AKSİGORTA A.Ş.

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Aksigorta A.Ş.

Report on the audit of the financial statements

Our opinion

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

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

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Independence

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

Our audit approach

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

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

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Estimates used in calculation of outstanding claim provision and Liability Adequacy Test ("LAT") As explained in Notes 2.16 and 16, the Company has significant gross insurance liabilities of TL 4,138,493,725, representing 75% of the Company's total equity and liabilities as of 31 December 2018. Concerning the estimation of the outstanding claim provision which is amounting to gross TL 563,893,858 arising from claims accounted under insurance contracts as of 31 December 2018, the Company uses actuarial methods. The choice of selected methods and development factors for each accident year for each class of business depends on the best estimate of the Company. The Company's LAT is a key test performed in order to ensure that insurance contract liabilities, net of deferred acquisition costs, are adequate in the context of expected future cash outflows. In performing these tests, current best estimates of contractual cashflows, claim handling and administrative expenses are used. Any deficiency is immediately charged to profit or loss initially by writing off Deferred Acquisition Costs and subsequently establishing a provision for losses arising from LAT. This is an area that involves significant judgement based on actuarial techniques over uncertain future outcomes, therefore we considered it a key audit matter for our audit.	We engaged our actuarial specialists to assist us in performing the audit procedures in this area, which include among others: - Consideration of the appropriateness of assumptions used in the calculation of outstanding claim provision, namely Incurred But Not Reported reserves. - Consideration of the appropriateness of assumptions for reserve projection calculations of LAT. We assessed the Company's validation of certain methods and development factors considered higher risk by the Company as a result of complexity and/or magnitude. For the assumption setting process, we assessed the experience analyses performed by the Company. Our assessment also included challenging, as necessary, specified economic and actuarial assumptions considering management's rationale for the actuarial judgements applied along with comparison to applicable industry experiences. We considered the appropriateness of actuarial judgements used in the actuarial methods, which may vary depending on the each class of business, and also the compliance of the methods with the applicable financial reporting standards. Furthermore, we performed audit procedures regarding the completeness and the accuracy of the input data used in calculation of the insurance contract liabilities. We tested the validity of management's LAT which is a key test performed to check that liabilities are adequate as compared to the expected future cashflow obligations. We also assessed the adequacy of disclosures regarding these liabilities in the financial statements to make sure that they were in accordance with the disclosure requirements of IFRS.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

Adnan Akan, SMMM
Partner

Istanbul, 8 February 2019

AKSİGORTA A.Ş.

FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY 1 - DECEMBER 31, 2018

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

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

Assets	Note	Audited December 31, 2018	Audited December 31, 2017
Total current assets		**5,371,255,833**	**4,021,130,993**
Cash and cash equivalents	9	1,969,568,662	1,352,046,487
Financial assets			
Debt securities:			
- Available for sale at company's risk	8	548,004,718	516,646,617
- Available for sale at insurees' risk	8	1,686,241	2,514,414
- Held to maturity at company's risk	8	9,752,674	-
Premium receivables	10	550,022,938	479,527,221
Due from reinsurers	10	28,966,554	27,969,645
Reinsurance share of insurance liabilities	11	2,055,353,150	1,472,428,865
Deferred acquisition costs	12	120,592,122	119,453,993
Derivative financial assets	2.28	33,895,401	-
Other current assets	13	53,413,373	50,543,751
Total non-current assets		**114,824,301**	**99,045,920**
Tangible assets	6	24,329,768	26,197,351
Investment properties		-	80,126
Intangible assets	7	55,639,894	46,544,719
Equity securities:			
- Available for sale	8	430,032	346,211
Deferred income tax assets	22	34,274,627	22,913,921
Other non-current assets	13	149,980	2,963,592
Total assets		**5,486,080,134**	**4,120,176,913**

Liabilities	Note	Audited December 31, 2018	Audited December 31, 2017
Total current liabilities		**4,833,306,005**	**3,542,089,107**
Obligations under repurchase agreements	2.28	49,954,452	-
Insurance liabilities	16	4,138,493,725	3,079,404,852
Payables to reinsurers	18	446,831,845	332,355,206
Other financial liabilities	2.19	8,494,258	-
Provisions for other liabilities and charges	17	40,333,473	36,798,073
Trade and other payables	18	136,956,745	84,809,994
Current income tax liabilities	22	12,241,507	8,720,982
Total non-current liabilities		**6,503,684**	**6,172,934**
Provision for retirement benefit obligation		6,503,684	6,172,934
Total equity		**646,270,445**	**571,914,872**
Shareholders' equity	14	306,000,000	306,000,000
Legal and other reserves	14	112,230,612	95,403,929
Actuarial loss arising from employee benefit	14	(3,602,019)	(3,242,827)
Hedging reserve	14	-	17,618,782
Available-for-sale investments fund	14	(10,638,677)	(14,469)
Retained earnings/accumulated deficit		242,280,529	156,149,457
Total equity and liabilities		**5,486,080,134**	**4,120,176,913**

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

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

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

Income Statement	Note	Audited January 1 - December 31, 2018	Audited January 1 - December 31, 2017
Insurance premium revenue	5, 20	3,119,392,940	2,159,202,122
Insurance premium ceded to reinsurers	5, 20	(1,316,787,242)	(917,666,523)
Net insurance premium revenue	**5, 20**	**1,802,605,698**	**1,241,535,599**
Investment income	23	323,656,488	165,600,813
Commission income	24	185,468,908	159,767,647
Other operating income	25	8,378,011	4,937,640
Net income		**2,320,109,105**	**1,571,841,699**
Insurance claims	21	(2,282,196,376)	(1,611,650,415)
Insurance claims recovered from reinsurers	21	911,827,842	761,763,760
Net insurance claims	**5, 21**	**(1,370,368,534)**	**(849,886,655)**
Commission expense	24	(468,505,878)	(366,355,537)
Expenses for marketing and administration	26	(185,662,429)	(154,386,322)
Other operating expenses	25	(55,800,951)	(38,924,304)
Insurance claims and expenses		**(2,080,337,792)**	**(1,409,552,818)**
Results of operating activities		**239,771,313**	**162,288,881**
Foreign exchange gain / (loss), net	27	35,831,035	8,973,165
Profit before tax		**275,602,348**	**171,262,046**
Income tax expense	22	(62,484,593)	(34,705,332)
Profit for the period		**213,117,755**	**136,556,714**
Earnings per share	**15**	**0.0070**	**0.0045**

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

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

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

Statement of comprehensive income	Note	Audited January 1 - December 31, 2018	Audited January 1 - December 31, 2018
Profit for the period		**213,117,755**	**136,556,714**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Change in available-for-sale financial assets fund, net off deferred tax	14	(10,624,208)	7,188,577
Cash flow hedging, net off deferred tax	14	(17,618,782)	802,708
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(28,242,990)**	**7,991,285**
Other comprehensive income not being reclassified to profit or loss in subsequent periods:			
Actuarial loss, net off deferred tax	14	(359,192)	229,579
Net other comprehensive income not being reclassified to profit or loss in subsequent periods		**(359,192)**	**229,579**
Other comprehensive income, net of tax		**(28,602,182)**	**8,220,864**
Total comprehensive income for the year, net of tax		**184,515,573**	**144,777,578**

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

AKSİGORTA A.Ş.

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD JANUARY 1 - DECEMBER 31, 2018

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

December 31, 2017				**Audited**				
	Note	**Share capital**	**Available-for-sale investment funds**	**Legal reserves**	**Actuarial loss arising from employee benefit**	**Cash flow hedging**	**Retained earnings**	**Total**
Balances at December 31, 2016	**14**	**306,000,000**	**(7,203,046)**	**178,468,101**	**(3,472,406)**	**16,816,074**	**(63,471,429)**	**427,137,294**
Profit for the year		-	-	-	-	-	136,556,714	136,556,714
Transfer		-	-	(83,064,172)	-	-	83,064,172	-
Other comprehensive income		-	7,188,577	-	229,579	802,708	-	8,220,864
Total comprehensive income	**14**	**-**	**7,188,577**	**(83,064,172)**	**229,579**	**802,708**	**219,620,886**	**144,777,578**
Dividend payment		-	-	-	-	-	-	-
December 31, 2017	**14**	**306,000,000**	**(14,469)**	**95,403,929**	**(3,242,827)**	**17,618,782**	**156,149,457**	**571,914,872**

December 31, 2018				**Audited**				
	Note	**Share capital**	**Available-for-sale investment funds**	**Legal reserves**	**Actuarial loss arising from employee benefit**	**Cash flow hedging**	**Retained earnings**	**Total**
Balances at December 31, 2017	**14**	**306,000,000**	**(14,469)**	**95,403,929**	**(3,242,827)**	**17,618,782**	**156,149,457**	**571,914,872**
Profit for the year		-	-	-	-	-	213,117,755	213,117,755
Transfer		-	-	16,826,683	-	-	(16,826,683)	-
Other comprehensive income		-	(10,624,208)	-	(359,192)	(17,618,782)	-	(28,602,182)
Total comprehensive income	**14**	**-**	**(10,624,208)**	**16,826,683**	**(359,192)**	**(17,618,782)**	**196,291,072**	**184,515,573**
Dividend payment		-	-	-	-	-	(110,160,000)	(110,160,000)
December 31, 2018	**14**	**306,000,000**	**(10,638,677)**	**112,230,612**	**(3,602,019)**	**-**	**242,280,529**	**646,270,445**

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

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

Cash Flow Statement	**Note**	**January 1 - December 31, 2018**	**January 1 - December 31, 2017**
Cash inflows from insurance operations		4,239,482,072	1,859,641,735
Cash outflows from insurance operations		(3,632,448,738)	(1,278,190,248)
Income tax payment		(68,591,105)	(35,451,265)
Cash inflows/(outflows)from operational expenses		(195,476,781)	(147,118,073)
Net cash flows from operating activities		**342,965,448**	**398,882,149**
Tangible and intangible asset acquisitions		(27,836,438)	(21,728,313)
Financial asset acquisitions / disposals		55,789,461	348,529,383
Interest received		238,202,705	138,381,119
Other cash inflows/(outflows)		63,996,935	4,361,775
Net cash flows from investing activities		**330,152,663**	**469,543,964**
Dividends paid		(110,160,000)	-
Net cash (outflow)/inflows from financing operations		**(110,160,000)**	**-**
Net increase/(decrease) in cash and cash equivalents		**562,958,111**	**868,426,113**
Cash and cash equivalents at the beginning of the period		**1,200,503,027**	**332,076,914**
Cash and cash equivalents at the end of the period	**9**	**1,763,461,138**	**1,200,503,027**

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

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

1. General Information

Aksigorta A.Ş. (the "Company") is a subsidiary of Hacı Ömer Sabancı Holding A.Ş. and Ageas Insurance International N.V. as of December 31, 2018. 38.02% (December 31, 2017: 38.02%) of the Company is issued in Borsa İstanbul ("BİST").

Agreement about the sale of 50% of 18,965,880,200 units of Aksigorta A.Ş. shares with TL 189,658,802 nominal value that belong to Hacı Ömer Sabancı Holding A.Ş. ("Sabancı Holding") portfolio was signed with Ageas Insurance International N.V. ("Ageas") at 18 February 2011. At the date of July 29, 2011, 9,482,940,100 units of Company's shares that correspond to 50% of the Sabancı Holding's portfolio have been transferred to Ageas with the sale price (excluding the corrections) of USD 220,029,000. According to the joint administration agreement that signed with Ageas at February 18, 2011, Sabancı Holding's previous administrative controls over the Company are going to remain equally with Ageas.

The Company is a corporation, which was established in accordance with the requirements of Turkish Commercial Code and registered in Turkey as at April 25, 1960. The Company is located at Poligon Cad. Buyaka 2 Sitesi No:8 Kule:1 Kat:0-6 Ümraniye 34771, İstanbul.

The Company's main operations include insurance activities based on non-life insurance branches, including primarily fire, marine, accident, personal accident, engineering, agriculture and health.

Average numbers of employees during the period by category are as follows:

	December 31, 2018	**December 31, 2017**
Top and middle management	112	103
Other personel	627	518
Total	**739**	**621**

Remuneration and fringe benefits provided to top management such as; chairman and members of the board of directors, managing director and assistant managing directors amount to TL 6,208,932 in total for January 1 - December 31, 2018 (January 1 - December 31, 2017: TL 5,637,631).

Financial statements include only one company (Aksigorta A.Ş.) and the Company does not have any subsidiaries or affiliates as of December 31, 2018 (December 31, 2017: None).

The Company's financial statements as of December 31, 2018 are approved and authorized for issuance as of February 8, 2019 by the Board of Directors.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements at December 31, 2018 have been prepared in accordance with International Financial Reporting Standard as defined by IAS 1. The financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2018 and any public announcement made by the company during the period.

The Company maintains its books of account and prepares its statutory financial statements in Turkish Lira ("TL") in accordance with the Insurance Law numbered 5684 and the regulations issued for insurance and reinsurance companies by the Undersecretariat of Treasury which is also the functional currency of the Company. These financial statements are based on the statutory records, with adjustments and reclassifications, for the purpose of fair presentation in accordance with IFRS.

The preparation of financial statements in accordance with IFRS requires the use of estimates. It also requires management to exercise its judgements in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to financial statements are disclosed Note 3.

Comparative information and restatement of prior period financial statements

The Company's statement of financial position as of December 31, 2018 is presented in comparison with its statement of financial position as of December 31, 2017; statement of comprehensive income, statement of changes in equity and statement of cash flows for the period between January 1 - December 31, 2018 are presented in comparison with its statement of comprehensive income, statement of changes in equity and statement cash flows for the period between January 1 - December 31, 2017.

2.2 Adoption of New and Revised Standards

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at December 31, 2018 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2018. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

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

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

  Until the date of validity of IFRS 17, the Company benefits from the temporary relief subjects for IFRS 9 partaking IFRS 4.

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

  Transition to IFRS 15 is postponed to January 1, 2021 in accordance with the circular dated October 23, 2018 and numbered 2018/4 "Circular on the Date of Transition to IFRS 15 of Insurance and Pension Companies" published by the Ministry of Treasury and Finance.

2. Summary of significant accounting policies (Continued)

2.2 Adoption of New and Revised Standards (Continued)

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

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

  Transition to IFRS 15 is postponed to January 1, 2021 in accordance with the circular dated October 23, 2018 and numbered 2018/4 "Circular on the Date of Transition to IFRS 15 of Insurance and Pension Companies" published by the Ministry of Treasury and Finance.

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

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

  Changes are implemented for the periods after January 1, 2018. The aforementioned changes have no significant effects on the Company's financial situation and performance.

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

  Changes are implemented for the periods after January 1, 2018. The aforementioned changes have no significant effects on the Company's financial situation and performance.

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

  Changes are implemented for the periods after January 1, 2018. The aforementioned changes have no significant effects on the Company's financial situation and performance.

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

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

  The Company will assess the effects of the changes after the changes are finalised.

2. Summary of significant accounting policies (Continued)

2.2 Adoption of New and Revised Standards (Continued)

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

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

  Changes are implemented for the periods after January 1, 2018. The aforementioned changes have no significant effects on the Company's financial situation and performance.

ii) Standards, amendments and interpretations effective after 1 January 2019:

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

  Until the date of validity of IFRS 17, the Company benefits from the temporary relief subjects for IFRS 9 partaking IFRS 4.

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

  Changes will be implemented for the periods after January 1, 2019. The changes are not applicable for the Company. There is no impact on the Company's financial situation and performance.

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

  Impact

  As at the reporting date, the Group has non-cancellable operating lease commitments of TL 50,519,555.

  For the remaining lease commitments, the Company expects to recognise right-of-use assets and lease liabilities of approximately TL 27,042,959 on 1 January 2019 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018) and deferred tax assets of TL 439,649. The Company expects that net profit after tax will decrease by approximately TL 1,558,759 for 2019 as a result of adopting the new rules.

2. Summary of significant accounting policies (Continued)

2.2 Adoption of New and Revised Standards (Continued)

Mandatory application date/Date of adoption by the Company

The Company will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and not to restate comparative period.

- **IFRIC 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

  Interpretation will be implemented for the periods after January 1, 2019. The changes are not applicable for the Company. There is no impact on the Company's financial situation and performance. The Company assesses the effects on financial situation and performance.

- **IFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2022. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

  Standard will be implemented for the periods after January 1, 2022. The Company assesses the effects of the standard on the financial situation and performance.

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

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

  The Company assesses the effects of the standards above on the financial situation and performance.

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

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

  Improvement will be valid for the periods after January 1, 2019. The Company assesses the effects of the standards on the financial situation and performance.

2. Summary of significant accounting policies (Continued)

2.2 Adoption of New and Revised Standards (Continued)

ii) Standards, amendments and interpretations effective after 1 January 2018 (Continued):

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements',and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

  i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
  ii) clarify the explanation of the definition of material; and
  iii) incorporate some of the guidance in IAS 1 about immaterial information.

  Improvement will be valid for the periods after January 1, 2020. The Company assesses the effects of the standards on the financial situation and performance.

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

  Change will be valid for the periods after January 1, 2020. The changes are not applicable for the Company. There is no impact on the Company's financial situation and performance.

2.3 Consolidation

The Company has no subsidiaries or joint ventures within the scope of consolidation in accordance with "IFRS 10- Consolidated Financial Statements" as of December 31, 2018 (December 31, 2017: None).

2.4 Segment Reporting

Reporting segments are determined to conform to the reporting made to the Company's chief operating decision maker. The chief operating decision maker is responsible for making decisions about resources to be allocated to the segment and assess its performance. Details related to the segment reporting are disclosed in the Note 5.

2.5 Foreign currency translation

The functional currency of the Company is TL. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated to Turkish Lira at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

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

2. Summary of significant accounting policies (Continued)

2.5 Foreign currency translation (Continued)

Foreign exchange differences arising from the translation of non monetary financial assets and liabilities are considered as part of the fair value changes and those differences are accounted for in the accounts in which the fair value changes are accounted for.

Foreign currency assets and liabilities are converted by using period end exchange rates of Central Bank of the Republic of Turkey's bid rates. For the conversion of liabilities the exchange rate stated at the contract is used.

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

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

2.6 Tangible Assets

All property and equipment are carried at cost less accumulated depreciation. Since lands have infinite life, they are not depreciated. Depreciation is calculated using the straight-line method over the estimated useful life of the tangible assets. For assets that are not ready for use or sale, such assets are depreciated, on the same basis used for other fixed assets, when they are ready to use.

Estimated useful life, residual value, and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

If there are indicators of impairment on tangible assets, a review is made in order to determine possible impairment and as a result of the review, if an asset's carrying amount is greater than its estimated recoverable amount, the asset's carrying amount is written down immediately to its recoverable amount by accounting for a provision for impairment. Gains and losses on disposals of property and equipment are included in other operational income and expenses accounts.

Assets acquired under finance lease are depreciated as the same basis as tangible assets or, where shorter, the term of the relevant lease.

Gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized to profit or loss.

Depreciation periods for tangible assets are presented in the table below:

	Useful Life
Properties	40 - 50 years
Furniture and fixtures	10 years
Motor vehicles	5 years
Leasehold Improvements	5 - 10 years

2. Summary of significant accounting policies (Continued)

2.7 Investment properties

The buildings and lands of the Company held for the purpose of receiving rent or an increase in value or both instead of being used in the operations of the Company or being sold within the normal business course are classified as investment properties. The investment properties are carried at acquisition cost by deducting the accumulated depreciation. Investment properties are amortised by the straight-line method over their estimated useful lives. If there are indicators of impairment on investment properties, a review is made in order to determine possible impairment and as a result of this review, if the property's carrying amount is greater than its estimated recoverable amount, the property's carrying amount is written down immediately to its recoverable amount by accounting for an impairment provision. The recoverable amount is the higher of the future cash inflows from the existing use of the investment property and the fair value of the property after cost of sale. The Company does not have an impairment booking for its investment properties as of December 31, 2018.

Investment properties are derecognized 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. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to or from investment property only, when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy applied to "Tangible Assets" up to the date of change in use. Real estates held under finance lease are classified as investment properties. The depreciation period of investment properties is 50 years. Lands is not depreciated.

2.8 Intangible assets

Intangible assets acquired

Intangible assets acquired are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. Estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred from the date of acquisition to the date to bring the specific software in use. These costs are amortized over their estimated useful lives (1 to 10 years).

Costs associated with developing or maintaining computer software programmes are recognized as expense as 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 recognized as intangible assets. Costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognized as assets are amortized over their estimated useful lives.

Useful life:

Rights	5 years

2. Summary of significant accounting policies (Continued)

2.9 Financial assets

The Company classifies and accounts for its financial assets as, "Available-for-sale financial assets", "Held to maturity financial assets" and "Loans and receivables (Premium receivables)". Premium receivables are the receivables arising from insurance agreements and they are classified as financial assets in financial statements.

Regular purchases and sales of financial assets are recognised on the "settlement date". The classification of these financial assets depends on the purpose for which they were acquired and the Company's management determines the classification of its financial assets at initial recognition.

Loans and receivables (Premium receivables)

Loans and receivables are financial assets which are generated by providing money or service to the debtor. Loans and receivables are recognised initially at fair value and subsequently measured at cost. Fees and other charges paid related to assets obtained as guarantee for the above mentioned receivables are not deemed as transaction costs and they are recognised as expense in the income statement.

The Company accounts for a provision for its receivables based on evaluations and estimations of the management. The mentioned provision is deducted from "Premium receivables" on the statement of financial position. The Company sets its estimations in accordance with the risk policies and the principle of prudence by considering the structure of current receivable portfolio, financial structure of policyholders and intermediaries, non-financial data and economical conditions.

Available-for-sale financial assets

Investments other than "financial assets at fair value through profit or loss", and "loans and receivables" are described as available-for-sale financial assets.

Available-for-sale financial assets are subsequently measured at fair value after their recognition. It is considered that the fair value cannot be reliably measured if the price that provides a basis for fair value is not set in active market conditions and "amortised cost value" that is calculated using the effective interest method is used as fair value. Equity securities classified as available-for-sale are carried at fair values if they have quoted market prices in active markets and/or if their fair value can be reliably measured. The equity securities that do not have a quoted market price in an active market, and if their fair value cannot be reliably measured are carried at cost less the provision for impairment.

"Unrealised gains and losses" arising from the change in the fair value of available-for-sale financial assets is accounted for under "Valuation of Financial Assets" account in the shareholders' equity and not reflected in the income statement until the financial asset is sold, disposed or derecognised. The unrealised gains and losses arising from the change in the fair value is removed from shareholders' equity and recognised in the income statement when the financial assets mature or are derecognised.

The Company assesses at each statement of financial position date whether there is objective evidence that an available-for-sale financial asset is impaired. In the case of equity investments classified as available-for-sale financial assets, such as, a significant or prolonged decline in the fair value of the security below its cost is considered as impairment. If any objective evidence for impairment exists for available-for-sale financial assets, the difference between the acquisition cost and current fair value is deducted from shareholders' equity and recognised in the income statement. The impairment losses on available-for-sale equity instruments previously recognised in the profit or loss cannot be reversed through profit or loss.

2. Summary of significant accounting policies (Continued)

2.9 Financial assets (Continued)

Held to maturity financial assets

Held-to-maturity financial assets are intended to be held until their maturities and including ability to funding, provided the circumstances to be held to maturity, with fixed or determinable payments and with fixed maturity, and apart from loans and receivables, when recognized, not recognized as financial assets at fair value through profit or loss and not available for sale financial assets. These financial assets, initially recognized at the acquisition cost and is considered fair value. The fair value of held-to-maturity financial assets is determined on transaction cost of these financial assets or market price of similar financial instruments. Held-to-maturity financial assets are carried at amortized cost. Contribution income related to held-to-maturity financial assets is reflected in the income statement.

The Company does not allocate any impairment on short-term market fluctuations, provided that there is no risk of collection of the securities representing the borrowings classified as held-to-maturity financial assets. If there is a risk of collection, the amount of the impairment is the difference between the book value of the financial asset and the value of the cash flows expected from the financial asset, if any, amortized based on the original effective rate of return.

2.10 Reclassification of financial assets

Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

2.11 Impairment of Assets

The details about the impairment of assets are explained in the notes in which the accounting policies of the relevant assets are explained.

2.12 Related party

Parties are considered related to the Company if;

(a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

2. Summary of significant accounting policies (Continued)

2.12 Related party (Continued)

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

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

In the financial statements and related notes dated December 31, 2018 and 2017, the Company management, groups associated to H.Ö. Sabancı Holding and Ageas Insurance International N.V. are defined as related parties.

2.13 Offsetting Financial Instruments

Financial assets and liabilities are offset only when there is a legally enforceable right to offset the recognised amounts, there is an intention to settle on a net basis, or when the acquisition of the asset and the settlement the liability take place simultaneously.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments, which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value (Note 9).

Cash and cash equivalents included in the statements of cash flows are as follows:

	December 31, 2018	December 31, 2017
Banks	1,485,633,722	966,463,093
Credit Card Receivables	483,934,940	385,583,394
Less: Interest accrual	(11,676,242)	(3,036,758)
Less:	(194,431,282)	(148,506,702)
Total	**1,763,461,138**	**1,200,503,027**

As of December 31, 2018, the Company has repo transactions in the amount of TL 49,954,452 (December 31, 2017: None) which is accounted in "obligations under repurchase agreements".

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

2. Summary of significant accounting policies (Continued)

2.15 Share capital

As of December 31, 2018, the Company’s nominal capital is TL 306,000,000 (December 31, 2017: TL 306,000,000). Share capital is represented by 30,600,000,000 of equity shares having a nominal amount of TL 0,01 each.

The share capital structure of the Company is as follows:

	December 31, 2018		December 31, 2017	
Name of shareholders	**Share**	**Share amount**	**Share**	**Share amount**
H. Ömer Sabancı Holding A.Ş.	36.00	110,160,000	36.00	110,160,000
Ageas Insurance International NV	36.00	110,160,000	36.00	110,160,000
Publicly quoted shares	28.00	85,680,000	28.00	85,680,000
Total	**100.00**	**306,000,000**	**100.00**	**306,000,000**

The Company has accepted the registered capital system set out in accordance with the provisions of 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 of December 31, 2018, the Company’s registered share capital is TL 500,000,000 (December 31, 2017: TL 500,000,000).

2.16 Insurance and investment contracts

Insurance contracts are contracts under which, in exchange for a premium, the insurer assumes the obligation to compensate a loss caused by the materialization of the danger (risk) having the consequence of harming the interest, measurable by money, of the concerned person or make payment or to fulfill other performances linked to the lifetime of one or several persons or upon the occurrence of some events in the course of their life.

The insurer can take out reinsurance, under conditions as it thinks appropriate, in respect of the interest it had covered.

Insurance contracts are accounted when the insurance risk is transferred, and classified as an insurance contract as of the maturity date and/or amortization of the all contractual rights and liabilities.

The main contracts produced by the Company are mainly in non-life branches such as motor own damage, motor third party liability, fire, marine, accident, engineering, health and agriculture insurance agreements.

The fire insurance agreements are classified as industrial and individual. The policyholder is insured for the physical losses and claims due to the risks such as fire, earthquake, bursting, flood. The policyholder is insured for losses caused by the complete or partial interruption of the operations as a result of an event covered by the insurance contract with loss of profit coverage. Casualty insurance contracts (Liability, Personal Accident and Motor) have two main purposes. These contracts protect the insured against the risk of damage of assets and against the risk of causing harm to third parties.

Marine insurance contracts contain insurance of transportation (vessels, or vehicles on land or air) and water vehicles (the payment for the claims occurred in sea, river and island vehicles). Engineering insurance contracts are subdivided into two groups. The contracts covering permanently installed risks for an indefinite period, and the contracts covering temporary, non-recurring risks. The first group consists of insurance protection against sudden and unforeseen damages or losses of the machines, mechanical equipment, plants and electronic equipments. The second group provides installation and construction insurance of which coverage is naturally limited with the guarantee period of installation and construction. Liability insurance contracts provide claims due to the air crafts, water crafts and land vehicles liability. Furthermore, the Company has major production of the animal life and publicly supported agriculture insurances which are included in general loss insurance contracts. Health insurance contracts are the contracts that pay benefits an insured who becomes ill or injured, provided that documentation is offered to confirm the illness or injury.

2. Summary of significant accounting policies (Continued)

2.16 Insurance and investment contracts (Continued)

Unearned Premium Reserve

An unearned premium reserve is calculated on a daily basis for all policies in force as of the balance sheet date for unearned portions of premiums written, except for marine premiums. During the calculation of unearned portion of premiums written on a daily basis, it is supposed that the policies start at 12:00 noon and finish at 12:00 noon again. In accordance with the Regulation on Technical Reserves, unearned premium reserve and the reinsurers' share of the unearned premium reserve for policies issued after 1 January 2008, are calculated and accounted as the deferred portion of the accrued premiums related to the policies in force and ceded premiums to reinsurers without deducting commissions or any other deduction, on a daily and gross basis. The Company has continued to deduct the commissions from the premiums for the calculation of unearned premium reserve regarding the policies issued before 1 January 2008. For marine policies with an uncertain end date, unearned premium reserve is calculated as 50% of the premiums written in the last three months.

Deferred Commission Expense and Income

Unearned portion of commissions paid to agencies for the written premiums and commissions received from reinsurers for the ceded premiums are recorded as in deferred acquisition costs on the statement of financial position, and as expenses for the acquisition of insurance contracts on a net basis in the income statement.

Liability Adequacy Test

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, from the assets backingsuch liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision). Long-term insurance contracts with fixed terms are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities. Any DAC written off as a result of this test cannot subsequently be reinstated. At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future cash flows are used. The adequacy of the unearned premium liability is assessed by considering the portion of the estimated value of claims and expenses, likely to arise after the end of the reporting period from existing contracts, that exceeds the provision for unearned premiums after deduction of any acquisition costs. Any deficiency is immediately charged to profit or loss. The assessment, whether a deficiency exists is made at the Company level since all insurance products are regarded as being managed together and there are no constraints on the ability to use assets held in relation to each line of business to meet any of the associated liabilities. For the purpose of calculating the additional provisions, the Company takes into account the investment return expected to be earned by investments held. The Company accounts additional reserves for the branches that the combined loss ratio calculated is higher than 100%.

2. Summary of significant accounting policies (Continued)

2.16 Insurance and investment contracts (Continued)

Outstanding claims provision

Claims are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include settlement costs and arise from events that have occurred up to the statement of financial position date even if they have not yet been reported to the Company. Outstanding claims are estimated using the input of assessments for individual cases reported and statistical analyses. The expected ultimate cost of claims is also affected by external factors such as court decisions.

Claims are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted.

For the estimation of the ultimate liability arising from claims made under insurance contracts, the Company uses Bornhuetter Ferguson ("BF"), Chain-Ladder and Frequency and Severity methods. The method for MTPL is based on frequency and severity method, for the rest of the branches are selected by applying weighted average incurred ultimate results of Chain-Ladder method and incurred or average of paid and incurred ultimate results of Bornhuetter Ferguson method are used for the estimation of ultimate liabilities. It involves the analysis of historical claim development factors based on historical pattern and also loss ratio is considered in BF method.

The appropriate development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claim cost for each accident year. The choice of selected factors for each accident year of each class of business depends on the best estimate of the Company. Considering the uncertainty about the amount and timing of claims, the Company made the estimation of claims development considering starting from the year of 2003 and a tail factor is used for some branches for future developments. The Company performs the ultimate liability estimation for large claims separately which are determined as large claims by using certain statistical methods since these claims have different claim development patterns. Additionally, the ultimate liability calculations are performed on gross basis and the net amounts are determined according to historical ceding rates on each accident quarter or applicable reinsurance treaties are applied to ultimate losses for each branch. A provision is calculated and accounted for unallocated loss adjustment expenses ("ULAE") refer to general overhead expenses associated with the claims-handling process, and particularly the costs of investigating, handling, paying, and resolving claims. The estimation for ULAE is calculated using the rate of historical expenses to total claim amounts. The methods which were selected by the Company for each branch, the results of related calculations as of December 31, 2018 and 2017, the methods to calculate net of reinsurance results and the limits which are used for the big claims eliminations are disclosed in Note 16.

Reinsurance agreements

Reinsurance agreements are the agreements enforced by the Company and the reinsurer, in exchange for a certain compensation, to cede the premiums and losses which may occur in relation to one or more insurance policies produced by the Company.

The Company has excess of loss, surplus and proportional quota-share agreements in accordance with the branches in which it operates. Within the framework of excess of loss agreements, the ceded premiums are accounted for on accrual basis over the relevant period. The revenues and liabilities due to premium and claim ceded under other annual reinsurance agreements are also accounted for on the same basis.

2. Summary of significant accounting policies (Continued)

2.16 Insurance and investment contracts (Continued)

Reinsurance agreements (Continued)

The Company has surplus reinsurance agreement in fire, marine, engineering and other accident branches and annual proportional quota-share reinsurance agreement for motor branches. Besides, The Company has excess of loss agreements in fire, marine and engineering branches.

Motor quota-share agreement is based on the transfer of written premiums and paid claims during the period covered by the agreement, and portfolio transfer is performed for premium and outstanding claim reserves by the end of each period. For surplus agreements, which work on a run-off basis, the liability of the reinsurers continue for the underwriting year at the policy period when the claim occurred. In addition, the Company has facultative reinsurance agreements signed separately for certain risks based on certain policies.

Premiums Transferred to Social Security Institution

The collection and settlement of expenses with respect to the medical care related services provided to the injured people due to the traffic accidents have been regulated by Article 98 of Road Traffic Act numbered 2918 altered by Article 59 of "The Law on Restructuring of Some Receivables and Changes in Social Security and General Insurance Law and Other Laws and Law Decrees" (the "Law") numbered 6111 and dated February 25, 2011. In this context, all the traffic accident related medical care services provided by any public or private health institution will be covered by Social Security Institution ("SSI") regardless of social security status of the injured. Besides, in accordance with the temporary Article 1 of the Law, all of the expenses with respect to the traffic accident related medical care services provided before enforcement of the Law, will also be covered by SSI.

The liability of the insurance companies with respect to the service costs to be incurred in the context of abovementioned articles has been determined in accordance with the provisions of "The Regulation on the Principles of Collection of the Costs of the Health Services Provided due to the Traffic Accidents" dated 27 August 2011 ("The Regulation"), "The Communiqué on the Principles of the Implementation of the Regulation on the Principles of Collection of the Costs of the Health Services Provided due to the Traffic Accidents" dated September 15, 2011 and numbered 2011/17 (the "Communiqué numbered 2011/17") and "The Communiqué on the Accounting of Payments to Social Security Institution ("SSI") with respect to Treatment Expenses and Introduction of New Account Codes to Insurance Account Chart" dated October 17, 2011 (the "Communiqué numbered 2011/18"), the regulation(the "Communique numbered 2012/3") making changes in "The Regulation on the Principles of Collection of the Costs of the Health Services Provided due to the Traffic Accidents" dated March 16, 2012 and numbered 2012/3 and the communique about changes related "the Principles of Collection of the Costs of the Health Services Provided due to the Traffic Accidents" dated April 30, 2012 and numbered 2012/6 (the "Communique numbered 2012/6").Within this framework, the Group is required to cede a certain amount of premiums to be determined in accordance with the Regulation and the Communiqué numbered 2011/17 to SSI in relation to policies issued as of February 25, 2011 the notice numbered 2012/3 and the communiqué numbered 2012/6 in "Compulsory Transportation", "Compulsory Traffic" and "Compulsory Motor Personal Accident" branches regarding the expenses with respect to the traffic accident related medical care services provided after enforcement of the Law. Based on the aforementioned regulations, the Company has calculated the amount of the premiums to be ceded to SSI in January 1 - December 31, 2018 account period as TL 100,356,222 (January 1 - December 31, 2017: TL 49,964,536) and an unearned premium reserve amounting to TL 53,437,849 as of December 31, 2018 (December 31, 2017: TL 35,362,066); classified under "Ceded Premiums".

However, in the Board of Directors meeting of The Association of the Insurance and Reinsurance Companies of Turkey dated September 22, 2011 and numbered 18, it was decided to appeal Council of State for the "suspense of execution" and "cancellation" of the Regulation and the Communiqué numbered 2011/17; and the cancellation of related provisions of the Law as being contradictory to the Constitution. The legal procedures are in progress as of the date of the preparation of the financial statements.

2. Summary of significant accounting policies (Continued)

2.17 Insurance contracts and investment contracts with discretionary participation feature

None (December 31, 2017: None).

2.18 Investment contracts without discretionary participation feature

None (December 31, 2017: None).

2.19 Borrowings

As of December 31, 2018, the Company has an interest free loan in the amount of TL 8,494,258. The loan has a maturity of one day and is accounted in "Other Financial Liabilities" in the financials (31 December 2017: None).

2.20 Current and deferred income tax

The Company is subject to Turkish corporate taxes. Provision is recognized in the accompanying financial statements for the estimated charge based on the Company's results for the years and periods. Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017," Law on the Amendment of Some Tax Acts and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

In Turkey, advance tax returns are calculated and accrued on a quarterly basis. The advance corporate income tax rate used in 2017 and 2016 is 20 %. Losses are allowed to be carried maximum 5 years in order to deduct from the taxable profit of the following years.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between the dates 1 - 25 April, following the closing of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within 5 years.

Deferred Income Tax

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

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.21 Employee benefits

The Company accounts for its liability related to employment termination and vacation benefits according to "Turkish Accounting Standards Regarding Employee Benefits" ("IAS 19") and classifies in statement of financial position under the account "Provision of Employment Termination Benefits".

According to the Turkish Labor Law, the Company is required to pay termination benefits to each employee whose jobs are terminated except for the reasons such as resignation, retirement and attitudes determined in Labor Law. The provision for employment termination benefits is calculated over present value of the possible liability in scope with the Labor Law by considering determined actuarial estimates.

2. Summary of significant accounting policies (Continued)

2.22 Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. If provision amount is measured by the cash flows estimated to settle the present obligation, its carrying amount will be equal to the present value of such cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Liabilities 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 entity are classified as contingent liabilities and not included in the financial statements (Note 17).

2.23 Revenue recognition

Written premium

Written premiums represent premiums on policies written during the year, net of cancellations. Premium income is recognized in the financial statements on accrual basis by allocating the unearned premium provision over written premiums.

Reinsurance commissions

Commission income received in relation to ceded premiums to reinsurance companies is accrued in the related period and classified in technical part under operating expenses in the income statement. Reinsurance commission income is recognized in the financial statements on an accrual basis by allocating the deferred commission income over commissions received.

Claim recovery and salvage income

The Company recognizes the subrogation and salvage receivables, as limited to the coverage amount of the debtor insurance company, provided that the claim payment has been performed, the acquittance or the statement of payment has been received from the policyholders; and related individuals or insurance companies have been notified. A provision is recorded for those receivables which are not collected from insurance companies after six months and from individuals after four months following the payment of claim.

Dividend income

Dividend income is recognized as an income in the financial statements when the right to receive payment is established.

2.24 Interest income and expense

Interest income and expenses are accounted on an accrual basis in the related period's income statement. Interest income includes income gains from the coupons of the fixed return investment instruments and valuation of discounted government bonds based on internal rate of return method.

2. Summary of significant accounting policies (Continued)

2.25 Leases

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

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The liability to lesser is classified as the leasing payables in the statement of financial position. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost except for capitalised portion is charged to the income statement.

2.26 Operational lease

The payment of the operational lease is charged to the income statement on a straight-line basis over the lease period (The incentives received or to be received from the lessor and payments made to intermediaries to acquire the lease contract are also charged to the income statement on a straight-line basis over the lease period). As of December 31, 2018, the Company has paid in advance amounting to TL 2,793,062 arising from operational leases, which is accounted in short term assets.

2.27 Dividend distribution

Listed companies distribute dividend in accordance with the Communiqué No. II-19,1 issued by the Capital Market Board (CMB) which is effective from February 1, 2014.

Companies distribute dividends in accordance with their dividend payment policies settled and dividend payment decision taken in general assembly and also in conformity with relevant legislations. The communiqué does not constitute a minimum dividend rate. Companies distribute dividend in accordance with the method defined in their dividend policy or articles of incorporation. In addition, dividend can be distributed by fixed or variable installments and advance dividend can be paid in accordance with profit on interim financial statements of the Company.

In accordance with the Turkish Commercial Code (TCC), unless the required reserves and the dividend for shareholders as determined in the article of association or in the dividend distribution policy of the company are set aside, no decision may be made to set aside other reserves, to transfer profits to the subsequent year or to distribute dividends to the holders of usufruct right certificates, to the members of the board of directors or to the employees; and no dividend can be distributed to these persons unless the determined dividend for shareholders is paid in cash.

2.28 Derivative financial instruments

The Company uses foreign currency swap contracts. The Company uses end of period market exchange rates and interest rates to calculate market value of foreign exchange swap contracts. As of December 31, 2018, there is a registered financial instruments amounting to TRY 1,068,791,711 which costed to TRY 1,035,650,000 (31 December 2017: None).

As of December 31, 2018, the Company has accrued TRY 33,895,401 arising from valuation of derivative financial instruments.

During the period between January 1 - December 31, 2018, total income resulting from short-term swap contracts' market valuation has been accounted under "investment income" in the income statement. During the period between January 1 - December 31, 2018, TL 99,960,587 total income resulting from short-term swap contracts' realization has been booked under the income statement as an income from derivatives (January 1- December 31,2017 : TL 30,328,747).

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

2. Summary of significant accounting policies (Continued)

2.29 Hedge accounting

All foreign currency payments, collections and investments result in a foreign exchange position. The foreign currency cash flow transaction has faced the risk of exchange rate fluctuations effect the Company's financial position positively or negatively. In order to forecast the transaction made via foreign currencies that have a high possibility of realization and minimize the effect of exchange rate fluctuations on the Company's financial position, hedge accounting has been applied. Changes in the value of the hedge instrument arising from exchange rate changes has been reclassified under equity, changes except for ineffective part of exchange rate which has been reclassified under current period income statement. The gains or losses recognized under equity has been transferred to related profit/ loss accounts when the transaction is completed or the profit for the period is affected by the expected result of the transaction. Effectiveness of hedge transaction has been measured and evaluated in each reporting period.

Due to the Company translates the rent agreement of the head office ,which the Company had foreign currency liability about, to Turkish Lira, the Company ended hedging. Therefore, the accumulated fund in the amount of TL 22.023.479 in equity have been transferred to foreign currency gain/loss account in P&L.

3. Critical accounting estimates and judgements

Preparation of financial statements requires the use of estimations and assumptions which may affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the statement of financial position date and reported amounts of income and expenses during the financial period. Accounting estimates and assumptions are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under current circumstances. Although the estimations and assumptions are based on the best knowledge of the management for existing events and operations, they may differ from the actual results.

The estimation of the ultimate liability for technical expenses that can be incurred for the existing insurance contracts is one of the most critical accounting estimates. Estimation of the insurance liabilities, by nature, includes the evaluation of several uncertainties.

4. Management of insurance and financial risk

Insurance risk

Insurance risk is the probability of risk exposure that is covered under any insurance contracts and the uncertainty of the magnitude of the claims in relation to the risk exposed. Due to the nature of insurance transactions, risks are incidental and hard to anticipate. Maximum risk that the Company bears is limited to the coverage amount specified in the insurance contract.

The Company has adopted central risk assessment policy and this policy is applied in relation to the Company's specified operations and limitations. On principle, in risk assessment, potential claims are measured based on the past experience, similar risk comparisons and risks in relation to production process. Location, geographical area, field of activity and fire and theft measures are also key issues used in the assessment of the insured risk.

The Company's gross insurance gurantees given to insurees are summarized as below:

Branch	**December 31, 2018**	**December 31, 2017**
Motor Third Party Liability	20,830,248,339,935	13,878,960,700,217
Fire	774,813,336,135	617,946,854,752
General Losses	343,647,533,783	296,542,475,228
Marine	206,294,087,037	123,073,966,676
Motor Own Damage	99,646,391,975	60,499,452,006
Health	13,785,470,579	15,408,442,900
Other	316,829,489,853	255,516,232,285
Total	**22,585,264,649,297**	**15,247,948,124,064**

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

4. Management of insurance and financial risk (Continued)

Insurance risk (Continued)

(a) Market risk

i. Cash flow and market interest rate risk

The Company is required to manage its interest rate risks due to price fluctuations in its financial instruments arising from changes in interest rates. The Company's sensitivity to interest rate risk is related to the mismatch in maturities of its assets and liabilities. Interest rate risk is managed by offsetting the assets that are affected by the interest rate fluctuations against the liabilities in same nature.

	December 31, 2018	December 31, 2017
Total	**Effect on profit and profit reserves**	
Market interest rate increase / (decrease)		
+1%	(226,353)	(2,227,928)
-1%	253,313	2,797,224

ii. Foreign currency risk

The Company is exposed to foreign exchange risk through the impact of rate changes at the translation of Turkish Lira pertaining to foreign currency denominated assets and liabilities. These risks are monitored by the analysis of exchange rate position. The details of the Company's foreign currency denominated assets and liabilities as of December 31, 2018 and 2017 are disclosed below:

December 31, 2018

Banks (Foreign Currency)	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	5,165,611	5.2609	27,175,763
EUR	2,029,314	6.0280	12,232,705
GBP	55,032	6.6528	366,117
CHF	157,666	5.3352	841,180
Total			**40,615,765**

Receivables from Insurance Operations	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	28,691,649	5.2609	150,943,896
EUR	17,295,218	6.0280	104,255,574
GBP	107,134	6.6528	712,741
CHF	8,052	5.3352	42,959
Total			**255,955,170**

Marketable Securities	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	23,320,119	5.2609	122,684,814
Total			**122,684,814**

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

4. Management of insurance and financial risk (Continued)

ii. Foreign currency risk (Continued)

Outstanding Claims Reserve	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	(6,818,960)	5.2609	(35,873,867)
EUR	(1,109,743)	6.0280	(6,689,531)
Other			(4,501)
Total			**(42,567,899)**

Payables from Insurance Operations	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	(35,271,589)	5.2609	(185,560,303)
EUR	(7,373,885)	6.0280	(44,449,779)
Other			(2,193,297)
Total			**(232,203,379)**

Net Foreign Currency Position			**144,484,471**

December 31, 2017

Banks (Foreign Currency)	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	6,135,494	3.7719	23,142,470
EUR	1,420,773	4.5155	6,415,500
GBP	92,357	5.0803	469,201
CHF	95,190	3.8548	366,938
Other			3,153
Total			**30,397,262**

Receivables from Insurance Operations	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	45,975,362	3.7719	173,414,468
EUR	10,498,749	4.5155	47,407,101
GBP	93,403	5.0803	474,515
CHF	14,379	3.8548	55,428
Other			37,491
Total			**221,389,003**

Marketable Securities	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	15,141,844	3.7719	57,113,521
Total			**57,113,521**

Outstanding Claims Reserve	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	(6,355,551)	3.7719	(23,972,503)
EUR	(897,954)	4.5155	(4,054,711)
Other			(3,438)
Total			**(28,030,652)**

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

4. Management of insurance and financial risk (Continued)

ii. Foreign currency risk (Continued)

Payables from Insurance Operations	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	(35,179,329)	3.7719	(132,692,911)
EUR	(5,721,273)	4.5155	(25,834,408)
Other			(1,349,223)
Total			**(159,876,542)**

Off-balance sheet liabilities	Amount in Foreign Currency	Exchange Rate	Amount (TL)
USD	(14,322,351)	3.7719	(54,022,476)
Total			**(54,022,476)**
Net Foreign Currency Position			**66,970,116**

Sensitivity to foreign currency risk

The Company's sensitivity to a 10% increase/decrease in USD and Euro currencies are presented below. Sensitivity analysis only includes foreign currency denominated monetary assets outstanding at the end of period and indicates the effects of 10% changes in exchange rates. Positive value indicates an increase in profit/loss and other equity items.

	December 31, 2018		December 31, 2017	
Total	**USD Effect**	**EUR Effect**	**USD Effect**	**EUR Effect**
Profit / Loss Increase	7,937,030	6,534,897	4,298,257	2,393,348
Profit / Loss (Decrease)	(7,937,030)	(6,534,897)	(4,298,257)	(2,393,348)

iii. Price risk

The Company is exposed to price risk due to its investments in fair value price of debt securities. Securities are held for strategical purposes rather than trading purposes. These investments are not actively traded by the Company.

As of the reporting date, if data used in the valuation method is increased/decreased by 10% and all variables remain fixed, since the Company's equity investments are classified as available for sale assets and if they are not disposed of or impaired, net profit/loss would not be affected.

	December 31, 2018	December 31, 2017
Total	**Effect on financial assets available for sale**	
Price increase / (decrease)		
+10%	55,818,742	51,699,283
-10%	(55,818,742)	(51,699,283)

4. Management of insurance and financial risk (Continued)

(b) Credit Risk

Credit risk is the risk that counterparties may be unable to meet the terms of their agreements. Credit risk is managed by guarantees received and procedures applied for the selection of the counterparties. Limits and guarantees are determined based on the assessment of the respective party's financial ability and trading capacity. The Company is exposed to credit risk in Turkey because it mainly performs its operations in Turkey.

As of December 31, 2018, the Company has presented its receivables from insurance operations, guarantees received for these receivables and provision for doubtful receivables in Note 10.

Main reinsurance companies worked with as of December 31, 2018 and 2017 and their latest ratings are as follows:

		2018	
Reinsurance Company	**Standard & Poors Rate**	**Reinsurance Company**	**Standard & Poors Rate**
African Re	A-	Odyssey Re	A-
ARIG	BB-	Partner Re	A+
Asia Capital Re	A-	QBE	A+
China Re	A	Samsung Fire&Marine Re	AA-
Covea Cooperations	A+	Sava Re	A
Everest Re	A+	Scor Global P&C	AA-
Fair Pool	NR	Toa Re	A+
GIC	NR	Tokio Millenium Re	A+
Hannover Re	AA-	Trust Re	NR
Korean Re	A	Unipol Re	NR
Mapfre Re	A	VIG	A+
Milli Re	trA+	XL Catlin Re	A+
MS Amlin AG	A		

		2017	
Reinsurance Company	**Standard & Poors Rate**	**Reinsurance Company**	**Standard & Poors Rate**
Allianz Risk Transfer	AA-	Korean Re	A
Amlin Re	A	Malaysian Re	-
Arab Re	-	Mapfre Re	A
ARIG	-	Milli Re	tr AA-
Asia Capital	A-	Odyssey Re	A-
XLCatlin Re	A+	Scor	AA-
China Re	A	Sompo Japan	A+
Covea	A+	Toa Re	A+
Everest Re	A+	Trust Re	A-
GIC	-	VIG	A+
Hannover Re	AA-	Coface	Fitch: AA-
QBE	A+		

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

4. Management of insurance and financial risk (Continued)

(c) Liquidity risk

Liquidity risk is the possibility of non-performance of the Company's due liabilities. Events that give rise to funding shortages, such as; market deteriorations and decrease in credit ratings, are the main reasons of liquidity risk. The Company manages its liquidity risk through having adequate cash and cash equivalents in order to fulfill its current and possible liabilities by allocating its funds.

The maturity analysis of financial assets and liabilities as of December 31, 2018 is as follows:

December 31, 2018	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5 years and over	No maturity	Total
Cash and cash equivalents	486,866,689	579,752,804	886,833,419	-	-	16,115,750	1,969,568,662
Financial assets available for sale	2,098,623	45,006,797	110,705,441	145,757,862	52,382,624	192,053,371	548,004,718
Financial assets held to maturity	-	-	-	9,752,674	-	-	9,752,674
Investments on policyholders' risk	-	-	-	1,686,241	-	-	1,686,241
Receivables from main operations	173,197,383	185,593,559	153,796,825	37,435,171	-	-	550,022,938
Due from reinsurance companies	-	28,966,554		-	-	-	28,966,554
Reinsurers' share of insurance liabilities	720,110,812	577,060,478	665,232,795	85,291,524	7,657,541	-	2,055,353,150
Equity securities	-	-	-	-	-	430,032	430,032
Derivative financial assets	-	-	33,895,401	-	-	-	33,895,401
Other assets	-	174,005,495	-	-	-	-	174,005,495
Total Assets	**1,382,273,507**	**1,590,385,687**	**1,850,463,881**	**279,923,472**	**60,040,165**	**208,599,153**	**5,371,685,865**
Obligations under repurchase agreements	49,954,452						49,954,452
Insurance liabilities	1,250,723,542	1,072,135,412	1,662,070,037	140,913,416	12,651,318	-	4,138,493,725
Due to reinsurers	36,696,709	71,438,385	338,696,751	-	-	-	446,831,845
Trade and other payables	14,557,153	28,338,768	134,394,297	-	-	-	177,290,218
Total liabilities and shareholders' equity	**1,351,931,856**	**1,171,912,565**	**2,135,161,085**	**140,913,416**	**12,651,318**	**-**	**4,812,570,240**
Liquidity surplus/(deficit)	**30,341,651**	**418,473,122**	**(284,697,204)**	**139,010,056**	**47,388,847**	**208,599,153**	**559,115,625**

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

4. Management of insurance and financial risk (Continued)

(c) Liquidity risk (Continued)

The maturity analysis of financial assets and liabilities as of December 31, 2017 is as follows:

December 31, 2017	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5 years and over	No maturity	Total
Cash and cash equivalents	480,433,483	856,650,464	-	-	-	14,962,540	1,352,046,487
Financial assets available for sale	5,441,840	5,261,658	72,340,849	175,656,024	24,969,289	232,976,957	516,646,617
Investments on policyholders' risk	-	-	-	2,514,414	-	-	2,514,414
Receivables from main operations	100,695,396	159,738,668	201,424,723	17,668,434	-	-	479,527,221
Due from reinsurance companies	-	-	27,969,645	-	-	-	27,969,645
Reinsurers' share of insurance liabilities	386,021,008	371,448,592	600,806,670	73,049,522	41,103,073	-	1,472,428,865
Equity securities	-	-	-	-	-	346,211	346,211
Other assets	-	169,997,744	-	-	-	-	169,997,744
Total Assets	**972,591,727**	**1,563,097,126**	**902,541,887**	**268,888,394**	**66,072,362**	**248,285,708**	**4,021,477,204**
Insurance liabilities	695,798,797	719,819,164	1,474,895,518	122,004,755	66,886,618	-	3,079,404,852
Due to reinsurers	-	-	332,355,206	-	-	-	332,355,206
Trade and other payables	-	-	121,608,067	-	-	-	121,608,067
Total liabilities and shareholders' equity	**695,798,797**	**719,819,164**	**1,928,858,791**	**122,004,755**	**66,886,618**	**-**	**3,533,368,125**
Liquidity surplus/(deficit)	**276,792,930**	**843,277,962**	**(1,026,316,904)**	**146,883,639**	**(814,256)**	**248,285,708**	**488,109,079**

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

4. Management of insurance and financial risk (Continued)

Fair value of the financial assets

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

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

Fair Value Hierarchy

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

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

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

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

	December 31, 2018	**Level 1**	**Level2**	**Level 3**
Available for sale at company's risk	548,004,718	548,004,718	-	-
Available for sale at insurees' risk	1,686,241	1,686,241	-	-
Held to maturity at company's risk	9,752,674	9,752,674	-	-
Equity securities, net	430,032	-	-	430,032
Total	**559,873,665**	**559,443,633**	**-**	**430,032**

	December 31, 2017	**Level 1**	**Level2**	**Level 3**
Available for sale at company's risk	516,646,617	516,646,617	-	-
Available for sale at insurees' risk	2,514,414	2,514,414	-	-
Equity securities, net	346,211	-	-	346,211
Total	**519,507,242**	**519,161,031**	**-**	**346,211**

4. Management of insurance and financial risk (Continued)

Capital management

The Company's objective in capital management is to safeguard the Company's ability to continue as a going concern so that it can continue and to protect shareholder and corporate partners' benefits while sustaining the most effective capital structure in order to reduce capital costs.

The Company measures its adequacy semi-annually in accordance with the Decree "Measurement and Assessment of Capital Adequacy of Insurance and Reinsurance Companies and Pension Funds" published in the Official Gazette No: 26761 on January 19, 2008. As of December 31, 2018, the Company's required capital is TL 611,076,664 (December 31, 2017: TL 501,881,859). As of December 31, 2018, the Company's capital is TL 189,231,369 higher than required capital amount. (December 31, 2016: TL 197,923,266 higher).

5. Segment information

Information related to the operational reporting made by the Company to the chief operating decision-maker in accordance with the "IFRS 8 - Operating Segments" is disclosed in this part.

Numerical limits in "IFRS 8 - Operating Segments" is also considered as the reporting to the chief operating decision-maker in the determination of segments and the premium production and net technical income of the segments are considered while determining a separate operating segment.

The Company has been operating in Turkey. Since the effect of the foreign operations on financial statements is extremely low, geographic segment information is not given.

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

5. Segment information (Continued)

Segment results for period January 1 - December 31, 2018 is as follows:

January 1 - December 31, 2018	Fire	Marine	Motor Own Damage (MOD)	Motor Third Party Liability	General Losses	Health	Other	Undistributed	Total
TECHNICAL INCOME	**142,865,323**	**27,350,861**	**651,470,186**	**725,574,297**	**80,061,086**	**86,236,664**	**89,047,281**	**-**	**1,802,605,698**
Earned Premiums (Net of Reinsurer Share)	142,865,323	27,350,861	651,470,186	725,574,297	80,061,086	86,236,664	89,047,281	-	1,802,605,698
Premiums (Net of Reinsurer Share)	145,060,043	27,712,038	656,512,798	884,093,701	77,558,864	79,191,708	88,688,395	-	1,958,817,547
Change in Unearned Premiums Reserve (Net of Reinsurers Shares and Reserves Carried Forward) (+/-)	(2,194,720)	(361,177)	(5,042,612)	(158,519,404)	2,502,222	7,044,956	358,886	-	(156,211,849)
TECHNICAL EXPENSES	**(120,848,312)**	**(12,538,309)**	**(771,136,111)**	**(770,041,675)**	**(96,669,881)**	**(62,961,612)**	**(52,294,973)**	**-**	**(1,886,490,873)**
Total Claims (Net of Reinsurer Share)	(66,307,610)	(6,694,782)	(588,667,373)	(629,627,558)	(53,640,278)	(8,284,951)	(17,145,982)	-	(1,370,368,534)
Claims Paid (Net of Reinsurer Share)	(49,337,326)	(5,458,696)	(584,467,228)	(370,051,610)	(17,891,474)	(6,488,223)	(16,753,599)	-	(1,050,448,156)
Changes in Outstanding Claims Reserve (Net of Reinsurer Share and Reserves Carried Forward) (+/-)	(16,970,284)	(1,236,086)	(4,200,145)	(259,575,948)	(35,748,804)	(1,796,728)	(392,383)	-	- (319,920,378)
Commission income/(expenses) (Net)	(22,666,657)	(3,527,982)	(108,969,549)	(71,534,657)	(25,932,263)	(36,434,402)	(13,971,460)	-	(283,036,970)
Operating Expenses	(27,640,687)	(1,505,090)	(59,823,543)	(47,580,314)	(14,724,985)	(15,848,911)	(18,538,899)	-	(185,662,429)
Other Operating Income / Expenses	(4,233,358)	(810,455)	(13,675,646)	(21,299,146)	(2,372,355)	(2,393,348)	(2,638,632)	-	(47,422,940)
Technical Profit	**22,017,011**	**14,812,552**	**(119,665,925)**	**(44,467,378)**	**(16,608,795)**	**23,275,052**	**36,752,308**	**-**	**(83,885,175)**
Investment income	-	-	-	-	-	-	-	323,656,488	323,656,488
Foreign exchange income	-	-	-	-	-	-	-	35,831,035	35,831,035
Tax expense	-	-	-	-	-	-	-	(62,484,593)	(62,484,593)
Net Profit / (Loss)	**22,017,011**	**14,812,552**	**(119,665,925)**	**(44,467,378)**	**(16,608,795)**	**23,275,052**	**36,752,308**	**297,002,930**	**213,117,755**

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

5. Segment information (Continued)

Segment results for period January 1 - December 31, 2017 is as follows:

January 1 - December 31, 2017	Fire	Marine	Motor Own Damage (MOD)	Motor Third Party Liability	General Losses	Health	Other	Undistributed	Total
TECHNICAL INCOME	**136,984,754**	**20,072,603**	**565,724,447**	**291,509,783**	**82,213,041**	**75,100,592**	**69,930,379**	**-**	**1,241,535,599**
Earned Premiums (Net of Reinsurer Share)	136,984,754	20,072,603	565,724,447	291,509,783	82,213,041	75,100,592	69,930,379	-	1,241,535,599
Premiums (Net of Reinsurer Share)	146,561,236	20,979,403	604,106,143	486,747,937	85,468,258	86,555,325	85,379,947	-	1,515,798,249
Change in Unearned Premiums Reserve (Net of Reinsurers Shares and Reserves Carried Forward) (+/-)	(9,576,482)	(906,800)	(38,381,696)	(195,238,154)	(3,255,217)	(11,454,733)	(15,449,568)	-	(274,262,650)
TECHNICAL EXPENSES	**(112,207,876)**	**(9,486,412)**	**(671,617,425)**	**(284,430,290)**	**(56,287,996)**	**(50,186,285)**	**(60,631,247)**	**-**	**(1,244,847,531)**
Total Claims (Net of Reinsurer Share)	(58,167,057)	(4,800,130)	(499,062,829)	(232,033,768)	(18,951,154)	(3,656,579)	(33,215,138)	-	(849,886,655)
Claims Paid (Net of Reinsurer Share)	(69,870,300)	(4,593,868)	(454,414,053)	(160,244,363)	(17,481,256)	(4,393,647)	(13,796,167)	-	(724,793,654)
Changes in Outstanding Claims Reserve									-
(Net of Reinsurer Share and Reserves Carried Forward) (+/-)	11,703,243	(206,262)	(44,648,776)	(71,789,405)	(1,469,898)	737,068	(19,418,971)	-	(125,093,001)
Commission income/(expenses) (Net)	(25,314,887)	(2,717,504)	(99,382,206)	(13,843,510)	(21,872,954)	(30,284,857)	(13,171,972)	-	(206,587,890)
Operating Expenses	(24,553,452)	(1,357,378)	(59,320,482)	(29,673,784)	(12,959,724)	(14,392,327)	(12,129,175)	-	(154,386,322)
Other Operating Income / Expenses	(4,172,480)	(611,400)	(13,851,908)	(8,879,228)	(2,504,164)	(1,852,522)	(2,114,962)	-	(33,986,664)
Technical Profit	**24,776,878**	**10,586,191**	**(105,892,978)**	**7,079,493**	**25,925,045**	**24,914,307**	**9,299,132**	**-**	**(3,311,932)**
Investment income	-	-	-	-	-	-	-	165,600,813	165,600,813
Foreign exchange income	-	-	-	-	-	-	-	8,973,165	8,973,165
Tax expense	-	-	-	-	-	-	-	(34,705,332)	(34,705,332)
Net Profit / (Loss)	**24,776,878**	**10,586,191**	**(105,892,978)**	**7,079,493**	**25,925,045**	**24,914,307**	**9,299,132**	**139,868,646**	**136,556,714**

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

6. Tangible assets

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

Costs:	January 1, 2018	Additions	Disposals	Transfers	December 31, 2018
Property for operational use	1,598,569	-	-	-	1,598,569
Motor vehicles	-	2,720,001	-	-	2,720,001
Furniture and fixtures and leased tangible assets	23,957,267	562,303	(778,031)	-	23,741,539
Other tangible assets (including leasehold improvements)	21,412,252	487,572	(847,387)	-	21,052,437
Total	**46,968,088**	**3,769,876**	**(1,625,418)**	**-**	**49,112,546**
Accumulated depreciation: (-)					
Property for operational use	(537,189)	(32,059)	-	-	(569,248)
Motor vehicles	-	(5,962)	-	-	(5,962)
Furniture and fixtures and leased tangible assets	(12,652,946)	(2,962,400)	708,361	-	(14,906,985)
Other tangible assets	(7,580,602)	(2,338,200)	618,219	-	(9,300,583)
Total	**(20,770,737)**	**(5,338,621)**	**1,326,580**	**-**	**(24,782,778)**
Net book value	**26,197,351**	**(1,568,745)**	**(298,838)**	**-**	**24,329,768**

Costs:	January 1, 2017	Additions	Disposals	Transfers	December 31, 2017
Property for operational use	1,598,569	-		-	1,598,569
Furniture and fixtures and leased tangible assets	22,168,371	2,080,127	(291,231)	-	23,957,267
Other tangible assets (including leasehold improvements)	20,331,354	1,409,502	(328,604)	-	21,412,252
Total	**44,098,294**	**3,489,629**	**(619,835)**	**-**	**46,968,088**
Accumulated depreciation: (-)					
Property for operational use	(505,122)	(32,067)	-	-	(537,189)
Furniture and fixtures and leased tangible assets	(10,064,184)	(2,843,781)	255,019	-	(12,652,946)
Other tangible assets	(5,527,156)	(2,214,376)	160,930	-	(7,580,602)
Total	**(16,096,462)**	**(5,090,224)**	**415,949**	**-**	**(20,770,737)**
Net book value	**28,001,832**	**(1,600,595)**	**(203,886)**	**-**	**26,197,351**

The Company has not accounted for any impairment provision for tangible fixed assets in the current period.

Total depreciation expense is TL 20,363,001 (January 1 - December 31, 2017: TL 17,960,439).

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

7. Intangible assets

Costs:	January 1, 2018	Additions	Disposals	Transfers	December 31, 2018
Rights	87,041,349	22,896,917	(3,828)	1,874,122	111,808,560
Advances given for intangible assets	2,600,646	1,222,639	-	(1,874,122)	1,949,163
Total	**89,641,995**	**24,119,556**	**(3,828)**	**-**	**113,757,723**
Accumulated depreciation: (-)					
Rights	(43,097,276)	(15,024,380)	3,827	-	(58,117,829)
Total	**(43,097,276)**	**(15,024,380)**	**3,827**	**-**	**(58,117,829)**
Net book value	**46,544,719**				**55,639,894**

Costs:	January 1, 2017	Additions	Disposals	Transfers	December 31, 2017
Rights	69,825,964	17,215,385	-	-	87,041,349
Advances given for intangible assets	1,577,347	1,023,299	-	-	2,600,646
Total	**71,403,311**	**18,238,684**	**-**	**-**	**89,641,995**
Accumulated depreciation: (-)					
Rights	(30,227,061)	(12,870,215)	-	-	(43,097,276)
Total	**(30,227,061)**	**(12,870,215)**	**-**	**-**	**(43,097,276)**
Net book value	**41,176,250**				**46,544,719**

8. Financial assets

Available for sale debt securities:

	December 31, 2018		
	Cost Value	**Fair Value**	**Book Value**
Private bonds	218,835,732	233,265,994	233,265,994
Investment Funds	142,717,574	168,805,442	168,805,442
Eurobonds	134,782,226	122,684,814	122,684,814
Equities	24,215,782	23,247,732	23,247,732
Government bonds	736	736	736
Total	**520,552,050**	**548,004,718**	**548,004,718**

	December 31, 2017		
	Cost Value	**Fair Value**	**Book Value**
Private bonds	217,089,791	226,548,745	226,548,745
Investment Funds	189,348,522	232,976,958	232,976,958
Eurobonds	58,976,694	57,120,310	57,120,310
Government bonds	736	604	604
Total	**465,415,743**	**516,646,617**	**516,646,617**

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

8. Financial assets (Continued)

Held to maturity debt securities

	December 31, 2018		
	Cost Value	**Fair Value**	**Book Value**
Government bonds	9,194,956	9,752,674	9,752,674
Total	**9,194,956**	**9,752,674**	**9,752,674**

Financial assets at insurees' risk:

	December 31, 2018		
	Cost Value	**Fair Value**	**Book Value**
Government bonds	1,647,665	1,686,241	1,686,241
Total	**1,647,665**	**1,686,241**	**1,686,241**

	December 31, 2017		
	Cost Value	**Fair Value**	**Book Value**
Government bonds	2,495,766	2,514,414	2,514,414
Total	**2,495,766**	**2,514,414**	**2,514,414**

Equity shares under available-for-sale investments:

As of December 31, 2018, the Company has an investment in Merter BV with a 25% participation rate (December 31, 2017: 25%). Merter BV is a real estate company which has an investment in a shopping mall and office building with 50% participation rate. The Company has a final participation rate of 12,5% in the real estates. Since the Company does not have any influence in the financial and operating policy decisions of the investee, this investment is classified as available for sale financial asset and carried at its fair value. The Company has booked impairment provision for Merter BV amounting to TL 30,116,653 in its financial statements as of December 31, 2018 in accordance with the appraisal report obtained from an independent appraisal firm (December 31, 2017: TL 30,116,653).

List of the investments and fair values is as below:

	December 31, 2018		
	Cost Value	**Fair Value**	**Book Value**
Equity investments			
Merter BV (*)	30,116,653	-	-
Tarsim	430,032	-	430,032
Total	**30,546,685**	**-**	**430,032**

	December 31, 2017		
	Cost Value	**Fair Value**	**Book Value**
Equity investments			
Merter BV (*)	30,116,653	-	-
Tarsim	346,211	-	346,211
Total	**30,462,864**	**-**	**346,211**

(*) The Company has booked the impairment provision for Merter BV, one of the affiliates, amounting to TL 30.116.653 in its financial statements as of December 31, 2018 (December 31, 2017: TL 30.116.653).

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

8. Financial assets (Continued)

The foreign currency analysis of financial assets is as follows:

As at December 31, 2018, the Company has Eurobonds with the carrying value of USD 23,350,414 (Note 4, Foreign currency risk) (December 31, 2017: USD 23,881,989).

The maturity analysis of financial assets is as follows:

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

December 31, 2018

	No stated maturity	0-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Private sector bonds	-	43,900,690	110,705,440	145,757,861	55,586,817	355,950,808
Investment funds	168,805,442	-	-	-	-	168,805,442
Equity shares	23,247,732	-	-	430,032	-	23,677,764
Government bonds	-	-	1,686,977	9,752,674	-	11,439,651
Total	**192,053,174**	**43,900,690**	**112,392,417**	**155,940,567**	**55,586,817**	**559,873,665**

December 31, 2017

	No stated maturity	0-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Private sector bonds	-	10,703,498	72,340,849	175,655,419	24,969,289	283,669,055
Investment funds	-	-	2,514,414	604	-	2,515,018
Equity shares	-	-	-	346,211	-	346,211
Government bonds	232,976,958	-	-	-	-	232,976,958
Total	**232,976,958**	**10,703,498**	**74,855,263**	**176,002,234**	**24,969,289**	**519,507,242**

Movement of financial assets:

As at December 31, 2018 and 2017, the movements of financial assets are as follows:

	2018					
	Available for sale financial assets	Equity shares	Held to meturity	Investment funds	Life portfolio	Total
Opening, January 1	283,669,959	346,211	-	232,976,958	2,514,414	519,507,542
Purchases (+)	181,388,302	83,821	9,752,674	240,659,031	-	431,883,828
Sales (-)	(153,198,988)	-	-	(333,921,064)	(827,437)	(487,947,489)
Gain / (loss)	67,339,267	-	-	29,090,517	-	96,429,784
Closing, December 31	**379,198,540**	**430,032**	**9,752,674**	**168,805,442**	**1,686,977**	**559,873,665**

	2017				
	Available for sale financial assets	Equity shares	Investment funds	Life portfolio	Total
Opening, January 1	653,306,406	220,889	210,381,106	2,530,185	866,438,586
Purchases (+)	970,329,904	125,322	175,684,200	-	1,146,139,426
Sales (-)	(1,370,656,005)	-	(183,417,095)	(15,771)	(1,554,088,871)
Gain / (loss)	30,689,354	-	30,328,747	-	61,018,101
Closing, December 31	**283,669,659**	**346,211**	**232,976,958**	**2,514,414**	**519,507,242**

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

9. Cash and cash equivalents

The details of cash and cash equivalents of the Company are as follows:

	December 31, 2018	December 31, 2017
Cash at banks	**1,485,633,722**	**966,463,093**
-time deposits	1,469,517,973	951,500,553
-demand deposits	16,115,749	14,962,540
Bank guaranteed credit card receivables with maturity less than 3 months	483,934,940	385,583,394
Total cash and cash equivalents	**1,969,568,662**	**1,352,046,487**

The maturities of the Company's time deposits as of December 31, 2018 are less than six months (December 31, 2017: Less than six months).

Cash and cash equivalents that are included in the statements of cash flows for the periods January 1 - December 31, 2018 and January 1 - December 31, 2017 are as follows:

	December 31, 2018	December 31, 2017
Total cash and cash equivalents	1,969,568,662	1,352,046,487
Interest accrual on cash at banks (-)	(11,676,242)	(3,036,758)
Blocked time deposits	(144,431,282)	(148,506,702)
Blocked credit card receivables	(50,000,000)	-
Cash and cash equivalents per statement of cash flow	**1,763,461,138**	**1,200,503,027**

Weighted average interest rates of time deposits:

	December 31, 2018	December 31, 2017
TL	18,00 - 30.00	7,75 - 15,95
USD	1,15 - 3,75	0,10 - 4,40
EUR	1,40 - 2,85	0,10 - 1,75

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

	December 31, 2018	December 31, 2017
Foreign currency denominated		
- demand deposits	9,197,224	2,984,682
- time deposits	1,061,423,358	27,452,471
Turkish Lira		
- demand deposits	6,918,525	11,977,858
- time deposits	408,094,615	924,048,082
- bank guaranteed credit card receivables with maturity less than 3 months	483,934,940	385,583,394
Total cash and cash equivalents	**1,969,568,662**	**1,352,046,487**

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

10. Premium receivables and due from reinsurers

As at December 31, 2018 and 2017 premium receivables and due from reinsurers are as follows:

	December 31, 2018	December 31, 2017
Receivables from intermediaries	543,880,157	476,400,578
Receivables from reinsurance companies	28,966,554	27,969,645
Due from insurance operations	**572,846,711**	**504,370,223**
Other receivables	340,483	181,097
Receivables from reinsurance and insurance companies	**573,187,194**	**504,551,320**
Doubtful receivables from main operations - gross	32,693,245	29,239,482
Receivables from main operations - gross	**605,880,439**	**533,790,802**
Provision for receivables from insurance operations	(3,874,390)	(3,514,000)
Provision for doubtful receivables from main operations	(23,016,557)	(22,779,936)
Total provision amount for doubtful receivables	**(26,890,947)**	**(26,293,936)**
Total premium receivables and due from reinsurers	**578,989,492**	**507,496,866**

The aging of premium receivables is as follows:

	December 31, 2018	December 31, 2017
Overdue	40,884,162	67,468,610
Up to 3 months	229,774,615	139,629,603
3 to 6 months	190,490,316	269,061,019
6 months to 1 year	63,383,949	34,656,947
Over 1 year	81,347,397	22,974,623
Receivables from insurance operations - gross	**605,880,439**	**533,790,802**
Provision for receivables from insurance operations (-)	(3,874,390)	(3,514,000)
Provisions for receivables from main operations (-)	(23,016,557)	(22,779,936)
Total provision amount for doubtful receivables	**(26,890,947)**	**(26,293,936)**
Total premium receivables and due from reinsurers	**578,989,492**	**507,496,866**

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

10. Premium receivables and due from reinsurers (Continued)

The movement of provision for doubtful receivables from insurance operations is as follows

	December 31, 2018	December 31, 2017
Opening balance - January 1	(3,514,000)	(1,906,000)
Net change for the period	(360,390)	(1,608,000)
Closing balance, December 31	**(3,874,390)**	**(3,514,000)**

The movement of provision for doubtful receivables from main operations is as follows

	December 31, 2018	December 31, 2017
Opening balance - January 1	(22,779,936)	(21,758,316)
Net change for the period	(236,621)	(1,021,620)
Closing balance, December 31	**(23,016,557)**	**(22,779,936)**

The aging of the overdue but not impaired receivables from policyholders and agencies are as follows:

	December 31, 2018	December 31, 2017
Up to 3 months	8,190,917	5,070,652
Over 3 months	36,047,030	33,158,476
Total	**44,237,947**	**38,229,128**

As at December 31, 2018 and 2017, the details of guarantees and collaterals obtained are as follows:

	December 31, 2018		December 31, 2017	
Types of guarantee	**Receivables**	**Doubtful receivables**	**Receivables**	**Doubtful receivables**
Real Estate Pledges	60,207,941	2,049,952	60,311,241	2,754,202
Letters of Guarantee	42,311,128	-	37,308,334	-
Government Bonds and Equity Shares	376,202	-	240,487	-
Other	1,061,759	-	464,359	-
Total	**103,957,030**	**2,049,952**	**98,324,421**	**2,754,202**

The Company has utilisable guarantes and collaterals in the amount of TL 35,967,624 (31 December 2017: TL 35,013,874).

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

11. Reinsurance share of insurance liabilities

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

Reinsurance Share	December 31, 2018	December 31, 2017
Reinsurers' share of outstanding claims (Note 16)	1,325,805,074	884,582,067
Reinsurers' share of unearned premiums (Note 16)	729,548,076	587,846,798
Total	**2,055,353,150**	**1,472,428,865**

12. Deferred acquisition costs

As at December 31, 2018 and 2017 movements of deferred acquisition costs are as follows:

	December 31, 2018	December 31, 2017
Deferred acquisition costs, gross January 1	119,453,993	74,244,366
Change	1,138,129	45,209,627
Deferred acquisition costs, gross December 31	**120,592,122**	**119,453,993**

13. Other assets

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

	December 31, 2018	December 31, 2017
Claim recovery receivables	21,848,139	19,119,953
Receivable from Agricultural Insurance Pool	12,961,070	11,024,553
Prepaid taxes and funds	5,416,876	4,056,588
Prepaid expenses/Short	5,062,036	10,239,430
Receivable from Turkish Natural Catastrophe Insurance Pool	4,489,770	3,674,862
Other	3,635,482	2,428,365
Total short term other assets	**53,413,373**	**50,543,751**

	December 31, 2018	December 31, 2017
Claim recovery receivables	29,909,283	23,391,049
Provision for claim recovery (-)	(8,061,144)	(4,271,096)
Claim recovery receivables under legal follow-up	83,717,544	72,231,867
Provision for net claim recovery receivables under legal follow-up (-)	(83,717,544)	(72,231,867)
Subrogation receivables	**21,848,139**	**19,119,953**

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

13. Other assets (Continued)

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

	December 31, 2018	December 31, 2017
Prepaid expenses /Long term	149,980	2,963,592
Total long term other assets	**149,980**	**2,963,592**

14. Equity

As of December 31, 2018, the Company's total amount of nominal shares is 30,600,000,000 (December 31, 2017: 30,600,000,000) which has all been paid. The face value of the Company's common stocks is TL 0,01 each and the total nominal amount is TL 306,000,000 (December 31, 2017: TL 306,000,000).

Movement of common stocks at opening balance and closing balance is as follows:

	January 1, 2018		Issued Capital		Amortised		December 31, 2018	
	Unit	Nominal TL	Unit	Nominal TL	Unit	Nominal TL	Unit	Nominal TL
Paid	30,600,000,000	306,000,000	-	-	-	-	30,600,000,000	306,000,000
Total	**30,600,000,000**	**306,000,000**	-	-	-	-	30,600,000,000	306,000,000

	January 1, 2017		Issued Capital		Amortised		December 31, 2017	
	Unit	Nominal TL	Unit	Nominal TL	Unit	Nominal TL	Unit	Nominal TL
Paid	30,600,000,000	306,000,000	-	-	-	-	30,600,000,000	306,000,000
Total	**30,600,000,000**	**306,000,000**	-	-	-	-	30,600,000,000	306,000,000

Movement of legal reserves is as follows:

Legal Reserves	2018	2017
Opening balance, January 1	95,403,929	178,468,101
Transfers to retained earnings	-	(83,064,172)
Addition related to profit for the period	16,826,683	-
Closing balance, December 31	**112,230,612**	**95,403,929**

Actuarial gain / (loss)

In accordance with changes regarding "IAS 19 - Employee Benefits" effective as of January 1, 2013, net-off deferred tax actuarial loss amounting to TL 4,502,524 (net off deferred tax: TL 3,602,019) resulting from retirement pay liability calculation has been accounted to extraordinary reserves under equity (December 31, 2017: TL 4,053,534 (net off deferred tax: TL 3,242,827)).

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

14. Equity (Continued)

Movement of actuarial loss arising from employee benefit is as follows:

Actuarial Loss	**2018**	**2017**
Opening balance, January 1	4,053,534	4,340,507
Change for the period	448,990	(286,973)
Closing balance, December 31	**4,502,524**	**4,053,534**

Available for sale investments fund:

The unrealized gains and losses that result from the changes in the fair values of available for sale financial assets are directly recognized in the shareholders' equity as "Available for sale investments fund". Movement of available for sale investments fund is below:

Available for sale investments fund	**2018**	**2017**
Opening balance, January 1	(14,469)	(7,203,046)
Increase/decrease in value recognized under the shareholders' equity in the current period	(10,624,208)	7,188,577
Closing balance, December 31	**(10,638,677)**	**(14,469)**

Hedge Accounting

The Company recognizes the changes in value of hedged asset by the foreign currency differences under equity. As of December 31, 2018 The Company has no hedge assets.(December 31, 2017 : TL 22,023,479; net of tax: TL 17,618,782).

December 31, 2017				
Amount of deposit	**Currency**	**Exchange rate at the beginning**	**Exchange rate at the end**	**Exchange difference**
14,322,351	USD	2.2342	3.7719	(22,023,479)

15. Earning Per Share

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

	2018	**2017**
Profit for the year	213,117,755	136,556,714
Weighted average number of shares with nominal value of TL 0.01 nominal value per share	30,600,000,000	30,600,000,000
Earnings per share	**0.0070**	**0.0045**

As of December 31, 2018 capital of the Company consists of 30,600,000,000 shares with nominal value of TL 0.0070 (December 31, 2017: 30,600,000,000 shares with nominal value of TL 0.0045).

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

16. Insurance liabilities

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

Gross	**December 31, 2018**	**December 31, 2017**
Outstanding claims provision	2,367,199,719	1,606,010,832
Reserve for unearned premiums	1,769,723,313	1,471,777,825
Life actuarial mathematical reserves	1,326,272	1,448,214
Life profit share provision	147,364	160,913
Bonus and rebates provision	97,057	7,068
Total	**4,138,493,725**	**3,079,404,852**

Reinsurance Share	**December 31, 2018**	**December 31, 2017**
Reinsurers' share of outstanding claims	1,325,805,073	884,582,067
Reinsurers' share of unerned premiums	729,548,077	587,846,798
Total	**2,055,353,150**	**1,472,428,865**

Net	**December 31, 2018**	**December 31, 2017**
Net outstanding claims	1,041,394,646	721,428,765
Net unearned premiums	1,040,175,236	883,931,027
Life actuarial mathematical reserves	1,326,272	1,448,214
Life profit share provision	147,364	160,913
Bonus and rebates provision	97,057	7,068
Total	**2,083,140,575**	**1,606,975,987**

Movements in insurance liabilities and reinsurance assets Outstanding Claims:

		2018	
	Gross	**Reinsurers' share**	**Net**
Opening balance, January 1	1,606,010,832	(884,582,067)	721,428,765
Net change	761,188,887	(441,223,006)	319,965,881
Closing balance - December 31	**2,367,199,719**	**(1,325,805,073)**	**1,041,394,646**

		2017	
	Gross	**Reinsurers' share**	**Net**
Opening balance, January 1	1,045,955,010	(446,542,113)	599,412,897
Net change	560,055,822	(438,039,954)	122,015,868
Closing balance - December 31	**1,606,010,832**	**(884,582,067)**	**721,428,765**

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

16. Insurance liabilities (Continued)

Unearned Premium Reserve:

	2018		
	Gross	**Reinsurers' share**	**Net**
Opening balance - January 1	1,606,010,832	(884,582,067)	721,428,765
Net change	163,712,481	155,033,990	318,746,471
Closing balance - December 31	**1,769,723,313**	**(729,548,077)**	**1,040,175,236**

	2017		
	Gross	**Reinsurers' share**	**Net**
Opening balance - January 1	1,046,533,629	(447,120,735)	599,412,894
Net change	425,244,196	(140,726,063)	284,518,133
Closing balance - December 31	**1,471,777,825**	**(587,846,798)**	**883,931,027**

Life mathematical provisions:

	2018		**2017**	
	Number of Policies	**Mathematical Reserves**	**Number of Policies**	**Mathematical Reserves**
Opening balance, January 1	195	1,609,127	250	1,588,295
Addition/(leavings) in the current period	(14)	(135,491)	(57)	20,832
Closing balance, December 31	**181**	**1,473,636**	**193**	**1,609,127**

Mathematical reserves amounting to TL 1,326,272 (December 31, 2017: TL 1,448,214) and reserves for the policies with financial assets at insurees' risk amounting to TL 147,364 (December 31, 2017: TL 160,913) and cancelled policies together with their mathematical reserves are included in the table above.

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

16. Insurance liabilities (Continued)

Subrogation income:

The amounts of the net salvage and subrogation income which are collected and the accrued income amounts from salvage and subrogation receivables with respect to the claims paid by the Company are as follow:

	December 31, 2018			December 31, 2017		
Claim recovery accruals	**Gross**	**Reinsurers' share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
Motor Own Damage	24,876,295	-	24,876,295	21,714,472	-	21,714,472
MTPL	4,246,439	(507,324)	3,739,115	597,075	(7,565)	589,510
Fire	1,062,428	(186,425)	876,003	1,050,612	(164,321)	886,291
General Liability	115,551	(79,713)	35,838	9,345	(5,093)	4,252
General Losses	239,492	(183,528)	55,964	3,610	(1,805)	1,805
Marine	347,783	(35,845)	311,938	116,809	(8,947)	107,862
Suretyship	14,130	-	14,130	180,745	(93,888)	86,857
Total	**30,902,118**	**(992,835)**	**29,909,283**	**23,672,668**	**(281,619)**	**23,391,049**

	December 31, 2018			December 31, 2017		
Claim recovery collections	**Gross**	**Reinsurers' share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
Motor Own Damage	209,470,121	-	209,470,121	169,169,066	(572)	169,168,494
MTPL	6,314,630	(294,645)	6,019,985	4,315,726	(2,150)	4,313,576
Fire	4,342,443	(2,317,410)	2,025,033	2,776,860	(523,522)	2,253,338
General Liability	57,476	(13,357)	44,119	494,864	(8,856)	486,008
General Losses	539,228	(240,590)	298,638	176,389	(87,555)	88,834
Legal Expenses	12,886	-	12,886	11,193	-	11,193
Marine	2,429,948	(677,614)	1,752,334	2,024,039	(687,680)	1,336,359
Suretyship	137,216	(93,443)	43,773	22,392	(11,477)	10,915
Accident	36,000	-	36,000	21,020	-	21,020
Water Craft	16,945	(4,986)	11,959	49,491	(33,950)	15,541
Total	**223,356,893**	**(3,642,045)**	**219,714,848**	**179,061,040**	**(1,355,762)**	**177,705,278**

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

16. Insurance liabilities (Continued)

Claims development tables

The Company prepares the claim development table in accordance with the Regulation on Technical Reserves. As at December 31, 2018 and 2017, claim development table of the Company is as follows:

	2011 and earlier	2012	2013	2014	2015	2016	2017	2018	Total
Claims realized in the accident period	3,039,542,224	805,358,245	673,026,038	838,172,102	841,913,192	930,621,837	1,366,238,878	1,564,047,984	10,058,920,500
1 year later	848,514,061	202,466,775	160,175,099	239,937,131	216,699,946	420,934,178	793,577,616		2,882,304,806
2 years later	280,941,496	63,973,783	84,819,582	144,014,862	126,303,760	345,579,004			1,045,632,487
3 years later	215,574,089	54,371,895	67,301,174	120,606,234	110,917,361				568,770,753
4 years later	195,198,133	51,998,615	65,886,722	133,086,346					446,169,816
5 years later	158,347,256	47,498,155	65,079,638						270,925,049
6 years later	146,796,078	48,136,076							194,932,154
7 years later	144,367,135								144,367,135
8 years later	108,751,795								108,751,795
9 years later	79,322,305								79,322,305
10 years later	54,942,962								54,942,962
11 years later	41,028,231								41,028,231
12 years later	26,993,482								26,993,482
13 years later	23,124,160								23,124,160
14 years later	1,582,919								1,582,919
Total incurred gross provision for outstanding claims as at December 31, 2018	**5,365,026,326**	**1,273,803,544**	**1,116,288,253**	**1,475,816,675**	**1,295,834,259**	**1,697,135,019**	**2,159,816,494**	**1,564,047,984**	**15,947,768,554**

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

16. Insurance liabilities (Continued)

	2010 and earlier	2010	2011	2012	2013	2014	2015	2017	Total
Claims realized in the accident period	3,527,165,680	642,284,589	805,349,551	673,019,738	838,172,102	841,913,192	930,621,837	1,366,238,878	9,624,765,567
1 year later	1,111,899,142	161,696,125	202,475,497	160,181,399	239,937,131	216,699,946	420,934,178		2,513,823,418
2 years later	216,152,216	88,508,996	63,973,821	84,819,582	144,014,862	126,303,760			723,773,237
3 years later	182,519,445	49,873,092	54,371,949	67,301,174	120,606,234				474,671,894
4 years later	155,996,328	52,872,654	51,998,685	65,886,722					326,754,389
5 years later	141,330,484	29,563,327	47,498,241						218,392,052
6 years later	128,243,720	26,569,822							154,813,542
7 years later	125,069,851								125,069,851
8 years later	88,041,639								88,041,639
9 years later	65,089,788								65,089,788
10 years later	40,192,083								40,192,083
11 years later	29,985,667								29,985,667
12 years later	19,078,538								19,078,538
13 years later	3,527,562								3,527,562
14 years later	1,342,272								1,342,272
Total incurred gross provision for outstanding claims as at December 31, 2017	**5,835,634,415**	**1,051,368,605**	**1,225,667,744**	**1,051,208,615**	**1,342,730,329**	**1,184,916,898**	**1,351,556,015**	**1,366,238,878**	**14,409,321,499**

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

16. Insurance liabilities (Continued)

Additional reserves in accordance with ultimate liability calculations:

	December 31, 2018			December 31, 2017		
Line of Businesses	Applied Method	Gross Additional Provision	Net Additional Provision	Applied Method	Gross Additional Provision	Net Additional Provision
Motor Third Party Liability	FS	469,201,269	469,201,269	FS	264,561,317	264,561,317
Fire	BF	8,977,040	(1,603,399)	BF	14,244,613	232,438
Health	SCL	638,476	11,809	SCL	403,593	(35,712)
General Loss	BF	12,530,010	306,358	BF	8,453,691	346,676
Marine	BF	1,035,874	(159,238)	BF	1,246,697	177,922
Motor Own Damage	SCL	(15,663,332)	(15,663,332)	SCL	(19,293,396)	(19,293,396)
General Liability	SCL/Loss Ratio	84,270,336	27,964,168	SCL/Loss Ratio	63,187,111	24,715,804
Other	SCL	2,904,185	78,176	SCL	2,188,978	248,752
Total		**563,893,858**	**480,135,809**		**334,992,604**	**270,953,801**

The Company actuary determined the threshold values regarding the peak claims considered as significant claims using the plot analysis. With this method the files, exceeds the determined limits considered as significant claims. The claim process of these files is different from other files. For these files, additional provision calculations were performed and added to the provisions. As of December 31, 2018 and 2017, large claim limits are as follows;

	2018		2017	
Line of Businesses	Ultimate Loss	Large Claim Level	Ultimate Loss	Large Claim Level
Fire	BF	999,999	BF	999,999
General Loss	BF	999,999	BF	999,999
Marine	BF	499,999	BF	499,999
Personal Accident	BF	299,999	BF	299,999
Motor Vehicle Facultative Third Party Liability	FS	149,999	FS	149,999
Financial Losses	SCL	50,000	SCL	50,000
General Third Party Liability	SCL	200,000	SCL	200,000

In branches where significant claim determination is performed, additional provision calculations were performed for these files added to the Outstanding Claims Provisions. Additional gross amounts, as the LoBs are as follows.

Line of Businesses	Gross Additional Amount	Net IBNR
General Liability	15,879,458	3,432,933
Fire and Natural Disaster	13,237,878	1,301,037
General Losses	11,974,329	88,304
Facultative Public Liability	1,543,888	1,543,888
Financial Losses	1,147,521	71,904
Marine	521,576	65,292
Accident	256,366	20,376

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

17. Provisions for other liabilities and charges

The details of provisions that are classified under provisions for expense accruals in statement of financial position are as follows:

	December 31, 2018	December 31, 2017
Commission provision	16,206,481	13,551,374
Security fund provision	10,312,123	5,767,191
Performance premium provision	7,131,516	7,412,366
Unused vacation provision	1,833,998	1,317,303
Expense accruals	1,847,440	1,820,496
Legal disputes provision	1,831,997	1,767,737
BITT provision	1,003,932	2,348,359
Portfolio management fee	-	1,491,914
Other	165,986	1,321,333
Total	**40,333,473**	**36,798,073**

Commitments and contingent liabilities which are not recognised as liabilities are disclosed in Note 30 and 31.

The movement of the commission provisions are as follows:

	December 31, 2018	December 31, 2017
Opening balance, January 1	13,551,374	12,708,520
Change during the year, net	2,655,107	842,854
Total	**16,206,481**	**13,551,374**

The movement of the performance premium provision are as follows:

	December 31, 2018	December 31, 2017
Opening balance, January 1	7,412,366	7,460,556
Change during the year, net	(280,850)	(48,190)
Total	**7,131,516**	**7,412,366**

The movement of the security fund provision are as follows:

	December 31, 2018	December 31, 2017
Opening balance, January 1	5,767,191	2,041,410
Change during the year, net	4,544,932	3,725,781
Total	**10,312,123**	**5,767,191**

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

17. Provisions for other liabilities and charges (Continued)

The movement of the unused vacation provision are as follows:

	December 31, 2018	December 31, 2017
Opening balance, January 1	1,317,303	904,395
Change during the year, net	516,695	412,908
Total	**1,833,998**	**1,317,303**

The movement of the expense accruals are as follows:

	December 31, 2018	December 31, 2017
Opening balance, January 1	1,820,496	7,847,428
Change during the year, net	26,944	(6,026,932)
Total	**1,847,440**	**1,820,496**

18. Payables to reinsurers, trade and other payables

	December 31, 2018	December 31, 2017
Payables to reinsurers	418,719,301	308,244,281
Payables to SSI regarding medical expenses	28,112,544	24,110,925
Payables due to main operations	**446,831,845**	**332,355,206**
Payables to contracted institutions	54,098,804	8,522,694
Taxes payable	31,884,957	32,009,499
Payables to suppliers	26,701,130	15,121,193
Payables to Turkish Catastrophe Insurance Pool	18,902,758	24,947,212
Other	5,369,096	4,209,396
Total other short term payables	**136,956,745**	**84,809,994**
Total financial liabilities trade and other payables, deferred income	**583,788,590**	**417,165,200**

Movement of SSI regarding medical expenses is as follows:

	2018	2017
Opening Balance, 1 January	24,110,925	4,268,447
Premiums Ceded to SSI	100,356,222	49,964,536
Premium payments to SSI in the current period	(96,354,603)	(30,122,058)
Closing balance, December 31	**28,112,544**	**24,110,925**

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

19. Provision for retirement benefit obligation

	December 31, 2018	December 31, 2017
Provision for employment termination benefits	6,503,684	6,172,934
Total	**6,503,684**	**6,172,934**

Under the terms of 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 6 March 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.

Employee termination benefits provisions are legally not a subject of funding. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IAS 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, 2018 and 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. As of December 31, 2018, the provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 20.30% (December 31, 2017: 11.92%) and a discount rate of 16.40% (December 31, 2017: 10.90%), resulting in a real interest rate of 4% (December 31, 2017: 3%). The anticipated rate of forfeitures is considered and estimated rate of the Company's retirement pay is also taken into account.

However, during this estimation, the employee termination benefits mentioned in subparagraph 5 of paragraph 1 of article 14 of the Labor Law numbered 1475 to be made in accordance with other conditions excluding the ages stipulated in clauses (a) and (b) of subparagraph A of paragraph one of article 60 of the Law numbered 506 or due to termination of employees on their own will after having completed the insurance period required for retirement pension (15 years) and the number of premium payment days (3600 days) have been excluded from the payments to be incurred by the Company.

As the maximum liability is updated semi-annually, the maximum amount of TL 6,017.60 effective from January 1, 2018 has been taken into consideration in calculation of provision from employment termination benefits (As of January 1, 2017, the ceiling on severance pay is TL 5,001.76 per month). Movement of employee termination benefits provisions are presented in the statement below:

	2018	2017
Opening balance, January 1	6,172,934	6,335,367
Charge for the period	1,156,310	1,278,953
Actuarial gain/loss	448,990	(286,973)
Retirement payments	(1,274,550)	(1,154,413)
Closing balance, December 31	**6,503,684**	**6,172,934**

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

20. Net insurance premium income

The distribution of premium income is as follows:

	January 1 –	December 31, 2018		January 1 –	December 31, 2017	
	Gross	**Reinsurers' share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
Written premium	3,417,291,899	(1,458,473,352)	1,958,818,547	2,635,582,300	(1,119,780,370)	1,515,801,930
Change in unearned premium reserve	(297,898,959)	141,686,110	(156,212,849)	(476,380,178)	202,113,847	(274,266,331)
Total premium revenue	**3,119,392,940**	**(1,316,787,242)**	**1,802,605,698**	**2,159,202,122**	**(917,666,523)**	**1,241,535,599**
Fire	603,427,863	(458,367,820)	145,060,043	551,330,600	(404,771,683)	146,558,917
Marine	75,240,696	(47,528,658)	27,712,038	48,224,689	(27,245,286)	20,979,403
Motor Own Damage	697,318,864	(40,806,066)	656,512,798	641,095,251	(36,989,108)	604,106,143
Motor Third Party Liability	1,148,315,009	(264,221,308)	884,093,701	615,463,625	(128,715,688)	486,747,937
Other	329,981,035	(241,292,140)	88,688,895	266,338,443	(180,958,496)	85,379,947
General Losses	286,340,038	(208,781,174)	77,558,864	254,447,444	(168,979,186)	85,468,258
Health	276,667,894	(197,476,186)	79,191,708	258,676,248	(172,120,923)	86,555,325
Life	500	-	500	6,000	-	6,000
Total	**3,417,291,899**	**(1,458,473,352)**	**1,958,818,547**	**2,635,582,300**	**(1,119,780,370)**	**1,515,801,930**

21. Insurance claims and claims recovered from reinsurers

December 31, 2018

	Gross	**Reinsurers' Share**	**Net**
Paid Claims	1,459,520,042	(409,071,886)	1,050,448,156
Change in outstanding claims	761,188,887	(441,223,006)	319,965,881
Change in mathematical reserves	(135,491)	-	(135,491)
Bonus and rebates provision	61,622,938	(61,532,950)	89,988
Total	**2,282,196,376**	**(911,827,842)**	**1,370,368,534**

December 31, 2017

	Gross	**Reinsurers' Share**	**Net**
Paid Claims	1,053,269,947	(328,476,293)	724,793,654
Change in outstanding claims	559,477,203	(434,470,351)	125,006,852
Change in mathematical reserves	82,541	-	82,541
Bonus and rebates provision	(1,179,276)	1,182,884	3,608
Total	**1,611,650,415**	**(761,763,760)**	**849,886,655**

22. Taxes

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

	December 31, 2018	**December 31, 2017**
Income taxes payable	66,694,754	40,115,659
Prepaid income taxes	(54,453,247)	(31,394,677)
Tax payable/(asset)	**12,241,507**	**8,720,982**

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

22. Taxes (Continued)

Deferred tax

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

The details of deferred tax assests and liabilities are as follows:

	Cumulative temporary differences		Deferred tax assets/ (liabilities)	
	December 31, 2018	**December 31, 2017**	**December 31, 2018**	**December 31, 2017**
Discounting in outstanding claims	168,009,941	121,644,555	36,962,187	26,761,802
Impairment on financial assets	30,116,655	30,116,655	6,625,664	6,625,664
Unexpired risks reserve	20,653,059	476,123	4,543,673	104,747
Claim handling	14,999,175	10,393,275	2,999,835	2,078,655
Bonus provision	7,131,518	7,412,368	1,568,934	1,630,721
Employment termination benefit	6,503,685	6,172,934	1,300,737	1,234,587
Doubtful receivable provisions	3,874,391	3,514,000	852,366	773,080
General expense provision	3,552,177	3,572,559	781,479	785,963
Unused vacation provision	1,834,000	1,317,308	403,480	289,807
Other	14,962,773	(4,693,582)	3,291,810	(1,032,588)
Useful life of tangible and intangible assets	(18,331,327)	(9,849,205)	(4,032,892)	(2,166,825)
Claim reserves	(20,653,059)	(476,123)	(4,543,673)	(104,747)
Equalization reserve	(74,904,423)	(63,940,659)	(16,478,973)	(14,066,945)
Total deferred tax assets / liabilities	**157,748,565**	**105,660,208**	**34,274,627**	**22,913,921**

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017," Law on the Amendment of Some Tax Acts and Some Other Laws", corporate tax rate for the years 2018, 2019 and 2020 has increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2017 are calculated with 22% tax rate for the temporary differences which will be realized in 2018, 2019 and 2020, and with 20% tax for those which will be realized after 2021 and onwards.

Actual tax expense reconciliation is as follow:

	2018	**2017**
Profit before deferred tax and corporate tax	275,602,348	171,262,046
Tax Rate	22%	20%
Calculated tax expense (-)	(60,632,517)	(34,252,409)
Tax rate change effect	(430,057)	1,875,751
The effect of non-deductible expenses	(1,422,019)	(2,328,674)
Total tax expenses	**(62,484,593)**	**(34,705,332)**

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

23. Investment Income

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

	January 1- December 31, 2018	January 1– December 31, 2017
Cash and cash equivalents interest income	134,572,208	72,908,779
Available for sale interest income	89,123,693	62,363,287
Investment Income from derivatives	99,960,587	30,328,747
Total	**323,656,488**	**165,600,813**

24. Commission income and expenses

Commission income and expenses for the year ended December 31, 2018 and 2017 are as follows:

	January 1– December 31, 2018	January 1– December 31, 2017
Commissions Income	185,468,908	159,767,647
Commissions Expense	(468,505,878)	(366,355,537)
Total	**(283,036,970)**	**(206,587,890)**

25. Other operating income and expenses

Other operating income for the year ended December 31, 2018 and 2017 are as follows:

	January 1 – December 31, 2018	January 1 – December 31, 2017
Income from assistance services	5,939,710	3,821,688
State supported agriculture insurances commissions	1,135,070	723,867
Other	1,303,231	392,085
Total	**8,378,011**	**4,937,640**

Other operating expenses for the year ended December 31, 2018 and 2017 are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Donation expense	(15,960,000)	(6,985,000)
Provision for doubtful receivables	(15,937,735)	(15,723,304)
Security fund provision	(10,312,123)	(5,767,192)
Bank expenses	(6,068,798)	(3,036,841)
Portfolio management fee	(2,312,055)	(1,489,626)
Retirement pay provision	(1,156,310)	(1,278,953)
Unused vacation provision	(734,404)	(688,184)
Disallowable expenses	(532,217)	(964,163)
Other	(2,787,309)	(2,991,041)
Total	**(55,800,951)**	**(38,924,304)**

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

26. Expenses by nature

	January 1 - December 31, 2018	January 1 - December 31, 2017
Personnel expenses (*)	(86,697,215)	(75,829,468)
Depreciation expenses	(20,363,001)	(17,960,439)
Assistance expenses	(16,995,143)	(9,053,051)
Information technology expenses	(13,968,033)	(12,881,357)
Rent expenses	(9,969,274)	(9,712,100)
Advertisement expenses	(8,157,833)	(2,886,405)
Transportation expenses	(6,340,803)	(4,759,529)
Meeting and training expenses	(5,573,241)	(5,226,925)
Social relief expenses (*)	(4,247,148)	(3,695,946)
Outsourcing service expenses	(3,458,983)	(5,222,990)
Repair and maintanence	(2,764,470)	(2,459,355)
Communication expenses	(1,367,610)	(1,387,774)
Other	(5,759,675)	(3,310,983)
Total	**(185,662,429)**	**(154,386,322)**

(*) Personnel expenses for the year ended December 31, 2018 and 2017 are as follows:

	January 1 – December 31, 2018	January 1 – December 31, 2017
Salary and bonus payments	(72,854,650)	(61,945,775)
Insurance payments	(11,377,334)	(10,130,654)
Other payments	(6,712,379)	(7,448,985)
Total	**(90,944,363)**	**(79,525,414)**

27. Foreign exchange gain / (loss), net

Foreign exchange gain / (loss), net for the year ended December 31, 2018 and 2017 are as follows:

	January 1 - December 31, 2018	January 1 - December 31, 2017
Foreign exchange gains (+)	314,166,805	111,807,006
Foreign exchange losses (-)	(278,335,770)	(102,833,841)
Foreign exchange gains, net	**35,831,035**	**8,973,165**

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

28. Blocked securities and bank deposits

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

	January 1 - December 31, 2018	January 1 - December 31, 2017
Blocked bank deposits	194,431,282	148,506,702
Blocked securities	1,686,241	2,514,027
Total	**196,117,523**	**151,020,729**

29. Related parties

The details of transactions between the Company and other related parties are disclosed below:

Due from /to related parties	**December 31, 2018**	**December 31, 2017**
Shareholder's subsidiaries	62,857,652	41,157,345
Shareholders	61,264	37,671
Total	**62,918,916**	**41,195,016**

Banks	**December 31, 2018**	**December 31, 2017**
Shareholder's subsidiaries	322,410,622	455,146,116
Total	**322,410,622**	**455,146,116**

Marketable securities	**December 31, 2018**	**December 31, 2017**
Shareholder's subsidiaries	48,709,250	45,670,100
Total	**48,709,250**	**45,670,100**

Investment funds	**December 31, 2018**	**December 31, 2017**
Shareholder's subsidiaries	168,805,699	232,967,097
Total	**168,805,699**	**232,967,097**

Written Premium	**December 31, 2018**	**December 31, 2017**
Shareholder's subsidiaries	154,398,316	163,873,621
Shareholders	1,854,496	3,186,378
Total	**156,252,812**	**167,059,999**

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

29. Related parties (Continued)

Claims Paid

	December 31, 2018	December 31, 2017
Shareholder's subsidiaries	50,063,599	63,513,075
Shareholders	-	154
Total	**50,063,599**	**63,513,229**

Investment Income

	December 31, 2018	December 31, 2017
Shareholder's subsidiaries	85,857,323	55,466,309
Total	**85,857,323**	**55,466,309**

Commission Expense

	December 31, 2018	December 31, 2017
Shareholder's subsidiaries	109,359,530	109,097,706
Total	**109,359,530**	**109,097,706**

30. Commitments

Provision for lawsuit

Provision for lawsuit against the Company is classified under insurance liabilities and premium receivables.

As at December 31, 2018 and 2017, details of the provision for lawsuit against to the Company are as follows:

	December 31, 2018	December 31, 2017
Outstanding claims under litigation	483,639,563	352,548,626
Subrogation receivable litigations, gross	111,065,416	96,509,691
Trade receivable litigations and executions	5,290,428	4,123,647
Total	**599,995,407**	**453,181,964**

31. Contingencies

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

As of June 24, 2014, Tax Inspection Board of T.C. Ministry of Finance has launched a limited tax investigation related to the Banking and Insurance Transaction Tax for the years 2009, 2010, 2011 and 2012 and as a consequence of the tax inspection, tax of TL 1,8 million and tax penalty of TL 2,8 million for the year 2009, tax of TL 2 million and tax penalty of TL 3 million for the year 2010 , tax of TL 3 million and tax penalty of TL 4,6 million for the year 2011 and tax of TL 4,3 million and tax penalty of TL 6,4 million for the year 2012 and in total tax and tax penalty of 27,9 million related to Banking Insurance Transaction Tax were imposed to the Company. The Company has not booked any provision in the financial statements since it believes that its practice is in compliance with the regulations. On January 16, 2015, the Company filed a reconciliation request for the year 2009 and on February 20, 2015 filed a reconciliation request for the years 2010, 2011 and 2012 to the Large Taxpayers Office Commission of Reconciliation. The Company has interviewed with the Large Taxpayers Office on February 15, 2018. Due to there is no agreement, the Company has filed a suit against the institution the Large Taxpayers Office. From the suits related to Banking Insurance Transaction Tax on salvage transaction in 2009, 2010, 2011 and 2012, the Tax Court has given the rule for the benefit of the Company. Suits related to the years of 2011 and 2012 continue at the Tax Court.

32. Subsequent events

There are no significant events that occurred after the reporting period except for the matters stated in the footnotes.

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