	**299,331,407**	**838,592,069**	**888,894,022**	**(2,391,679,152)**	**-**

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Foreign currency risk

The Company is exposed to foreign currency risk through insurance and reinsurance transactions in foreign currencies.

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated by the Central Bank of the Republic of Turkey's (CBRT) spot purchase rates and the differences arising from foreign currency rates are recorded as foreign exchange gain or loss in the statement of operations.

Parallel to the general characteristic of Turkish insurance sector, the Company holds long position in terms of US Dollar and Euro.

The Company's exposure to foreign currency risk is as follows:

Foreign currency position table – December 31, 2017						
	Total TL (Functional currency)	**US Dollar**	**Euro**	**GBP**	**CHF**	**JPY**
1. Cash at banks	**4,432,590**	1,395,980	2,958,995	62,759	14,856	-
2. Financial assets and financial investments with risks on policyholders	**612,576,705**	460,330,943	134,048,356	18,197,406	-	-
3. Receivables from main operations	**2,038,456**	1,766,757	265,432	6,267	-	-
4. Reinsurance receivables	**-**	-	-	-	-	-
5. Rent receivables	**-**	-	-	-	-	-
6. Deposits given	**41,491**	41,491	-	-	-	-
Foreign currency assets, current	**619,089,242**	**463,535,171**	**137,272,783**	**18,266,432**	**14,856**	**-**
7. Total assets	**619,089,242**	**463,535,171**	**137,272,783**	**18,266,432**	**14,856**	**-**
8. Other miscellaneous payables	**3,342,594**	3,165,446	118,721	-	58,427	-
9. Payables to reinsurers	**726**	-	-	716	-	10
10. Agency guarantees	**488,815**	453,761	35,054	-	-	-
11. Technical provisions	**552,970,925**	433,051,739	103,239,142	16,670,124	1,261	8,659
Foreign currency liabilities, short term	**556,803,060**	**436,670,946**	**103,392,917**	**16,670,840**	**59,688**	**8,669**
12. Total liabilities	**556,803,060**	**436,670,946**	**103,392,917**	**16,670,840**	**59,688**	**8,669**
Net financial position	**62,286,182**	**26,864,225**	**33,879,866**	**1,595,592**	**(44,832)**	**(8,669)**
Net long/(short) position on monetary items	**62,244,691**	**26,822,734**	**33,879,866**	**1,595,592**	**(44,832)**	**(8,669)**

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

Market risk *(continued)*

Foreign currency risk (continued)

Foreign currency position table – December 31, 2016						
	Total TL (Functional currency)	**US Dollar**	**Euro**	**GBP**	**CHF**	**JPY**
1. Cash at banks	**8,328,859**	4,919,514	3,336,990	33,365	38,990	-
2. Financial assets and financial investments with risks on policyholders	**525,327,347**	402,493,256	107,862,056	14,972,035	-	-
3. Receivables from main operations	**998,136**	773,982	223,014	1,140	-	-
4. Reinsurance receivables	**-**	-	-	-	-	-
5. Rent receivables	**-**	-	-	-	-	-
6. Deposits given	**38,711**	38,711	-	-	-	-
Foreign currency assets, current	**534,693,053**	**408,225,463**	**111,422,060**	**15,006,540**	**38,990**	**-**
7. Total assets	**534,693,053**	**408,225,463**	**111,422,060**	**15,006,540**	**38,990**	**-**
8. Other miscellaneous payables	**2,338,247**	2,190,303	95,723	-	52,221	-
9. Payables to reinsurers	**140,656**	140,533	-	123	-	-
10. Agency guarantees	**350,257**	337,602	12,655	-	-	-
11. Technical provisions	**494,882,567**	393,052,439	87,489,976	14,326,020	3,261	10,871
Foreign currency liabilities, short term	**497,711,727**	**395,720,877**	**87,598,354**	**14,326,143**	**55,482**	**10,871**
12. Total liabilities	**497,711,727**	**395,720,877**	**87,598,354**	**14,326,143**	**55,482**	**10,871**
Net financial position	**36,981,326**	**12,504,586**	**23,823,706**	**680,397**	**(16,492)**	**(10,871)**
Net long/(short) position on monetary items	**36,942,615**	**12,465,875**	**23,823,706**	**680,397**	**(16,492)**	**(10,871)**

Foreign currency transactions are recorded at exchange rates at the transaction dates and foreign currency denominated monetary items are evaluated by the Central Bank of the Republic of Turkey's spot purchase rates as at reporting dates.

Foreign currency rates used for the translation of foreign currency denominated monetary assets and liabilities as at reporting periods are as follows:

December 31, 2017	**US Dollar**	**Euro**	**GBP**	**CHF**	**JPY**
Foreign currency rate used in translation of balance sheet items	3.7719	4.5155	5.0803	3.8548	0.0334

December 31, 2016	**US Dollar**	**Euro**	**GBP**	**CHF**	**JPY**
Foreign currency rate used in translation of balance sheet items	3.5192	3.7099	4.3189	3.4454	0.0300

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

Exposure to foreign currency risk

A 10 percent depreciation of the TL against the following currencies as at December 31, 2017 and 2016 would have increased or decreased equity and profit or loss (excluding tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. In case of a 10 percent appreciation of the TL against the following currencies, the effect will be in opposite direction.

Exchange rate sensitivity analysis table – December 31, 2017				
	Profit/loss		**Equity[1]**	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
If USD value changes by 10% against TL:				
1- Net US Dollar assets/liabilities	2,481,828	(2,481,828)	2,686,423	(2,686,423)
2- Hedged portion from US Dollar risk (-)	-	-	-	-
3- Net effect of US Dollar (1+2)	2,481,828	(2,481,828)	2,686,423	(2,686,423)
If EUR value changes by 10% against TL:				
4- Net Euro assets/liabilities	3,352,191	(3,352,191)	3,387,987	(3,387,987)
5- Hedged portion from Euro risk (-)	-	-	-	-
6- Net effect of Euro (4+5)	3,352,191	(3,352,191)	3,387,987	(3,387,987)
If GBP value changes by 10% against TL:				
7- Net GBP assets/liabilities	151,350	(151,350)	159,559	(159,559)
8- Hedged portion from GBP risk (-)	-	-	-	-
9- Net effect of GBP (7+8)	151,350	(151,350)	159,559	(159,559)
If CHF value changes by 10% against TL:				
10- Net CHF assets/liabilities	(4,483)	4,483	(4,483)	4,483
11- Hedged portion from CHF risk (-)	-	-	-	-
12- Net effect of CHF (10+11)	(4,483)	4,483	(4,483)	4,483
If JPY value changes by 10% against TL:				
13- Net JPY assets/liabilities	(867)	867	(867)	867
14- Hedged portion from JPY risk (-)	-	-	-	-
15- Net effect of JPY (13+14)	(867)	867	(867)	867
Total (3+6+9+12+15)	**5,980,019**	**(5,980,019)**	**6,228,619**	**(6,228,619)**

(1) Includes profit / loss effect.

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

Exposure to foreign currency risk (continued)

Exchange rate sensitivity analysis table – December 31, 2016

	Profit/loss		Equity[1]	
	Appreciation of foreign currency	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**
If USD value changes by 10% against TL:				
1- Net US Dollar assets/liabilities	1,146,233	(1,146,233)	1,250,459	(1,250,459)
2- Hedged portion from US Dollar risk (-)	-	-	-	-
3- Net effect of US Dollar (1+2)	**1,146,233**	**(1,146,233)**	**1,250,459**	**(1,250,459)**
If EUR value changes by 10% against TL:				
4- Net Euro assets/liabilities	2,348,118	(2,348,118)	2,382,371	(2,382,371)
5- Hedged portion from Euro risk (-)	-	-	-	-
6- Net effect of Euro (4+5)	**2,348,118**	**(2,348,118)**	**2,382,371**	**(2,382,371)**
If GBP value changes by 10% against TL:				
7- Net GBP assets/liabilities	66,077	(66,077)	68,040	(68,040)
8- Hedged portion from GBP risk (-)	-	-	-	-
9- Net effect of GBP (7+8)	**66,077**	**(66,077)**	**68,040**	**(68,040)**
If CHF value changes by 10% against TL:				
10- Net CHF assets/liabilities	(1,649)	1,649	(1,649)	1,649
11- Hedged portion from CHF risk (-)	-	-	-	-
12- Net effect of CHF (10+11)	**(1,649)**	**1,649**	**(1,649)**	**1,649**
If JPY value changes by 10% against TL:				
13- Net JPY assets/liabilities	(1,087)	1,087	(1,087)	1,087
14- Hedged portion from JPY risk (-)	-	-	-	-
15- Net effect of JPY (13+14)	**(1,087)**	**1,087**	**(1,087)**	**1,087**
Total (3+6+9+12+15)	**3,557,692**	**(3,557,692)**	**3,698,134**	**(3,698,134)**

(1) Includes profit / loss effect.

Exposure to interest risk

The changes in interest rate that arise fluctuations in prices of financial instruments lead to the necessity of overcoming interest rate risk. The Company's sensitivity for interest rate risk is related to the inconsistency of maturity of asset and liability items. The interest risk is managed by compensating the assets exposed to the interest fluctuations with the identical liabilities.

Financial instruments which are sensitive to the changes in interest rates are given in the table below:

	December 31, 2017	**December 31, 2016**
Fixed rate financial instruments		
Financial assets	1,742,083,510	1,802,905,161
Available-for-sale financial assets	*1,704,247,398*	*1,783,897,456*
Loans and receivables	*37,836,112*	*19,007,705*
Banks	493,750,627	122,700,098
Variable rate financial instruments		
Financial assets	118,404,194	341,570,115
Available-for-sale financial assets	*118,404,194*	*341,570,115*

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

Interest rate sensitivity of financial instruments

As at December 31, 2017 and 2016, interest rate risk analysis of financial assets and financial liabilities are summarised in the table below:

December 31, 2017	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**5 years and over**	**Non-interest bearing**	**Total**
Assets:							
Cash and cash equivalents	268,602,921	294,492,358	-	-	-	18,662,808	581,758,087
Financial assets and investments with risks on policyholders	164,384,392	6,556,676	140,876,747	751,305,711	923,912,457	236,717,006	2,223,752,989
Receivables from main operations	3,920,427	7,515,084	14,178,346	-	-	14,783,666,642	14,809,280,499
Due from related parties	-	1,567	-	-	-	-	1,567
Other receivables	18,180,114	-	-	-		1,172,107	19,352,221
Prepaid expenses and income accruals, short term	-	-	-	-	-	39,071,002	39,071,002
Other current assets	-	-	-	-	-	21,210	21,210
Other current receivables	-	-	485,339	-	-	-	485,339
Financial assets (Associates)	-	-	-	-	-	20,324,696	20,324,696
Tangible assets	-	-	-	-	-	160,222,265	160,222,265
Intangible assets	-	-	-	-	-	28,011,790	28,011,790
Prepaid expenses and income accruals, long term	-	-	-	-	-	2,476,061	2,476,061
Deferred tax assets	-	-	-	-	-	-	-
Total assets	**455,087,854**	**308,565,685**	**155,540,432**	**751,305,711**	**923,912,457**	15,290,345,587	17,884,757,726
Liabilities:							
Financial liabilities	-	-	-	-	-	-	-
Payables arising from main operations	19,096,298	-	1,648,069	-	-	14,962,165,922	14,982,910,289
Due to related parties	41,670	-	57,577	-	-	68	99,315
Other liabilities	12,796,416	-	-	-	-	10,189,232	22,985,648
Insurance technical provisions	-	-	-	-	-	1,880,844,424	1,880,844,424
Provisions for taxes and other similar obligations	8,209,360	-	-	-	-	11,331,199	19,540,559
Deferred income and expense accruals	-	-	-	-	-	2,955,075	2,955,075
Other short term liabilities	-	-	-	-	-	-	-
Provisions for other risks	1,074,652	11,000,000	-	-	13,724,571	6,442,354	32,241,577
Deferred tax liabilities	-	-	-	-	-	9,057,907	9,057,907
Shareholders' equity	-	-	-	-	-	934,122,932	934,122,932
Total liabilities and equity	**41,218,396**	**11,000,000**	**1,705,646**	**-**	**13,724,571**	17,817,109,113	17,884,757,726
Net position	**413,869,458**	**297,565,685**	**153,834,786**	**751,305,711**	**910,187,886**	**(2,526,763,526)**	**-**

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

Interest rate sensitivity of financial instruments (Continued)

December 31, 2016	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**5 years and over**	**Non-interest bearing**	**Total**
Assets:							
Cash and cash equivalents	282,900,724	20,476,381	-	-	-	23,509,679	**326,886,784**
Financial assets and investments with risks on policyholders	262,869,870	-	239,118,163	782,701,711	859,785,530	228,607,677	**2,373,082,951**
Receivables from main operations	2,980,438	5,932,433	11,523,631	-	-	11,429,127,042	**11,449,563,544**
Due from related parties	-	5,221	-	-	-	-	**5,221**
Other receivables	9,020,596	-	-	-		1,642,897	**10,663,493**
Prepaid expenses and income accruals, short term	-	-	-	-	-	23,523,085	**23,523,085**
Other current assets	-	-	-	-	-	18,199	**18,199**
Other current receivables	-	-	764,981	-	-	-	**764,981**
Financial assets (Associates)	-	-	-	-	-	18,551,738	**18,551,738**
Tangible assets	-	-	-	-	-	162,607,274	**162,607,274**
Intangible assets	-	-	-	-	-	31,273,866	**31,273,866**
Prepaid expenses and income accruals, long term	-	-	-	-	-	530,611	**530,611**
Deferred tax assets	-	-	-	-	-	-	-
Total assets	**557,771,628**	**26,414,035**	**251,406,775**	**782,701,711**	**859,785,530**	**11,919,392,068**	**14,397,471,747**
Liabilities:							
Financial liabilities	45,376,520	-	-	-	-	-	**45,376,520**
Payables arising from main operations	17,202,842	-	1,084,011	-	-	11,579,768,030	**11,598,054,883**
Due to related parties	55,571	-	62,231	-	-	48	**117,850**
Other liabilities	15,968,739	-	-	-	-	4,176,121	**20,144,860**
Insurance technical provisions	-	-	-	-	-	1,818,688,743	**1,818,688,743**
Provisions for taxes and other similar obligations	7,011,193	-	-	-	-	6,001,919	**13,013,112**
Deferred income and expense accruals	-	-	-	-	-	5,581,134	**5,581,134**
Other short term liabilities	-	-	-	-	-	-	-
Provisions for other risks	900,000	-	9,540,000	-	12,709,099	5,239,205	**28,388,304**
Deferred tax liabilities	-	-	-	-	-	1,461,964	**1,461,964**
Shareholders' equity	-	-	-	-	-	866,644,377	**866,644,377**
Total liabilities and equity	**86.514.865**	**-**	**10.686.242**	**-**	**12.709.099**	**14,287,561,541**	**14,397,471,747**
Net position	**471,256,763**	**26,414,035**	**240,720,533**	**782,701,711**	**847,076,431**	**(2,368,169,473)**	**-**

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

Interest rate sensitivity of financial instruments (Continued)

Interest rate sensitivity of the statement of income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss and on the net interest income as at and for December 31, 2017 and 2016 of the floating rate non-trading financial assets and financial liabilities held at December 31, 2017 and 2016. Interest rate sensitivity of equity is calculated by revaluating available-for-sale financial assets at December 31, 2017 and 2016 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The table below demonstrating the effect of changes in interest rates on statement of income and equity excludes tax effects on related loss or income.

December 31, 2017	100 bp increase	100 bp decrease	500 bp increase	500 bp decrease
Company's own portfolio	(9,904,880)	10,342,995	(45,647,048)	56,726,619
Total, net	**(9,904,880)**	**10,342,995**	**(45,647,048)**	**56,726,619**

December 31, 2016	100 bp increase	100 bp decrease	500 bp increase	500 bp decrease
Company's own portfolio	(14,046,708)	14,698,071	(64,444,915)	80,876,329
Total, net	**(14,046,708)**	**14,698,071**	**(64,444,915)**	**80,876,329**

Fair value information

The estimated fair values of financial instruments have been determined using available market information, and where it exists, appropriate valuation methodologies.

The Company has classified its financial assets as held for trading purpose or available for sale. As at reporting period, available for sale financial assets and financial assets held for trading are measured at their fair values in the accompanying financial statements.

Management estimates that the fair value of other financial assets and liabilities are not materially different than their carrying values.

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

Classification relevant to fair value information

TFRS 7 – *Financial instruments: Disclosures* requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Company. This distinction brings about a fair value measurement classification generally as follows:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

If classification is available for usage, it necessitates the utilisation of observable market data.

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets held for trading	62,317,618	-	-	62,317,618
Available for sale financial assets[(1)]	559,440,854	-	-	559,440,854
Financial investments with risks on policyholders classified as available for sale	1,392,236,705	-	-	1,392,236,705
Financial investments with risks on policyholders classified as for the purposes of purchase and sale	32,405,651			32,405,651
Receivables from individual pension business[(2)]	14,712,834,341	-	-	14,712,834,341
Total financial assets	**16,759,235,169**	**-**	**-**	**16,759,235,169**
Financial liabilities:				
Investment contract liabilities – life mathematical provision for saving life policies	1,725,732,929	-	-	1,725,732,929
Payables arising from individual pension business[(2)]	14,712,834,341	-	-	14,712,834,341
Total financial liabilities	**16,438,567,270**	**-**	**-**	**16,438,567,270**

(1) As at December 31, 2017, securities that are not publicly traded cost value TL 31,879,316 and TL (18,911,547) impairment amounting to TL 12,967,769 have been measured at cost and are excluded from the table.

(2) Includes investments directed individual pension funds.

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets held for trading	36,591,886	-	-	36,591,886
Available for sale financial assets[1]	716,518,828	-	-	716,518,828
Financial investments with risks on policyholders classified as available for sale	1,535,811,130	-	-	1,535,811,130
Financial investments with risks on policyholders classified as for the purposes of purchase and sale	45,111,299			45,111,299
Receivables from individual pension business	11,359,420,955	-	-	11,359,420,955
Total financial assets	**13,693,454,098**	**-**	**-**	**13,693,454,098**
Financial liabilities:				
Investment contract liabilities – life mathematical provision for saving life policies	1,682,433,974	-	-	1,682,433,974
Payables arising from individual pension business[2]	11,359,420,955	-	-	11,359,420,955
Total financial liabilities	**13,041,854,929**	**-**	**-**	**13,041,854,929**

(1) As at December 31, 2016, securities that are not publicly traded cost value TL 30,550,908 and TL (10,508,805) impairment amounting to TL 20,042,103 have been measured at cost and are excluded from the table.

(2) Includes investments directed individual pension funds.

Equity share price risk

Equity share price risk is defined as the risk of decreasing the market price of equity shares as a result of a decline in index.

The effect of changes in fair values of the available-for-sale financial assets on equity that is resulted from the fluctuations on index (all of the other variables are assumed to be fixed) are as follows for the periods ended December 31, 2017 and 2016.

	Change of price	**December 31, 2017**	**December 31, 2016**
Market price of equity share	10%	12,902,597	12,686,239

The effect of changes in fair values of the financial assets held for trading on equity that is resulted from the fluctuations on index (all of the other variables are assumed to be fixed) are as follows as at December 31, 2017 and 2016.

	Change of price	**December 31, 2017**	**December 31, 2016**
Market price of equity share	10%	271,426	198,107

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk *(continued)*

4.2 Financial risk management *(continued)*

Capital management

The aim of the Company's capital management is defined as to provide the continuity of profit-making company, to protect the benefits of the shareholders and institutional partners and also to conduct the most efficient capital structure in order to reduce the cost of capital.

The capital adequacy of the Company is calculated in accordance with the Decree "Measurement and Assessment of Capital Adequacy of Insurance and Reinsurance Companies and Pension Funds" in all reporting periods. The Capital Adequacy calculated according to two methods are in line with the minimum requirements. The Company's recent capital adequacy table prepared as at the report date for June 30, 2017 is summarised below. As at June 30, 2017, the capital adequacy of the Company is TL 198,639,907 and TL 235,418,988; based on first and second method respectively. By the table below, it is observed that capital adequacy balances calculated by using first and second methods are less than the Company's capital as at June 30, 2017. The Company's capital calculated based on the regulation as at June 30, 2017 is TL 859,517,967. Consequently, the Company's capital is adequate.

Capital adequacy table		
	June 30, 2017	**December 31, 2016**
First Method		
Required capital for non-life branches	127,787	119,637
Required capital for life branch	133,120,499	127,062,658
Required capital for pension branch	65,391,621	56,797,105
Required capital based on the first method	**198,639,907**	**183,979,400**
Second Method		
Required capital for asset risk	199,043,191	183,628,146
Required capital for reinsurance risk	1,527,202	1,622,916
Required capital for excessive premium increase	-	77,279
Required capital for outstanding claims risk	2,929,941	3,183,422
Required capital for underwriting risk	27,096,664	23,739,157
Required capital for interest rate and currency risk	4,821,990	2,773,580
Required capital based on the second method	**235,418,988**	**215,024,500**
Required capital	**235,418,988**	**215,024,500**
Current capital[(1)]	**859,517,967**	**877,070,183**
Excessive capital	**624,098,979**	**662,045,683**

(1) According to legal regulations, equalisation provision of TL 19,096,371 (December 31, 2016: TL 16,215,351) have been included in the amount for equity.

(Currency: Turkish Lira (TL))

5 Segment reporting

Segmenting of balance sheet and income statement items is based on the distribution key described in Circular "Principles and Procedures of Distribution Keys Used in Financial Statements under the Insurance Uniformed Chart of Accounts" issued by the Undersecretariat of Treasury on January 4, 2008 and Circular "Amendments to Principles and Procedures of Distribution Keys Used in Financial Statements under the Insurance Uniformed Chart of Accounts" issued by the Undersecretariat of Treasury on August 9, 2010.

December 31, 2017	**Life**	**Individual pension**	**Personal accident**	**Total**
Continuing operations:				
Technical income	741,971,367	300,557,250	668,113	1,043,196,730
Technical expense	(609,361,173)	(233,432,598)	(1,213,707)	(844,007,478)
Total of other income and expense	36,576,510	45,330,751	602,297	82,509,558
Income before tax	**169,186,704**	**112,455,403**	**56,703**	**281,698,810**
Income tax expense	-	-	-	(55,107,000)
Net profit for the period	**169,186,704**	**112,455,403**	**56,703**	**226,591,810**

December 31, 2017	**Life**	**Individual pension**	**Personal accident**	**Total**
Segment assets	2,284,366,547	15,562,775,059	37,616,120	17,884,757,726
Total assets	**2,284,366,547**	**15,562,775,059**	**37,616,120**	**17,884,757,726**
Segment liabilities	(2,323,416,714)	(15,523,226,128)	(38,114,884)	(17,884,757,726)
Total liabilities	**(2,323,416,714)**	**(15,523,226,128)**	**(38,114,884)**	**(17,884,757,726)**
Other segment information				
Depreciation and amortisation	(9,198,602)	(11,400,201)	(151,471)	**(20,750,274)**

December 31, 2016	**Life**	**Individual pension**	**Personal accident**	**Total**
Continuing operations:				
Technical income	700,849,526	236,760,325	448,281	938,058,132
Technical expense	(588,363,510)	(215,669,232)	(1,013,807)	(805,046,549)
Total of other income and expense	45,773,575	51,499,023	502,689	97,775,287
Income before tax	**158,259,591**	**72,590,116**	**(62,837)**	**230,786,870**
Income tax expense	-	-	-	(39,530,000)
Net profit for the period	**158,259,591**	**72,590,116**	**(62,837)**	**191,256,870**

December 31, 2016	**Life**	**Individual pension**	**Personal accident**	**Total**
Segment assets	2,272,567,879	12,099,946,342	24,957,526	14,397,471,747
Total assets	**2,272,567,879**	**12,099,946,342**	**24,957,526**	**14,397,471,747**
Segment liabilities	(2,274,954,936)	(12,097,561,561)	(24,955,250)	(14,397,471,747)
Total liabilities	**(2,274,954,936)**	**(12,097,561,561)**	**(24,955,250)**	**(14,397,471,747)**
Other segment information				
Depreciation and amortisation	(5,470,622)	(6,154,898)	(60,078)	**(11,685,598)**

(Currency: Turkish Lira (TL))

6 Tangible assets

Movement in tangible assets in the period from January 1 to December 31, 2017 is presented below:

	January 1, 2017	Additions	Increase in value	Disposals	December 31, 2017
Cost:					
Owner occupied land and buildings	4,610,000	-	-	-	4,610,000
Machinery and equipment	24,339,733	5,689,309	-	(472,279)	29,556,763
Vehicles	486,876	128,247	-	(183,855)	431,268
Furniture and fixtures (includes leased assets)	4,358,119	51,260	-	(133,911)	4,275,468
Leasehold improvements	3,637,120	467,455	-	(253,858)	3,850,717
	37,431,848	**6,336,271**	**-**	**(1,043,903)**	**42,724,216**
Accumulated depreciation:					
Owner occupied land and buildings	(17,687)	(13,266)	-	-	(30,953)
Machinery and equipment	(12,611,372)	(5,493,801)	-	395,104	(17,710,069)
Vehicles	(242,067)	(82,519)	-	153,212	(171,374)
Furniture and fixtures (includes leased assets)	(3,466,575)	(265,934)	-	133,911	(3,598,598)
Leasehold improvements	(2,749,384)	(439,565)	-	253,858	(2,935,091)
	(19,087,085)	**(6,295,085)**	**-**	**936,085**	**(24,446,085)**
Carrying amounts	**18,344,763**				**18,278,131**

As of December 31, 2017, owner occupied properties are evaluated by revaluation method. Appraisal reports were provided by CMB licensed real estate appraisal company on June 2015 and July 2015. There is no pledge on the properties.

As of December 31, 2017, the fair values (excluding VAT) and net carrying values of owner occupied properties are presented below:

Owner occupied land and buildings	**Appraisal value**	**Net carrying value (December 31, 2017)**
Southern Anatolia district sales office / Adana	2,560,000	2,529,047
Land / İstanbul Kağıthane	2,050,000	2,050,000
Total	**4,610,000**	**4,579,047**

Fair value measurement

The fair values of owner occupied land and buildings were determined by market comparison technique. The fair value measurement of owner occupied land and buildings is classified as level 2.

(Currency: Turkish Lira (TL))

6 Tangible assets *(continued)*

Movement in tangible assets in the period from January 1 to December 31, 2016 is presented below:

	January 1, 2016	Additions	Increase in value	Disposals	December 31, 2016
Cost:					
Owner occupied land and buildings[1]	4,610,000	-	-	-	4,610,000
Machinery and equipment	19,763,450	5,184,811	-	(608,528)	24,339,733
Vehicles	541,760	-	-	(54,884)	486,876
Furniture and fixtures (includes leased assets)	4,415,371	72,762	-	(130,014)-	4,358,119
Leasehold improvements	3,456,710	180,410	-	-	3,637,120
	32,787,291	**5,437,983**	**-**	**(793,426)**	**37,431,848**
Accumulated depreciation:					
Owner occupied land and buildings[1]	(4,422)	(13,265)	-	-	(17,687)
Machinery and equipment	(8,779,101)	(4,372,204)	-	539,933	(12,611,372)
Vehicles	(195,171)	(93,924)	-	47,028	(242,067)
Furniture and fixtures (includes leased assets)	(3,290,743)	(305,705)	-	129,873	(3,466,575)
Leasehold improvements	(2,449,188)	(300,196)	-	-	(2,749,384)
	(14,718,625)	**(5,085,294)**	**-**	**716,834**	**(19,087,085)**
Carrying amounts	**18,068,666**				**18,344,763**

(1) Owner occupied properties have been presented with fair values in the financial statements starting from the third quarter of 2015, previously they were presented with their historical cost.

(Currency: Turkish Lira (TL))

7 Investment properties

Properties held either to earn rentals and/or for capital appreciation or for both are classified as investment properties.

Movement in investment properties in the period from January 1 to December 31, 2017 is presented below:

	January 1, 2017	Additions	Increase in value	Disposals	December 31, 2017
Land/ İstanbul Ömerli	63,120,511	-	(2,000)	(6,174,377)	56,944,134
Building/ İstanbul Gayrettepe	52,300,000	-	3,700,000	-	56,000,000
Building / Mersin	28,842,000	-	158,000	-	29,000,000
	144,262,511	**-**	**3,856,000**	**(6,174,377)**	**141,944,134**
Carrying amounts	**144,262,511**				**141,944,134**

Movement in investment properties in the period from January 1 to December 31, 2016 is presented below:

	January 1, 2016	Additions	Increase in value	Disposals	December 31, 2016
Land/ İstanbul Ömerli	57,183,000	-	6,538,888	(601,377)	63,120,511
Building / İstanbul Gayrettepe	33,072,113	177,456	19,050,431	-	52,300,000
Building/ Mersin	29,290,000	-	(448,000)	-	28,842,000
	119,545,113	**177,456**	**25,141,319**	**(601,377)**	**144,262,511**
Carrying amounts	**119,545,113**				**144,262,511**

For the period ended December 31, 2017, the Company has rental income from investment properties amounting to TL 1,231,954 (December 31, 2016: TL 1,939,059). The Company has a gain from increase in value of investment properties amounting to TL 3,858,000 (December 31, 2016: TL 25,760,280). When the diminution in value of investment properties amounting to TL 2,000 recorded under "diminution in value of investments" account during the period is considered, the Company has a net gain from increase in value of investment properties amounting to TL 3,856,000. (December 31, 2016: TL 25.141.319).

The appraisal values (excluding VAT) and net carrying values of investment properties are presented below. Appraisal reports were provided by CMB licensed real estate appraisal company at December 2017. There is no mortgage on the property in question.

Appraisal and net carrying value		
Investment land and buildings	**Net carrying value (December 31, 2017)**	**Net carrying value (December 31, 2016)**
Land/ İstanbul Ömerli	56,944,134	63,120,511
Building / İstanbul Gayrettepe	56,000,000	52,300,000
Building / Mersin	29,000,000	28,842,000
Appraisal and net carrying value	**141,944,134**	**144,262,511**

Fair value measurement

The fair values of investment properties were determined by market comparison technique. The fair value measurement of investment properties is classified as level 2.

(Currency: Turkish Lira (TL))

8 Intangible assets

Movement in intangible assets in the period from January 1 to December 31, 2017 is presented below:

	January 1, 2017	Additions	Disposals	December 31, 2017
Cost:				
Rights	44,936,482	11,114,501	13,077,462	69,128,445
Advances for intangible assets[(1)]	12,998,850	78,612	(13,077,462)	-
	57,935,332	**11,193,113**	**-**	**69,128,445**
Accumulated amortisation:				
Rights	(26,661,466)	(14,455,189)	-	(41,116,655)
	(26,661,466)	**(14,455,189)**	**-**	**(41,116,655)**
Carrying amounts	**31,273,866**			**28,011,790**

[(1)] As of 2017, the purchased software is put into practice, the amount (13,077,462) booked in advances for intangible assets has been transferred to rights account.

Movements in intangible assets in the period from January 1 to December 31 2016 is presented below:

	January 1, 2016	Additions	Disposals	December 31, 2016
Cost:				
Rights	29,612,153	15,324,329	-	44,936,482
Advances for intangible assets	7,603,974	5,394,876	-	12,998,850
	37,216,127	**20,719,205**	**-**	**57,935,332**
Accumulated amortisation:				
Rights	(20,061,162)	(6,600,304)	-	(26,661,466)
	(20,061,162)	**(6,600,304)**	**-**	**(26,661,466)**
Carrying amounts	**17,154,965**			**31,273,866**

9 Investments in associates

	December 31, 2017		December 31, 2016	
	Carrying value	**Participation rate %**	**Carrying value**	**Participation rate %**
İş Portföy Yönetimi AŞ	20.324.696	20.0%	18.551.738	20.0%
Investments in associates, net	**20.324.696**		**18.551.738**	

Associate	Total assets	Shareholders' equity	Retained earnings	Profit for the period	Audited or not	Period
İş Portföy Yönetimi AŞ	108,567,738	101,623,478	1,856,413	23,924,573	Audited	December 31, 2017

TL 4,784,915 of income is obtained from associates through equity accounted consolidation method (December 31, 2016: TL 3,289,135).

(Currency: Turkish Lira (TL))

10 Reinsurance assets and liabilities

Outstanding reinsurance assets and liabilities of the Company, as a ceding company in accordance with the existing reinsurance contracts are as follows:

Reinsurance assets	**December 31, 2017**	**December 31, 2016**
Life mathematical reserve, ceded *(Note 17.15)*	2,430,223	2,284,601
Provision for outstanding claims, ceded *(Note 17.15)*	3,331,307	3,892,711
Reserve for unearned premiums, ceded *(Note 17.15)*	2,431,427	2,072,697
Provision for bonus and discount, ceded *(Note 17.15)*	793,036	833,859
Reserve for unexpired risks, ceded *(Note 17.15)*	-	1,976
Other technical provision, ceded	649,983	533,500
Receivables from reinsurance companies	989,216	-
Total	**10,625,192**	**9,619,344**

There is not any impairment losses recognised for reinsurance assets.

Reinsurance liabilities	**December 31, 2017**	**December 31, 2016**
Payables to reinsurance companies	-	353,991
Current account of reinsurance companies *(Note 19)*	1,648,069	1,084,011
Total	**1,648,069**	**1,438,002**

Gains and losses recognised in the statement of income in accordance with existing reinsurance contracts are as follows:

	January 1– December 31, 2017	**January 1– December 31, 2016**
Life branch:		
Premiums ceded during the period	(14,077,280)	(12,714,132)
Change in unearned premiums reserve, ceded	355,163	(216,942)
Commissions received from reinsurers[1]	3,723,903	1,989,602
Reinsurers share of claims paid	6,042,517	6,524,066
Change in outstanding claims, ceded	(474,734)	886,767
Change in provision for bonus and discount, ceded	(42,861)	195,377
Change in life mathematical reserve, ceded	145,622	(364,263)
	(4,327,670)	**(3,699,525)**
Non-life branch:		
Premiums ceded during the period	(282,285)	(210,687)
Change in unearned premiums reserve, ceded	3,567	7,691
Commissions received from reinsurers[1]	65,944	43,609
Reinsurers share of claims paid	163,905	182,663
Change in outstanding claims, ceded	(86,670)	(90,121)
Change in provision for bonus and discount, ceded	2,037	1,491
	(133,502)	**(65,354)**
Total, net	**(4,461,172)**	**(3,764,879)**

(1) Deferred commissions are excluded from commissions received from reinsurers.

(Currency: Turkish Lira (TL))

11 Financial assets

As at December 31 2017 and 2016, the Company's financial assets are detailed as follows:

Financial assets and financial investments with risk on policyholders	**December 31, 2017**	**December 31, 2016**
Available for sale financial assets, Company's own portfolio	591,320,170	747,069,736
Financial assets held for trading purpose	62,317,618	36,591,886
Loans and receivables	37,836,112	19,007,705
Financial investments with risks on saving life policyholders classified and held for trading purpose as available for sale	1,551,190,636	1,580,922,429
Impairment loss on financial assets	(18,911,547)	(10,508,805)
Total	**2,223,752,989**	**2,373,082,951**

As at December 31, 2017 and 2016, the Company's financial assets held for trading are detailed as follows:

	December 31, 2017			
	Face value	**Cost**	**Fair value**	**Carrying value**
Equity shares and other non-fixed income financial assets:				
Equity shares		1,205,770	2,714,265	2,714,265
Investment funds		45,473,153	59,603,353	59,603,353
Total financial assets held for trading purpose – other		**46,678,923**	**62,317,618**	**62,317,618**
Total financial assets held for trading purpose		**46,678,923**	**62,317,618**	**62,317,618**

	December 31, 2016			
	Face value	**Cost**	**Fair value**	**Carrying value**
Equity shares and other non-fixed income financial assets:				
Equity shares		1,200,249	1,981,071	1,981,071
Investment funds		31,445,153	34,610,815	34,610,815
Total financial assets held for trading purpose – other		**32,645,402**	**36,591,886**	**36,591,886**
Total financial assets held for trading purpose		**32,645,402**	**36,591,886**	**36,591,886**

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

The Company's financial assets held for trading issued by the Company's related parties, are detailed as follows:

	December 31, 2017			
	Face value	**Cost**	**Fair value**	**Carrying value**
Investment funds	16,240,978	45,473,153	59,603,353	59,603,353
Total	**16,240,978**	**45,473,153**	**59,603,353**	**59,603,353**

	December 31, 2016			
	Face value	**Cost**	**Fair value**	**Carrying value**
Investment funds	6,240,978	31,445,153	34,610,815	34,610,815
Total	**6,240,978**	**31,445,153**	**34,610,815**	**34,610,815**

As at December 31, 2017 and 2016, the Company's loans and receivables are detailed as follows:

	December 31, 2017		
	Cost	**Fair value**	**Carrying value**
Reverse repo transaction	37,800,000	37,836,112	37,836,112
Receivables from reverse repo	**37,800,000**	**37,836,112**	**37,836,112**

	December 31, 2016		
	Cost	**Fair value**	**Carrying value**
Reverse repo transaction	19,000,000	19,007,705	19,007,705
Receivables from reverse repo	**19,000,000**	**19,007,705**	**19,007,705**

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

As at December 31, 2017 and 2016, the Company's available for sale financial assets in its own portfolio are detailed as follows:

	December 31, 2017			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Government bonds	439,230,703	441,531,645	429,630,520	429,630,520
Eurobonds issued by the Turkish Government	200,000	788,327	784,367	784,367
Total available for sale financial assets – debt instruments	**439,430,703**	**442,319,972**	**430,414,887**	**430,414,887**
Equity shares and other non-fixed income financial assets:				
Equity shares(1)		131,743,653	160,905,283	160,905,283
Total available for sale financial assets – other		**131,743,653**	**160,905,283**	**160,905,283**
Total available for sale financial assets		**574,063,625**	**591,320,170**	**591,320,170**
Impairment loss on available for sale equity shares		**(18,911,547)**	**(18,911,547)**	**(18,911,547)**
Net available for sale financial assets		**555,152,078**	**572,408,623**	**572,408,623**

(1) Financial assets of which the fair values are measured reliably are presented at their fair values, if not, presented at their costs.

	December 31, 2016			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Private sector bonds and asset-backed securities	21,300,000	20,130,153	20,449,839	20,449,839
Government bonds	568,030,649	563,491,371	569,206,602	569,206,602
Total available for sale financial assets – debt instruments		**583,621,524**	**589,656,441**	**589,656,441**
Equity shares and other non-fixed income financial assets:				
Equity shares(1)		122,620,662	157,413,295	157,413,295
Total available for sale financial assets – other		**122,620,662**	**157,413,295**	**157,413,295**
Total available for sale financial assets		**706,242,186**	**747,069,736**	**747,069,736**
Impairment loss on available for sale equity shares		**(10,508,805)**	**(10,508,805)**	**(10,508,805)**
Net available for sale financial assets		**695,733,381**	**736,560,931**	**736,560,931**

(1) Financial assets of which the fair values are measured reliably are presented at their fair values, if not, presented at their costs.

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

The Company has equity shares issued by the Company's related parties and classified as available for sale financial assets in its own portfolio with a cost amount of TL 130,778,617 and with a carrying value TL 158,464,785 (December 31, 2016: Equity shares with a cost amount of TL 121,616,422 and a carrying amount of TL 155,551,601; bonds issued by the Company's related parties with a cost amount TL 20,130,153 and a carrying amount of TL 20,449,839). Financial investments with risks on saving life policyholders ("FIRSLP") as at December 31, 2017 and 2016 are detailed as follows:

	December 31, 2017			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Government bonds – TL	845,439,072	841,119,017	802,345,558	802,345,558
Eurobonds issued by the Turkish Government				
Investment funds	135,388,000	525,389,773	589,891,147	589,891,147
Total available for sale financial assets – debt instruments	**980,827,072**	**1,366,508,790**	**1,392,236,705**	**1,392,236,705**
Debt instruments for trading purposes				
Investment funds	15,132,164	24,276,543	32,405,651	32,405,651
The sum of debt instruments classified as financial assets for trading purposes	**15,132,164**	**24,276,543**	**32,405,651**	**32,405,651**
Time deposits	119,456,055	119,456,055	126,548,280	126,548,280
Total time deposits	**119,456,055**	**119,456,055**	**126,548,280**	**126,548,280**
Financial investments with risks on saving life policyholders		**1,510,241,388**	**1,551,190,636**	**1,551,190,636**

	December 31, 2016			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Government bonds – TL	1,043,040,916	1,041,202,692	1,025,394,406	1,025,394,406
Eurobonds issued by the Turkish Government				
Investment funds	132,488,000	468,862,677	510,416,724	510,416,724
Total available for sale financial assets – debt instruments	**1,175,528,916**	**1,510,065,369**	**1,535,811,130**	**1,535,811,130**
Debt instruments for trading purposes				
Investment funds	32,132,164	45,867,614	45,111,299	45,111,299
The sum of debt instruments classified as financial assets for trading purposes	**32,132,164**	**45,867,614**	**45,111,299**	**45,111,299**
Financial investments with risks on saving life policyholders		**1,555,932,983**	**1,580,922,429**	**1,580,922,429**

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

The financial assets issued by the Company's related parties and classified as FIRSLP are detailed as follows:

	December 31, 2017			
	Face value	**Cost**	**Fair value**	**Carrying value**
Investment funds	15,132,164	24,276,543	32,405,651	32,405,651
Total investment funds	**15,132,164**	**24,276,543**	**32,405,651**	**32,405,651**

	December 31, 2016			
	Face value	**Cost**	**Fair value**	**Carrying 3 value**
Investment funds	32,132,164	45,867,614	45,111,299	45,111,299
Total investment funds	**32,132,164**	**45,867,614**	**45,111,299**	**45,111,299**

The Company has not any securities, other than issued shares in the current period, or any matured debt securities.

Value increases in financial assets for the last three years:

	December 31, 2017	**December 31, 2016**	**December 31, 2015**
Current financial assets:			
Available for sale financial assets, Company's own portfolio	17,256,545	40,827,550	48,080,469
Financial assets held for trading purpose	15,638,695	3,946,484	3,231,860
Loans and receivables	36,112	7,705	2,879
Financial investments with risks on saving life policyholders classified as available for sale	40,949,248	24,989,446	42,116,148
Total	**73,880,600**	**69,771,185**	**93,431,356**

Value increases reflect the difference between the carrying value and cost of the financial assets.

The Company has TL 18,911,547 of impairment loss arising from its available for sale investments in equity participations not having a quoted market price in an active market (December 31, 2016: TL 10,508,805).

The Company does not apply hedge accounting. Exchange rate differences arising from the payments of monetary items or different conversion rates used in the current period or at initial recognition are recognised in profit or loss.

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

Financial assets blocked in favour of the Turkish Treasury as a guarantee for the insurance activities are as follows:

	December 31, 2017			
	Face value	Cost	Fair value	Carrying value
Financial investments with risks on saving life policyholders – debt securities	1,115,415,291	1,510,241,388	1,551,190,636	1,551,190,636
Available for sale financial assets	240,910,000	242,387,538	232,041,644	232,041,644
Time deposits	156,947,363	156,947,363	160,089,678	160,089,678
Total	**1,513,272,654**	**1,909,576,289**	**1,943,321,958**	**1,943,321,958**

	December 31, 2016			
	Face value	Cost	Fair value	Carrying value
Financial investments with risks on saving life policyholders – debt securities	1,207,661,080	1,555,932,983	1,580,922,429	1,580,922,429
Available for sale financial assets	184,500,000	182,075,268	178,210,017	178,210,017
Time deposits	46,050,778	46,050,778	46,457,030	46,457,030
Total	**1,438,211,858**	**1,784,059,029**	**1,805,589,476**	**1,805,589,476**

(Currency: Turkish Lira (TL))

12 Loans and receivables

	December 31, 2017	December 31, 2016
Receivables from insurance operations	37,898,538	28,651,470
Provisions for receivables from insurance operations	(2,574)	(2,574)
Loans to the policyholders	30,170,168	31,647,263
Doubtful receivables from main operations and insurance operations	117,996	117,996
Provisions for doubtful receivables from main operations and insurance operations	(117,996)	(117,996)
Receivables from pension activities	14,741,214,367	11,389,267,385
Net fund value of participants	*14,712,834,341*	*11,359,420,955*
Other	*28,380,026*	*29,846,430*
Total receivables from main operations	**14,809,280,499**	**11,449,563,544**
Receivables from personnel	1,567	5,221
Other receivables	19,352,221	10,663,493
Total	**14,828,634,287**	**11,460,232,258**

The details of guarantees for the Company's receivables are presented below:

	December 31, 2017	December 31, 2016
Guarantees and commitments	4,475,958	4,127,529
Letters of guarantees	2,678,434	2,264,745
Real estate pledges	855,400	1,015,400
Total	**8,009,792**	**7,407,674**

	December 31, 2017	December 31, 2016
Provisions for doubtful receivables from main operations and insurance operations at the beginning of the period	117,996	117,996
Collections	-	-
Charge for the period	-	-
Provisions for doubtful receivables from main operations and insurance operations at the end of the period	**117,996**	**117,996**

Provision for both overdue receivables and receivables not due yet

a) Receivables under legal or administrative follow up (due): TL 117,996 (December 31, 2016: TL 117,996).

b) Provision for premium receivables (due): TL 2,574 (December 31, 2016: TL 2,574).

The Company provides provision for its doubtful receivables in the legal follow-up by considering the value and nature of the receivable.

The Company reflects its receivables from and payables to reinsurance and insurance companies by netting off on the entity basis.

The Company's receivables from and payables to shareholders, associates and subsidiaries are detailed in note 45 – *Related party transactions*.

(Currency: Turkish Lira (TL))

13 Derivative financial instruments

At the reporting period, the Company has not any derivative financial instruments.

14 Cash and cash equivalents

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

	December 31, 2017		December 31, 2016	
	At the end of the period	**At the beginning of the period**	**At the end of the period**	**At the beginning of the period**
Cash on hand	5,654	8,370	8,370	3,385
Bank deposits	385,859,525	146,204,151	146,204,151	145,598,543
Bank guaranteed credit card receivables with maturities less than three months[1]	195,892,932	180,677,008	180,677,008	157,397,530
Cheques given and payment orders	(24)	(2,745)	(2,745)	-
Cash and cash equivalents in the balance sheet	**581,758,087**	**326,886,784**	**326,886,784**	**302,999,458**
Blocked amount[2] *(Note 17)*	(160,089,678)	(46,457,030)	(46,457,030)	(36,329,266)
Interest accruals on bank deposits	-	(1,095,326)	(1,095,326)	(594,601)
Term deposits with original maturities of longer than 3 months	(207,112,669)	(10,175,158)	(10,175,158)	-
Cash and cash equivalents presented in the statement of cash flow	**214,555,740**	**269,159,270**	**269,159,270**	**266,075,591**

(1) Bank guaranteed credit card receivables with maturities less than three months include credit card receivables from banks in relation to premium payments of policyholders.

(2) As at December 31, 2017, this amount regarding insurance operations is blocked in favour for Undersecretariat of Treasury.

As at December 31, 2017 and 2016, bank deposits are further analysed as follows:

	December 31, 2017	December 31, 2016
Foreign currency denominated bank deposits		
- time deposits	-	-
- demand deposits	4,432,589	8,328,859
Bank deposits in TL		
- time deposits	367,202,347	122,700,098
- demand deposits	14,224,589	15,175,194
Cash at banks	**385,859,525**	**146,204,151**

As at December 31, 2017, TL time deposits have a maximum maturity of 85 days and their simple interest rates vary between 13.70% and 15.00%. The Company has not any foreign currency denominated bank deposits.

As at December 31, 2016, TL time deposits have a maximum maturity of 40 days and their simple interest rates vary between 10.50% and 11.10%. The Company has not any foreign currency denominated bank deposits.

(Currency: Turkish Lira (TL))

15 Equity

Paid in capital

As at December 31, 2017, the authorised nominal share capital of the Company is TL 430,000,000 and the share capital of the Company consists of 43,000,000,000 issued shares with TL 0.01 nominal value each.

The Company's share capital is divided into group A and group B shares. Group A shares are represented by 100,000,000 of equity shares having a nominal amount of TL 0.01 each. Group B shares are represented by 42,900,000,000 shares having a nominal amount of TL 0.01 each and all shares are owned by Türkiye İş Bankası AŞ. Group A shareholders have no privileges except for the election of Board members. In accordance with the Articles of Association, new group A shares cannot be issued in capital increases.

The Company has accepted the registered capital system set out in accordance with the Law No: 2499 and applied the system as of June 15, 2000 upon the permission no: 67/1039 granted by the Capital Markets Board. As at December 31, 2017, the Company's registered capital is TL 900,000,000.

As at December 31, 2017, there are not any treasury shares held by the Company.

Profit on assets sale that will be transferred to capital

In accordance with tax legislation, 75% of profits from sales of participation shares and real states included in the assets of companies is exempt from corporate tax provided that it is classified under a special fund for full five years. The exempt gains cannot be transferred to another account other than a capital increase or cannot be withdrawn from the entity for five years. There is not any sale of shares that is subject to the exception, in the current period (December 31, 2016: None).

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

The movement of legal reserves is as follows:

	December 31, 2017	December 31, 2016
Legal reserves at the beginning of the period	**106,543,950**	**90,517,091**
Transfer from profit	22,425,883	16,026,859
Legal reserves at the end of the period	**128,969,833**	**106,543,950**

Extraordinary reserves

The movement of extraordinary reserves is presented below:

	December 31, 2017	December 31, 2016
Extraordinary reserves at the beginning of the period	**8,489,678**	**85,019**
Transfer from profit	13,881,858	18,404,659
Capital increase	-	(10,000,000)
Extraordinary reserves at the end of the period	**22,371,536**	**8,489,678**

(Currency: Turkish Lira (TL))

15 Equity *(continued)*

Statutory reserves

The movement of statutory reserves is presented below:

	December 31, 2017	December 31, 2016
Statutory reserves at the beginning of the period	**1,321,820**	**308,179**
Transfer from profit	14,432,015	11,013,641
Capital increase	-	(10,000,000)
Statutory reserves at the end of the period	**15,753,835**	**1,321,820**

Other profit reserves

In accordance with the revision of TAS 19, the amount of actuarial gains and losses have been presented under the other profit reserves since December 31, 2013, which were previously shown under the income statement. As at December 31, 2017, actuarial loss amounting to TL (4,640,156) is presented under the other profit reserves (December 31, 2016: TL (2.994.580)). The difference arising from the owner occupied land and buildings at fair value amounting to TL 2,981,724 is also presented under the other profit reserves (December 31, 2016: TL 2,981,724).

Valuation of financial assets

Movement of fair value reserves of available for sale financial assets is presented below:

	January 1– December 31, 2017	January 1– December 31, 2016
Fair value reserves at the beginning of the period	**27,264,010**	**33,818,533**
Changes during the period:		
The effect of changes in foreign exchange rates on unrealised gains and losses, recognised due to change in the fair values of available for sale financial assets with risks on saving life policyholders	136,052	482,132
Change in unrealised gains and losses due to changes in the fair values of available for sale financial assets with risks on saving life policyholders	6,760,040	(25,441,249)
Change in unrealised gains and losses due to changes in the fair values of available for sale financial assets with risks on saving life policyholders, policyholders' portion	(6,422,038)	24,169,187
Change in unrealised gains and losses from available for sale financial assets, company's own portfolio	(9,616,149)	5,076,730
Deferred and corporate tax effect	1,602,613	(1,306,365)
Disposals during the period:		
Unrealised gains and losses transferred from equity to income statement due to disposal of available for sale financial assets with risks on saving life policyholders	(2,335,838)	(477,291)
Unrealised gains and losses transferred from equity to income statement due to disposal of available for sale financial assets with risks on saving life policyholders, policyholders' portion	2,219,046	453,426
Unrealised gains and losses transferred from equity to income statement due to disposal of available for sale financial assets, company's own portfolio	(840,129)	846,065
Deferred and corporate tax effect	191,384	(164,440)
Amounts transferred to income statement due to bonus shares	(9,122,991)	(10,194,100)
Fair value changes in investments in associates	(60,768)	1,382
Fair value reserves at the end of the period	**9,775,232**	**27,264,010**

(Currency: Turkish Lira (TL))

16 Other reserves and equity component of DPF

Income and expense items that are directly accrued in equity as of the reporting period are as follows:

	December 31, 2017	December 31, 2016
Temporary differences arising from revaluation of financial assets	(10,056,796)	(2,270,423)
Permanent differences arising from revaluation of financial assets	16,877,735	28,306,344
The differences arising from revaluation of investment properties	774,004	774,004
Deferred tax effect	2,180,289	454,085
Total	**9,775,232**	**27,264,010**

17 Insurance contract liabilities and reinsurance assets

17.1 Total amount of guarantee that should be placed by the Company for life and non-life branches and guarantees placed for the life and non-life branches in respect of related assets:

	December 31, 2017		December 31, 2016	
	Should be placed(2)	Placed(1)	Should be placed(2)	Placed(1)
Life:				
Financial assets(1)	1,738,455,463	1,798,808,627	1,705,601,787	1,774,174,825
Total	**1,738,455,463**	**1,798,808,627**	**1,705,601,787**	**1,774,174,825**
Non-life:				
Financial assets(1)	169,341	923,910	168,637	1,066,835
Total	**169,341**	**923,910**	**168,637**	**1,066,835**
Total	**1,738,624,804**	**1,799,732,537**	**1,705,770,424**	**1,775,241,660**

(1) As at December 31, 2017 and 2016, government bonds and treasury bills are measured at daily official prices announced by the Central Bank of Turkey; if these prices are not available, they are measured with stock exchange values; investment fund participation certificates are measured using the daily prices in accordance with the 6th Article of "Circular Related to the Financial Structure of Insurance, Reinsurance, and Individual Pension Companies".

(2) According to 7th article of "Circular Related to the Financial Structure of Insurance, Reinsurance, and Individual Pension Companies" which regulates necessary guarantee amount, minimum guarantee fund for capital adequacy calculation period will be established as a guarantee in two months following the calculation period. According to "Regulations Regarding to Capital Adequacy Measurement and Assessment of Insurance, Reinsurance, and Individual Pension Companies", companies must prepare their capital adequacy tables twice in a financial year at June and December periods and must sent capital adequacy tables to the Turkish Treasury Department within two months. As at December 31, 2017 (December 31, 2016), minimum guarantee amount of June 30, 2017 (June 30, 2016) is shown as necessary guarantee amount; since, minimum guarantee amount as at June 30, 2017 (June 30, 2016) is based on June 30, 2017 (June 30, 2016) calculations.

As at December 31, 2017, TL 938,959,054 of government bonds (December 31, 2016: TL 1,201,344,894) and TL 540,928,750 of Eurobonds (December 31, 2016: TL 482,328,437) and TL 32,833,499 (December 31, 2016: TL 45,111,300) of investment funds and TL 287,011,234 of time deposits (December 31, 2016: TL 46,457,029) are placed as guarantee for the life and non-life branches.

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets *(continued)*

17.2 Number of life insurance policies, additions, disposals in the current period, and current life policy holders and the related mathematical reserves

	December 31, 2017[(1)]		**December 31, 2016[(1)]**	
	Number of policies	**Mathematical reserves**	**Number of policies**	**Mathematical reserves**
Additions during the period	1,802,142	234,861,781	1,619,204	187,530,663
Disposals during the period	(1,689,083)	(198,186,369)	(1,668,000)	(190,162,065)
Outstanding	**2,534,292**	**1,731,815,942**	**2,421,233**	**1,695,140,530**

(1) The above table includes 62 of reactivated life insurance policies (December 31, 2016: 318 policies) and their corresponding mathematical reserves.

As explained in Note 2 - *Financial assets*, available for sale financial assets with risks on saving life policyholders are measured at fair value; 95% of the fair value and amortised cost difference amounting to TL (3,652,790) (December 31, 2016: TL (10,421,955)) is recognised under the life mathematical provisions.

TL 2,430,223 (December 31, 2016: TL 2,284,601) of reinsurer's share of life mathematical provisions is not offset against the mathematical provisions in the above table.

17.3 Guarantees given to non-life insurances based on branches:

	December 31, 2017	**December 31, 2016**
Guarantees given to death by accident	5,278,724,782	4,685,421,571
Guarantees given to disability by accident	5,244,776,274	4,659,394,543
Total	**10,523,501,056**	**9,344,816,114**

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets *(continued)*

17.4 Pension investment funds established by the Company and their unit prices:

As at December 31, 2017 and 2016, individual pension investment funds founded by the Company and their unit prices are as follows:

	December 31, 2017 Unit price	December 31, 2016 Unit price
AH1 Bond Fund	0.055685	0.051744
AH2 Liquid Fund	0.044186	0.039505
AH3 First Public Foreign Borrowing Fund	0.057127	0.049183
AH4 Second Public Foreign Borrowing Fund	0.047460	0.037951
AH5 Equity Fund	0.120616	0.079487
AH6 Developed Countries Flexible Fund	0.053084	0.043111
AH8 Conservative Fund	0.048444	0.044387
AH9 Balanced Fund	0.060571	0.052860
AH0 Aggressive Fund	0.090657	0.073985
AGE Alternative Gain Fund	0.016101	0.014887
ABE BRIC Plus Fund	0.024687	0.018870
AHC Mixed Fund(TL)	0.017081	0.015203
AHL Dynamic Flexible Fund	0.017188	0.013946
AET Contribution Fund	0.013244	0.012004
AER Alternative Contribution Fund	0.014128	0.012871
AEA Gold Fund	0.016640	0.014067
AG1 Group Bound Fund	0.053045	0.048873
AG2 Group Eurobond Fund	0.041509	0.034896
AG3 Group Equity Fund	0.083336	0.054012
AG4 Group Conservative Fund	0.049120	0.044401
HS1 Bond-Bill Fund	0.035271	0.032979
AHB White Equity Fund	0.051342	0.032761
ATK Standard Fund	0.027288	0.025084
ATE İş Bankası Subsidiaries Index Fund(1)	0.040837	0.029898
AO1 Initial Fund (1)	0.011069	-
AO2 Initial Alternative Fund (1)	0.010848	-

(1) According to the Law on Amendment on the Individual Pension Savings and Investment System Law No. 6740 effective from January 1, 2017, Initial Fund and Initial Alternative Fund were established to be presented to the participants automatically included to the system. These funds were presented on January 2, 2017 with the allowance no. 14122 of The Capital Markets Board as of December 28, 2016.

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets *(continued)*

17.5 Number and amount of participation certificates in portfolio and circulation:

Number of participation documents in the portfolio and in circulation is such as follows as of December 31, 2017 and 2016:

	December 31, 2017		**December 31, 2016**	
	Participation certificates in circulation		**Participation certificates in circulation**	
	Number	**Amount**	**Number**	**Amount**
AH1 Bond Fund	47,451,547,719.69	2,642,339,434.77	48,265,004,040.48	2,497,424,369.07
AH2 Liquid Fund	19,124,746,160.23	845,046,033.84	17,185,878,189.71	678,928,117.88
AH3 First Public Foreign Borrowing Fund	15,337,625,085.33	876,192,508.25	11,850,369,059.20	582,836,701.44
AH4 Second Public Foreign Borrowing Fund	7,743,121,916.75	367,488,566.17	6,221,485,783.37	236,111,606.96
AH5 Equity Fund	5,230,720,379.55	630,908,569.30	5,517,341,587.45	438,556,930.76
AH6 Developed Countries Flexible Fund	6,500,255,537.71	345,059,564.96	4,741,101,119.30	204,393,610.35
AH8 Conservative Fund	19,369,096,280.96	938,316,500.23	15,780,440,594.78	700,446,416.68
AH9 Balanced Fund	31,171,867,476.41	1,888,111,184.91	31,832,119,092.91	1,682,645,815.25
AH0 Aggressive Fund	10,499,122,090.66	951,818,911.37	10,769,585,765.17	796,787,802.84
AGE Alternative Gain Fund	16,944,754,025.00	272,827,484.56	15,594,506,875.81	232,155,423.86
ABE BRIC Plus Fund	7,674,662,561.29	189,464,394.65	5,495,690,872.57	103,703,686.77
AHC Mixed Fund(TL)	21,637,766,751.78	369,594,693.89	14,294,908,810.78	217,325,498.65
AHL Dynamic Flexible Fund	3,241,592,862.35	55,716,498.12	3,349,590,484.88	46,713,388.90
AET Contribution Fund	149,048,608,632.54	1,973,999,772.73	120,057,212,553.48	1,441,166,779.49
AER Alternative Contribution Fund	3,797,490,515.70	53,650,946.01	3,251,818,506.11	41,854,155.99
AEA Gold Fund	40,168,178,928.95	668,398,497.38	22,011,520,894.84	309,636,064.43
AG1 Group Bound Fund	5,108,259,025.94	270,967,600.03	3,911,689,686.20	191,176,010.03
AG2 Group Eurobond Fund	1,045,012,320.05	43,377,416.39	1,012,809,217.65	35,342,990.46
AG3 Group Equity Fund	853,939,120.80	71,163,870.57	1,019,517,613.56	55,066,185.34
AG4 Group Conservative Fund	3,260,188,942.85	160,140,480.87	3,254,745,982.98	144,513,976.39
HS1 Bond-Bill Fund	10,043,953,912.84	354,260,298.46	11,516,400,715.21	379,799,379.19
AHB White Equity Fund	1,911,788,096.37	98,155,024.44	2,340,737,996.83	76,684,917.51
ATK Standard Fund	12,807,552,686.58	349,492,497.71	8,975,997,481.22	225,153,920.82
ATE İş Bankası Subsidiaries Index Fund(1)	2,759,094,862.96	112,673,156.92	1,371,235,726.48	40,997,205.75
AO1 Initial Fund (1)	9,350,961,699.16	103,505,795.05	.	.
AO2 Initial Alternative Fund (1)	7,389,808,175.94	80,164,639.09	.	.
Total		**14,712,834,340.67**		**11,359,420,954.81**

(1) According to the Law on Amendment on the Individual Pension Savings and Investment System Law No. 6740 effective from January 1, 2017, Initial Fund and Initial Alternative Fund were established to be presented to the participants automatically included to the system. These funds were presented on 2 January 2017 with the allowance no. 14122 of The Capital Markets Board as of December 28, 2016.

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets *(continued)*

17.6 Portfolio amounts in terms of number of new participants left or cancelled participants and existing participants for individuals and groups:

	December 31, 2017			
	Additions during the period	**Left/cancellations during the period**	**Outstanding**	**Total amount**
Individuals	131,532	101,992	969,157	9,226,238,083
Group	392,453	45,112	698,043	3,458,945,539
Total	**523,985**	**147,104**	**1,667,200**	**12,685,183,622**

	December 31, 2016			
	Additions during the period	**Left/cancellations during the period**	**Outstanding**	**Total amount**
Individuals	173,527	96,709	939,617	7,356,697,694
Group	69,649	41,532	350,702	2,519,702,326
Total	**243,176**	**138,241**	**1,290,319**	**9,876,400,020**

Additions: The sum of the new contracts added in the period and their registered cumulative values as of the period end in addition with the number of the contracts that begin and finish in the same period.

Left/cancellations: The number of finalised contracts during the period and their values at their expiration dates.

Outstanding: The number of outstanding contracts and their values as of the period end.

Since retirement plan transfers between individual and group retirement plans occurs during the period, periodical changes should be followed by the total number and portfolio amount of policies. Also, when the contracts effective at the prior reporting period become a liability because of collection reversals in the current period or when the contracts effective at the prior reporting period become an asset, total numbers and portfolio values of these contracts are net off at the period end. Number and portfolio amount of individual and group policies presented in notes reflect the outstanding position of the Company as of the period-end.

Outstanding contracts have state contribution amounting to TL 2,027,650,719 in the state contribution funds as of the period end.

17.7 Valuation methods used in profit share calculation for saving life contracts with profit sharing:

Financial investments with risks on saving life policyholders are classified as “available-for-sale financial assets”. These assets are measured in accordance with the principles specified in Note 2.8 *Financial Assets* and valuation differences are taken into account in the profit share calculation.

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets *(continued)*

17.8 Distribution of new participants in terms of their numbers and gross and net contributions for individuals and groups:

	January 1 – December 31, 2017			January 1 – December 31, 2016		
	Number of contracts	**Gross contributions**	**Net contributions**	**Number of contracts**	**Gross contributions**	**Net contributions**
Individuals	137,368	422,179,516	422,173,900	173,527	344,449,610	344,093,028
Group	386,617	422,752,603	422,752,165	69,649	75,954,976	75,824,155
Total	**523,985**	**844,932,119**	**844,926,065**	**243,176**	**420,404,586**	**419,917,183**

Contracts become effective in the current period and the total contracts become effective and ceased in the same period and contributions collected regarding these contracts and the investment oriented contributions have been specified. The collections made with credit cards with undue blockage terms are also added into gross and net contributions. Transfer amounts are not included in the current period numbers and balances. In addition, the Company has collected TL 56,457,914 as state contribution.

17.9 Distribution of new participants in terms of their numbers and gross and net contributions for individuals and groups which were transferred from other insurance companies during the period:

	January 1 – December 31, 2017			January 1 – December 31, 2016		
	Number of contracts	**Gross contributions**	**Net contributions**	**Number of contracts**	**Gross contributions**	**Net contributions**
Individuals	5,010	140,776,200	140,776,200	9,297	98,090,767	98,090,767
Group	6,113	96,066,600	96,066,600	1,484	18,197,409	18,197,409
Total	**11,123**	**236,842,800**	**236,842,800**	**10,781**	**116,288,176**	**116,288,176**

Distribution of new participants in terms of their numbers and gross and net contributions for individuals and groups which were transferred from foundations and trusts during the period:

	January 1 – December 31, 2017			January 1 – December 31, 2016		
	Number of contracts	**Gross contributions**	**Net contributions**	**Number of contracts**	**Gross contributions**	**Net contributions**
Individuals	-	-	-	-	-	-
Group	330	34,595,663	34,595,663	228	5,262,852	5,262,852
Total	**330**	**34,595,663**	**34,595,663**	**228**	**5,262,852**	**5,262,852**

In addition, the Company has transferred TL 28,141,168 as state contribution from other pension companies in the related period.

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets *(continued)*

17.10 Distribution of individual and group participants and their gross and net contributions which were transferred from life insurance portfolio to private pension portfolio during the period:

The legal permission of the transfer from life portfolio to private pension portfolio expired on October 7, 2006 and therefore, there is no transfer in the current and prior period.

17.11 Distribution of individual and group participants which were transferred to other insurance companies in terms of their numbers and gross and net contributions:

	January 1 – December 31, 2017			January 1 – December 31, 2016		
	Number of contracts	**Gross contributions**	**Net contributions**	**Number of contracts**	**Gross contributions**	**Net contributions**
Individuals	101,992	1,391,852,090	1,336,876,441	96,709	913,360,868	879,695,521
Group	45,112	430,594,420	412,754,449	41,532	519,440,128	502,797,318
Total	**147,104**	**1,822,446,510**	**1,749,630,890**	**138,241**	**1,432,800,996**	**1,382,492,839**

Number of contracts indicates the number of disposals in the related period.

Gross contributions indicate the fund sales amount as a result of disposal.

Net contributions indicate the remaining amount paid to participant less any deductions (initiation fee and withholding) against the gross amount as a result of disposal.

In addition, Company's fund outflow is TL 258,444,899 as state contribution.

17.12 Distribution of new life insurance participants in terms of their numbers and first premium amounts for individuals and groups during the period:

	January 1 – December 31, 2017		January 1 – December 31, 2016	
	Number of contracts	**First premium amounts (TL)**	**Number of contracts**	**First premium amounts (TL)**
Individuals	127,244	65,666,150	59,937	44,673,453
Group	1,674,801	407,468,715	1,558,949	360,616,365
Total[(1)]	**1,802,045**	**473,134,865**	**1,618,886**	**405,289,818**

(1) 97 (January 1 – December 31, 2016: 318) of reactivated contracts are not included in the current period additions.

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets *(continued)*

17.13 Distribution of left or cancelled life insurance participants in terms of their numbers and mathematical reserves for individuals and groups during the period:

	January 1 – December 31, 2017		January 1 – December 31, 2016	
	Number of contracts	**Mathematical reserves (TL)**	**Number of contracts**	**Mathematical reserves (TL)**
Individuals	72,016	116,120,678	36,818	126,805,249
Group	1,617,067	82,065,691	1,631,182	63,356,815
Total	**1,689,083**	**198,186,369**	**1,668,000**	**190,162,064**

17.14 Profit share distribution rate of life insurances as of December 31, 2017 and 2016

	December 31, 2017 %	December, 31 2016 %
TL	10.72	9.55
USD	6.50	6.85
EURO	6.04	6.18
GBP	6.57	7.78

(Currency: Turkish Lira (TL))

17.15 Information on insurance contract balances in the financial statements

	December 31, 2017	December 31, 2016
Reserve for unearned premiums, gross	48,198,007	31,257,501
Reserve for unearned premiums, ceded *(Note 10)*	(2,431,427)	(2,072,697)
Reserves for unearned premiums, net	**45,766,580**	**29,184,804**
Provision for outstanding claims, gross	90,338,570	94,278,683
Provision for outstanding claims, ceded *(Note 10)*	(3,331,307)	(3,892,711)
Provision for outstanding claims, net	**87,007,263**	**90,385,972**
Life mathematical provisions, gross	1,728,163,152	1,684,718,575
Life mathematical provisions, ceded *(Note 10)*	(2,430,223)	(2,284,601)
Life mathematical provisions, net	**1,725,732,929**	**1,682,433,974**
Provision for bonus and discount, gross	1,087,409	1,293,022
Provision for bonus and discount, ceded *(Note 10)*	(793,035)	(833,859)
Provision for bonus and discount, net	**294,374**	**459,163**
Reserve for unexpired risks, gross	-	11,455
Reserve for unexpired risks, ceded *(Note 10)*	-	(1,976)
Reserve for unexpired risks, net	**-**	**9,479**
Equalisation provision, gross	22,693,261	16,748,851
Equalisation provision, ceded *(Note 10)*	(649,983)	(533,500)
Equalisation provision, net	**22,043,278**	**16,215,351**
Total insurance technical provisions, net	**1,880,844,424**	**1,818,688,743**

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets *(continued)*

17.16 Factors resulting from individual insurance policies which provide portfolio

Factors resulting from individual insurance policies which provide portfolio increase through the change in mathematical provisions for the periods January 1– December 31, 2017 and 2016 are as follows:

Mathematical provisions	December 31, 2017	December 31, 2016
New policies issued	24,821,197	16,784,482
Activated from reductions	1,138,034	2,459,610
Activated from cancellations	58,052	401,574
Contracts with increased capital	90,055,453	61,815,068
Total increase in the portfolio	**116,072,736**	**81,460,734**

Factors resulting from individual insurance policies which provide portfolio decrease through the change in mathematical provisions for the periods January 1– December 31, 2017 and 2016 are as follows:

Mathematical provisions	December 31, 2017	December 31, 2016
Terminations and cancellations (-)	-	-
Transformed to contracts without charge (-)	2,622,070	3,926,432
Insurances had capital decrease (-)	-	-
Withdrawals (-)	(63,110,306)	(74,825,525)
Ceased with risk formed (-)	(3,276,361)	(5,911,401)
Expirations (-)	(49,734,012)	(46,068,323)
Total decrease in the portfolio	**(113,498,609)**	**(122,878,817)**

Factors resulting from group insurance policies which provide portfolio increase through the change in mathematical reserves for the period January 1– December 31, 2017 and 2016 are as follows:

Mathematical provisions	December 31, 2017	December 31, 2016
New contracts	106,907,308	95,989,357
Activated from reductions	-	51,480
Activated from cancellations	4,190	2,387
Insurances had capital increase	8,919,061	6,319,514
Total increase in the portfolio	**115,830,559**	**102,362,738**

Factors resulting from group insurance policies which provide portfolio decrease through the change in mathematical reserves for the periods January 1– December 31, 2017 and 2016 are as follows:

Mathematical provisions	December 31, 2017	December 31, 2016
Terminations and cancellations (-)	-	(1,938)
Transformed to contracts without charge (-)	190,795	145,022
Insurances had capital decrease (-)	(63,583,201)	(57,784,790)
Withdrawals (-)	(9,407,643)	(3,200,685)
Ceased with risk formed (-)	(384,522)	(486,952)
Expirations (-)	(8,690,325)	(1,882,450)
Total decrease in the portfolio	**(81,874,896)**	**(63,211,793)**

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets *(continued)*

17.17 Gain/ losses resulted from reinsurance contracts and recognised in the income statement

Gain or losses resulted from reinsurance contracts and recognised in the income statement are disclosed in note 10 - *Reinsurance assets, liabilities*.

17.18 Incurred claim development table

Incurred claim development table presented below provided cumulative payments of claims according to claim year and following years:

Claim year	2012	2013	2014	2015	2016	2017	Total
Claim year	15,281,343	19,456,357	23,517,657	22,040,556	31,699,169	34,976,665	146,971,747
1 year later	9,573,042	9,690,943	10,490,787	13,972,576	15,679,233	-	59,406,581
2 years later	386,514	1,121,274	1,248,087	853,746	-	-	3,609,621
3 years later	248,897	543,988	469,328	-	-	-	1,262,213
4 years later	30,887	202,840	-	-	-	-	233,727
5 years later	73,315	-	-	-	-	-	73,315
Cumulative payments up to date	25,593,998	31,015,402	35,725,859	36,866,878	47,378,402	34,976,665	211,557,204
Payments for the year ended as of December 31, 2017[(1)]	73,315	202,840	469,328	853,746	15,679,233	34,976,665	52,255,127

(1) The claims paid includes death-disability termination and personal accident branch gross payments.

17.19 Effects of changes in the assumptions used in the measurement of insurance assets and liabilities, showing the effects of each change that has significant effect on the financial statements separately

Effects of changes in the assumptions used in the measurement of insurance assets and liabilities are disclosed in note 4 - *Management of insurance risks.*

18 Investment contracts

None.

(Currency: Turkish Lira (TL))

19 Trade and other payables and deferred income

	December 31, 2017	December 31, 2016
Other financial liabilities	-	45,376,520
Financial liabilities	**-**	**45,376,520**
Payables from insurance operations	13,836,127	14,097,447
Cash deposited by insurance and reinsurance companies	1,648,069	1,084,011
Payables from pension activities	14,964,479,508	11,581,732,535
Net fund value of participants	*14,712,834,341*	*11,359,420,955*
Other	*251,645,167*	*222,311,580*
Other payables from main operations	2,946,585	1,140,890
Total payables from main operations	**14,982,910,289**	**11,598,054,883**
Due to shareholders	57,577	62,231
Due to personnel	41,670	55,571
Payables to other related parties	68	48
Total payables to related parties	**99,315**	**117,850**
Guarantees and deposits received	995,786	823,067
Other payables	21,989,862	19,321,793
Total other payables	**22,985,648**	**20,144,860**
Deferred commission income	155,766	190,391
Expense accruals	2,793,463	1,635,679
Other deferred income and expense accruals	5,846	3,755,064
Total deferred income and expense accruals	**2,955,075**	**5,581,134**
Total	**15,008,950,327**	**11,669,275,247**

20 Financial liabilities

The Company has no financial liabilities as at the reporting date (December 31, 2016: TL 45,376,520).

(Currency: Turkish Lira (TL))

21 Deferred tax

The Company recognises deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TFRS purposes and its statutory tax financial statements. These differences usually result in the recognition of revenue and expenses in different reporting periods for TFRS and tax purposes and they are given below.

Since the applicable tax rate has been changed to 22% for the 3 years beginning from January 1, 2018, 22% tax rate is used in the deferred tax calculation of December 31, 2017 for the temporary differences expected to be realized/closed within 3 years (for the years 2018, 2019 and 2020). However, since the corporate tax rate after 2020 is 20%, 20% tax rate is used for the temporary differences expected to be realized/closed after 2020.

Deferred tax (assets) / liabilities base:	**December 31, 2017**	**December 31, 2016**
Difference in valuation of financial assets	43,182,301	18,124,568
Provision for employee termination benefits and other wages	(24,724,571)	(22,249,099)
Provision for claims	(17,144,810)	(7,521,953)
Equalisation reserves / bonus and discount provision	(22,337,652)	(16,683,993)
The difference arising from revaluation of investment properties	61,890,458	31,358,240
Differences in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards	10,156,855	9,444,413
Provision for unused vacation pay liability	(6,437,225)	(5,162,354)
Total	**44,585,356**	**7,309,822**

Deferred tax (assets) / liabilities:	**December 31, 2017**	**December 31, 2016**
Difference in valuation of financial assets	8,622,528	3,624,914
Provision for employee termination benefits and other wages	(5,184,128)	(4,449,820)
Provision for claim	(3,485,408)	(1,504,391)
Equalisation reserves / bonus and discount provision	(4,467,530)	(3,336,799)
The difference arising from revaluation of investment properties	12,935,087	6,271,648
Differences in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards	2,053,548	1,888,883
Provision for unused vacation pay liability	(1,416,190)	(1,032,471)
Total	**9,057,907**	**1,461,964**

Movement of deferred tax assets / liabilities for the year ended as of December 31, 2017 and 2016 are given below:

Movement of deferred tax (assets) / liabilities:	**December 31, 2017**	**December 31, 2016**
Opening balance at January 1	1,461,964	2,042,793
Recognised in profit or loss	9,888,342	158,032
Recognised in equity	(2,292,399)	(738,861)
Closing balance	**9,057,907**	**1,461,964**

(Currency: Turkish Lira (TL))

22 Retirement benefit obligations

Under the Turkish Labor Law, the Company is required to pay employment termination benefits to each employee who has qualified for such payment. Also, employees are entitled to retirement pay provisions subsequent to the completion of their retirement period by gaining a right to receive retirement payments in accordance with the amended Article 60 of the applicable Social Insurance Law No: 506 and the related Decrees No: 2422 and 4447 issued on March 6, 1981 and August 25, 1999, respectively. Some transitional provisions related to pre-retirement service term was excluded from the law since the related law was amended as of May 23, 2002.The termination benefit to be paid is subject to upper limit of TL 4,732.48 as at December 31, 2017 (December 31, 2016: TL 4,297.21).

The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at December 31, 2017, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective reporting periods have been calculated assuming an annual inflation rate of 7.30% - 6.31% and a discount rate of 12.40% - 10.99%, resulting in a real discount rate of 4.75% - 4.34% (December 31, 2016: 6.97% - 5.20%, 12.27% - 9.90%, 5.25% - 2.81% respectively). The anticipated rate of forfeitures is considered and estimated rate of the Company’s retirement pay is also taken into account. As at December 31, 2017 the Company has actuarial gain or loss difference in the calculation of employee termination benefit amounting to TL 2,056,970 (December 31, 2016 TL 1,422,362).

Movement of provision for employee termination benefits during the period is presented below:

	December 31, 2017	**December 31, 2016**
Provision as at January 1	12,709,099	12,077,567
Interest cost	876,928	809,197
Service cost	1,246,262	1,247,769
Payments made during the year	(3,164,688)	(2,847,796)
Actuarial gain and losses	2,056,970	1,422,362
Provision at the of the period/year	**13,724,571**	**12,709,099**

(Currency: Turkish Lira (TL))

23 Other liabilities and provisions

As at December 31, 2017 and 2016; the details of the provisions for other risks are as follows:

	December 31, 2017	December 31, 2016
Provision for unused vacation pay liability	6,437,225	5,162,354
Dividend to personnel and salary provision	11,000,000	9,540,000
Provision for commissions to sales personnel	1,000,000	900,000
Provision for litigations	5,129	76,851
Provision for commissions and expenses	74,652	-
Provisions for costs	**18,517,006**	**15,679,205**
Provision for employee termination benefits	**13,724,571**	**12,709,099**
Total provisions for other risks	**32,241,577**	**28,388,304**

24 Net insurance premium revenue

	January 1 – December 31, 2017	January 1 – December 31, 2016
Non-life	643,045	624,669
Life	560,670,693	487,850,880
Total	**561,313,738**	**488,475,549**

25 Fee revenues

The details of fee revenues for the year ended as of December 31, 2017 and 2016 received from individual pension, life and non-life branches in accordance with TAS 18 are as follows:

	December 31, 2017	December 31, 2016
Fund management income	216,742,273	173,816,154
Administrative cost deductions	32,957,056	21,201,113
Entrance fee	42,607,643	37,075,268
Administrative cost deduction in the form of cessation	7,675,127	4,514,878
Other technical income	575,151	152,912
Total	**300,557,250**	**236,760,325**

(Currency: Turkish Lira (TL))

26 Investment income

	January 1 – December 31, 2017	January 1 – December 31, 2016
Financial assets held-for-trading:		
Valuation gain	20,717,034	4,040,140
Gain on sale	5,820,518	652,587
Interest income	-	231
Cash dividend income	176,640	148,211
Financial assets available- for-sale:		
Interest income	130,394,083	131,108,697
Valuation gain	81,043,502	122,631,438
Gain on sale	9,059,299	12,784,409
Cash dividend income	5,771,336	4,801,887
Income from associates:	4,784,915	3,289,135
Investment properties:		
Rent income	1,231,954	1,939,059
Valuation gain	3,858,000	25,760,280
Other income[1]:	54,152,964	32,022,830
Total[2]	**317,010,245**	**339,178,904**

(1) Other income includes interest income from time deposits, income from derivative transactions, foreign exchange gains and etc.

(2) TL 126,213,332 (December 31, 2016: TL 124,345,342) of investment income obtained from the Company's own portfolio and TL 190,796,913 (December 31, 2016: TL 214,833,562) of investment income obtained from policyholders' portfolio.

27 Net income accrual on financial assets

Net income accrual from the Company's own portfolio is as follows:

	January 1– December 31, 2017	January 1– December 31, 2016
Available-for-sale financial assets:		
Fair value differences recognized in equity	4,714,431	24,399,523
Fair value differences recognized in profit / loss	10,723,617	14,428,872
Total	**15,438,048**	**38,828,395**

28 Assets held at fair value through profit or loss

Net gain from assets held at fair value through profit or loss recognised in income statement as at December 31, 2017 is TL 26,714,192 (December 31, 2016: TL 4,841,169 net gain).

29 Insurance rights and claims

Details of insurance rights and claims are presented in statement of income.

30 Investment contract benefits

None.

(Currency: Turkish Lira (TL))

31 Other expenses

The allocation of the expenses with respect to their nature or function is presented in note 32 - *Operating expenses* below.

32 Operating expenses

For the year ended as of December 31, 2017 and 2016, the details of operating expenses are as follows:

	January 1– December 31, 2017	January 1– December 31, 2016
Production commission expenses	(141,881,048)	(131,241,496)
Employee benefit expenses	(113,255,019)	(101,443,432)
Administration expenses	(36,598,135)	(32,926,282)
Marketing and sales expenses	(28,519,840)	(27,758,833)
Rent expenses	(10,482,682)	(9,482,637)
Bank fees	(1,074,236)	(1,267,826)
Outsourced benefits and services	(23,006,713)	(15,758,044)
Reinsurance commission income	3,824,472	2,163,174
Other expenses	(1,499,445)	(1,209,848)
Total	**(352,492,646)**	**(318,925,224)**

33 Employee benefit expenses

	January 1 – December 31, 2017	January 1 – December 31, 2016
Wages and salaries	113,255,019	101,443,432
Employee termination benefits	(1,041,498)	(790,830)
Provision for unused vacation	1,274,871	839,965
Total	**113,488,392**	**101,492,567**

34 Financial costs

The Company has no finance expense in the current period (December 31, 2016: TL 45,376,520).

(Currency: Turkish Lira (TL))

35 Income tax expense

	December 31, 2017	December 31, 2016
Corporate tax liabilities:		
Corporate tax provision	55,107,000	39,530,000
Less: Corporation taxes paid in advances during the period	(43,775,828)	(33,604,825)
Total	**11,331,172**	**5,925,175**

Total tax expense recognised in profit or loss

	December 31, 2017	December 31, 2016
Current tax expense	55,107,000	39,530,000
Deferred tax expense / (income)	9,888,342	158,032
Total	**64,995,342**	**39,688,032**

Total tax expense recognised in equity

	December 31, 2017	December 31, 2016
Change in fair value of available for sale financial assets	2,180,289	454,085
Total deferred tax expense recognised in equity	**2,180,289**	**454,085**

Reconciliation of the Company's taxation for the year period ended as of December 31, 2017 and 2016 are as follows::

	December 31, 2017		December 31, 2016	
Profit before tax	**291,587,152**	**Tax rate (%)**	**230,944,902**	**Tax rate (%)**
Taxes on income per statutory tax rate	(58,317,430)	(20.00)	(46,188,980)	(20.00)
Disallowable expenses	(12,150,279)	(4.17)	(4,981,127)	(2.16)
Effect of allowances	5,472,367	1.88	11,482,075	4.97
Total tax expense recognised in profit or loss	**(64,995,342)**	**(22.29)**	**(39,688,032)**	**(17.19)**

(Currency: Turkish Lira (TL))

36 Net foreign exchange gains

	December 31, 2017	December 31, 2016
Foreign exchange gains	6,434,339	4,785,452
Foreign exchange losses	(2,196,351)	(1,283,125)
Total	**4,237,988**	**3,502,327**

37 Earnings per share

Earnings per share is calculated by dividing net profit for the period to the weighted average number of shares.

	December 31, 2017	December 31, 2016
For a share having TRKr (Kuruş) 1 of nominal value:		
Weighted average number of shares	43,000,000,000	43,000,000,000
Net profit for the period	226,591,810	191,256,870
Earnings per share (for 100 shares)	0.52696	0.44478

38 Dividends per share

The Company's dividend distribution in 2017 from the profit of 2016 is presented below.

			Cash dividend corresponding to a share having TL 1 of nominal value	
	Group	**Total cash dividend amount (TL)**	**Amount (TL)**	**Rate (%)**
	A	276,744,19	0.2767442	27.67442
	B	118,723,255,81	0.2767442	27.67442
Gross	**Total**	119,000,000,00		

The Company's dividend distribution in 2017 from the profit of 2016 is TL 140,000,000. Additionally, TL 4,463,510 of dividend is distributed to the personnel of the Company.

39 Cash generated from operations

The cash flows from operating activities is presented in the accompanying statement of cash flows.

40 Convertible bonds

None.

41 Redeemable preference shares

None.

(Currency: Turkish Lira (TL))

42 Risks

In the normal course of its operations, the Company is exposed to legal disputes, claims and challenges, which mainly stem from its insurance operations. The necessary income/expense accruals for the revocable cases against/on behalf of the Company are provided either under provision for outstanding claims or provisions for other risks in the accompanying financial statements.

As at December 31, 2017, there are 332 ongoing law suit filed against the Company and total amount of these suits are TL 7,247,337. TL 9,264,106 of provision (December 31, 2016: TL 6,629,748) including interest expense for ongoing law suits for which cash outflow is probable and measurable reliably is set by the Company in the financial statements. There are 73 ongoing law suits prosecuted by the Company against the third parties that have amounted TL 5,428,027. Subsequent to the reporting period, there is no expected amount of law suits to be prosecuted against the Company.

43 Commitments

Total amount of commitments that are not included in liabilities:

	December 31, 2017	**December 31, 2016**
Guarantees and commitments	1,776,206	1,319,156
Guarantees and commitments	**1,776,206**	**1,319,156**

The Company does not have finance lease liabilities as at the reporting period (December 31, 2016: None).

44 Business combinations

None.

45 Related party transactions

a. Parent company’s name and the ultimate owner of the group

The Company’s parent is Türkiye İş Bankası AŞ with a 63.89% of share.

b. In accordance with the Company's activities, items of sub-classifications

The activities of the Company involve providing individual and group insurance and reinsurance services relating to group life, individual life, retirement and related personal accident branches, establishing retirement funds, developing internal rules and regulations related to these funds, carrying out retirement, annual income insurance, portfolio management and custody contracts for the assets of the funds held in custody.

c. No expense is recognised in the related period for bad or doubtful debts in respect of the amounts owed by the shareholders, associates and subsidiaries.

d. Details of associates and subsidiaries having indirect capital and management relations with the Company; names, amounts and rates of participations in the associates and subsidiaries; profit/loss for the period presented in the recent financial statements of such participations; net profit/loss for the period and period covered by the financial statements; information about whether these financial statements are prepared in accordance with the CMB standards; information about whether these financial statements are audited; details of the audit opinion (if the report includes unqualified, adverse or qualified opinion):

	Carrying amount	**Participation rate (%)**	**Reporting period**	**Profit before income tax**	**Net profit of the period**	**Financial statements base**	**Independent auditor’s opinion**
İş Portföy Yönetimi AŞ	20,324,696	20.0	December 31, 2017	29,831,104	23,924,573	SPK XI/29	Unqualified

e. Bonus shares obtained from associates or subsidiaries through internal resource capital increases

At the reporting date, the Company has obtained no bonus shares through capital increases in associates from profit or capital reserves.

f. No guarantees, commitments, guarantee letters, advances and endorsements given in favor of shareholders, associates and subsidiaries.

(Currency: Turkish Lira (TL))

45 Related party transactions *(continued)*

g. Related party disclosures

The related party balances as at December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Türkiye İş Bankası AŞ – receivables from credit card collections	193,102,910	176,843,731
Cash and cash equivalents	**193,102,910**	**176,843,731**
Türkiye İş Bankası AŞ – bank deposits	220,572,922	94,828,000
Cash at banks	**220,572,922**	**94,828,000**
Türkiye İş Bankası AŞ – commission payables	11,261,367	10,800,238
Milli Reasürans TAŞ – premium payables	461,578	273,458
Payable from main operations	**11,722,945**	**11,073,696**
Türkiye İş Bankası AŞ. – settlement and custody commission	5,010	5,364
Anadolu Anonim Türk Sigorta Şirketi – premium payables	57,577	66,236
Payables to shareholders	**62,587**	**71,600**
İş Portföy Yönetimi A.Ş.	7,857,440	4,956,589
İş Merkezleri Yönetim ve İşletim A.Ş.	193,147	779,702
İş Gayrimenkul Yatırım Ortaklığı A.Ş.	-	1,064
İş-Net Elektronik Bilgi Üretim Dağıtım Ticaret ve İletişim A.Ş.	35,474	141,736
Erişim Müşteri Hizmetleri A.Ş.	1,108,045	1,494,580
Softtech Yazılım Teknoloji Araştırma Geliştirme ve Pazarlama Ticaret A.Ş.	-	35,655
TSKB Gayrimenkul Değerleme A.Ş.	-	14,365
Other payables	**9,194,106**	**7,423,691**

(Currency: Turkish Lira (TL))

45 Related party transactions *(continued)*

g. Related party disclosures (*continued)*

The details of revenues and expenses for the year ended as of December 31, 2017 and 2016 stems from related parties are as follows:

In the current period in amount of TL 24,445,898 individual retirement employer contributions (December 31, 2016: TL 23,359,381) have been collected from related parties, in amount of TL 676,779 life insurance employer premium was accrual (December 31, 2016: TL 450,874).

The details of revenues and expenses for the year ended as of December 31, 2017 and 2016 stems from related parties are as follows:

	December 31, 2017	December 31, 2016
Milli Reasürans TAŞ - premiums written, ceded	1,253,605	750,396
Premiums written, ceded	**1,253,605**	**750,396**
Milli Reasürans TAŞ - commission income from reinsurers	197,281	94,536
Commission income from reinsurers	**197,281**	**94,536**
Türkiye İş Bankası AŞ – interest income from deposits	15,378,058	7,939,817
Türkiye İş Bankası AŞ – rent income	11,707	10,609
Investment income	**15,389,765**	**7,950,426**
İş Portföy Yönetimi AŞ – investment consultancy fee	545,832	376,806
İş Portföy Yönetimi AŞ – – settlement and custody expense	848	285
İş Yatırım Menkul Değerler AŞ – MKK service commission	-	5,261
Türkiye İş Bankası AŞ – settlement and custody expense	21,710	20,136
Investment expense	**568,390**	**402,488**
Türkiye İş Bankası AŞ – commission of policy production	117,784,697	104,804,664
İş Portföy Yönetimi AŞ – portfolio management fee of pension funds	25,255,024	19,596,486
İş Merkezleri Yönetim ve İşletim A.Ş. – building administrative expense	4,072,499	4,673,765
İş Gayrimenkul Yatırım Ortaklığı AŞ – rent expense	5,315,029	4,967,147
İş-Net Elektronik Bilgi Üretim Dağ. Tic. ve İletişim A.Ş. – communication expense	1,236,218	1,026,038
Erişim Müşteri Hizmetleri A.Ş. – call center service expense	13,139,698	6,836,123
Softtech Yazılım Teknoloji Araştırma Geliştirme ve Pazarlama Ticaret A.Ş – software support expense	99,250	332,673
TSKB Gayrimenkul Değerleme A.Ş.	-	17,961
Türkiye İş Bankası AŞ – commission of premium collection and banking services	1,073,092	1,265,070
Türkiye Iş Bankası AŞ – fund operation service expense	1,565,093	1,309,134
Türkiye Iş Bankası AŞ – rent expense	377,639	674,776
Türkiye Iş Bankası AŞ – other rent expense	-	176,835
Anadolu Anonim Türk Sigorta Şirketi – premium paid	4,130,362	2,509,431
Anadolu Anonim Türk Sigorta Şirketi – rent expense	244,682	229,425
Other expenses	**174,293,283**	**148,419,528**

46 Events after the reporting period

Events after the reporting period are disclosed in note 1.10 – *events after the reporting period.*

(Currency: Turkish Lira (TL))

47 Others

Items and amounts classified under the "other" account in financial statements either exceeding 20% of the total amount of the group to which they relate or 5% of the total assets in the balance sheet

Items and amounts classified under the "other" account in financial statements either exceeding 20% of the total amount of the group to which they relate or 5% of the total assets in the balance sheet are as follows:

Current assets (Other receivables)	**December 31, 2017**	**December 31, 2016**
Securities reconciliation account	18,180,114	9,020,596
Other	1,161,752	1,607,581
Total	**19,341,866**	**10,628,177**

Short-term liabilities (Other miscellaneous payables)	**December 31, 2017**	**December 31, 2016**
Payable to suppliers	12,791,751	15,963,379
Suspense accounts	9,193,197	3,353,054
Securities reconciliation account	4,914	5,360
Total	**21,989,862**	**19,321,793**

Payables to employees and receivables from employees presented under accounts, "other receivables" and "other short or long term payables", and which have balance more than 1% of the total assets

None.

Subrogation recorded in "Off-Balance Sheet Accounts"

None.

Real rights on immovable and their values

None.

Explanatory note for the amounts and nature of previous years' income and losses

None.

For the year ended as of December 31, 2017 and 2016, details of discount and provision expenses are as follows:

	December 31, 2017	**December 31, 2016**
Unused vacation pay liability	(1,274,871)	(839,965)
Provisions no longer required	2,145,444	1,946,941
Provision for employee termination benefits	1,041,498	790,830
Other provision expenses	(8,571,289)	(5,889,906)
Provision expenses	**(6,659,218)**	**(3,992,100)**

	December 31, 2017	**December 31, 2016**
Rediscount interest expense(1)	47,520	1,964
Total rediscount	**47,520**	**1,964**

(1) Rediscount interest income/expense arising from selling the shares of AVEA İletişim Hizmetleri A.Ş. by installment.