(Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish, See Note 2.1.1)

VHV Reasürans Anonim Şirketi

31 December 2018
Financial Statements
Together With
Independent Auditors' Report Thereon

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of VHV Reasürans Anonim Şirketi

A) Audit of the Financial Statements

Opinion

We have audited the accompanying balance sheet of VHV Reasürans Anonim Şirketi ("the Company") as at 31 December 2018 and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year ended in accordance with the accounting principles and standards in force as per the insurance legislation and that are not regulated by them for "Insurance Accounting and Financial Reporting Legislation" including Turkish Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with the accounting principles and standards in force as per the insurance legislation and Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") ("Standards on Auditing issued by POA"). 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 are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Turkey and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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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.

Accounting policies for recognition of insurance technical reserves and estimations and assumptions used in calculation of insurance technical reserves please refer to footnote 2.26 and 17.

Key Audit Matter	How our audit addressed the key audit matter
As of 31 December 2018, the Company's total technical reserves amounting to TL 9.691.970 and constitute 6 percent of total liabilities. The Company provides provisions for outstanding claims amounting to TL 5.606.736. There are also incurred but not reported provisions ("IBNR") amounting to TL 1.086.893 in the provision for outstanding claims for possible future claims. The Management used actuarial assumptions and estimations for calculating the outstanding claims reserve with the involvement of registered actuary of Company. Due to the nature of the technical reserves calculations which has uncertainty estimations and management judgments, this matter is determined to be a key audit matter.	Our auditing procedures for the matter are given as below: We evaluated the assumptions and estimations of the Company's outstanding claims provision calculations with our actuarial specialists. In this context, we got support by our IT specialists to evaluate the actual outstanding claims internal controls and effectiveness of the process. We chose samples and tested by getting supported documents of the actual outstanding claims. The lawsuit files of the outstanding claims were controlled by getting letter of confirmation from company lawyer. We controlled the mathematical accuracy of the calculations and average file and opening amounts which are determined by company actuarial specialists. We evaluated the calculation amount of each case in technical reserves. We made recalculation for technical reserves. We controlled the analyzes accuracy of the past experience of the company and legislation. Additionally, the adequacy of financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities have been evaluated.

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 the accounting principles and standards, in force as per the insurance legislation, 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 processs.

Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of auditors in an audit are as follows:

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 the regulations on auditing principles as per the insurance legislation and Standards on Auditing issued by POA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. Misstatements 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 the regulations on auditing principles as per the insurance legislation and Standards on Auditing issued by POA, 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.

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B) Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 402 of Turkish Commercial Code ("TCC") numbered 6102; no significant matter has come to our attention that causes us to believe that for the period between 1 January 2018 and 31 December 2018, the Company's bookkeeping activities and financial statements are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting

2) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Ali Tuğrul Uzun
Engagement Partner

11 March 2019
İstanbul, Türkey

Additional paragraph for convenience translation to English:

As explained in Note 2.1.1, the accompanying interim financial statements are not intended to present the financial position and results of operations of the Company in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey

VHV REASÜRANS ANONİM ŞİRKETİ
FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

We confirm that the financial statements and related disclosures and footnotes as at 31 December 2018 which were prepared in accordance with the accounting principles and standards in force as per the regulations of Ministry of Treasury and Finance of Turkey are in compliance with the "Code Related to the Financial Reporting of Insurance, Reinsurance and Private Pension Companies" and the financial records of our Company.

Istanbul, 11 March 2019

Gülen Özaktürk

Maximilian G.F. Stahl
Member of the Board of Directors
CEO

Gülen Özaktürk
Member of the Board of Directors
CFO

Fatih Ağacık
Member of the Board of Directors
CUO

Orhun Emre Çelik
Actuary (Registration No:40)

VHV Reasürans Anonim Şirketi
Balance Sheet
As at 31 December 2018
(Currency: Turkish Lira (TL))

Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish, See Note 2.1.1

ASSETS			
I- Current Assets	**Notes**	**Audited Current Period 31 December 2018**	**Audited Prior Period 31 December 2017**
A- Cash and Cash Equivalents	**4.2,14**	**97.247.623**	**91.645.224**
1- Cash		-	-
2- Cheques Received		-	-
3- Banks	4.2,14	97.247.623	91.645.224
4- Cheques Given and Payment Orders		-	-
5- Bank Guaranteed Credit Card Receivables With Maturity Less Than Three Months		-	-
6- Other Cash and Cash Equivalents		-	-
B- Financial Assets and Financial Investments with Risks on Policyholders		**-**	**-**
1- Available-for-Sale Financial Assets		-	-
2- Held to Maturity Investments		-	-
3- Financial Assets Held for Trading		-	-
4- Loans and Receivables		-	-
5- Provision for Loans and Receivables		-	-
6- Financial Investments with Risks on Saving Life Policyholders		-	-
7- Company's Own Equity Shares		-	-
8- Diminution in Value of Financial Investments		-	-
C- Receivables from Main Operations	**4.2,12**	**43.189.716**	**29.926.452**
1- Receivables from Insurance Operations		-	-
2- Provision for Receivables from Insurance Operations		-	-
3- Receivables from Reinsurance Operations	4.2,12	43.189.716	29.926.452
4- Provision for Receivables from Reinsurance Operations		-	-
5- Cash Deposited to Insurance and Reinsurance Companies		-	-
6- Loans to the Policyholders		-	-
7- Provision for Loans to the Policyholders		-	-
8- Receivables from Individual Pension Operations		-	-
9- Doubtful Receivables from Main Operations		-	-
10- Provision for Doubtful Receivables from Main Operations		-	-
D- Due from Related Parties		**-**	**-**
1- Due from Shareholders		-	-
2- Due from Associates		-	-
3- Due from Subsidiaries		-	-
4- Due from Joint Ventures		-	-
5- Due from Personnel		-	-
6- Due from Other Related Parties		-	-
7- Rediscount on Receivables from Related Parties		-	-
8- Doubtful Receivables from Related Parties		-	-
9- Provision for Doubtful Receivables from Related Parties		-	-
E- Other Receivables	**4.2,12**	**122.326**	**125.069**
1- Finance Lease Receivables		-	-
2- Unearned Finance Lease Interest Income		-	-
3- Deposits and Guarantees Given	4.2,12	44.878	33.618
4- Other Miscellaneous Receivables	4.2,12	77.448	91.451
5- Rediscount on Other Miscellaneous Receivables		-	-
6- Other Doubtful Receivables		-	-
7- Provision for Other Doubtful Receivables		-	-
F- Prepaid Expenses and Income Accruals		**4.605.819**	**3.602.492**
1- Deferred Acquisition Costs	17	4.335.210	2.381.093
2- Accrued Interest and Rent Income		-	-
3- Income Accruals	4.2,47	270.609	1.221.399
4- Other Prepaid Expenses		-	-
G- Other Current Assets	**4.2,12**	**4.374.184**	**2.931**
1- Stocks to be Used in the Following Months		-	-
2- Prepaid Taxes and Funds		4.374.184	-
3- Deferred Tax Assets		-	-
4- Job Advances	4.2,12	-	2.931
5- Advances Given to Personnel		-	-
6- Inventory Count Differences		-	-
7- Other Miscellaneous Current Assets		-	-
8- Provision for Other Current Assets		-	-
I- Total Current Assets		**149.539.668**	**125.302.168**

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

VHV Reasürans Anonim Şirketi
Balance Sheet
As at 31 December 2018
(Currency: Turkish Lira (TL))

Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish, See Note 2.1.1

ASSETS			
II- Non-Current Assets	**Notes**	**Audited Current Period 31 December 2018**	**Audited Prior Period 31 December 2017**
A- Receivables from Main Operations		**-**	**-**
1- Receivables from Insurance Operations		-	-
2- Provision for Receivables from Insurance Operations		-	-
3- Receivables from Reinsurance Operations		-	-
4- Provision for Receivables from Reinsurance Operations		-	-
5- Cash Deposited for Insurance and Reinsurance Companies		-	-
6- Loans to the Policyholders		-	-
7- Provision for Loans to the Policyholders		-	-
8- Receivables from Individual Pension Business		-	-
9- Doubtful Receivables from Main Operations		-	-
10- Provision for Doubtful Receivables from Main Operations		-	-
B- Due from Related Parties		**-**	**-**
1- Due from Shareholders		-	-
2- Due from Associates		-	-
3- Due from Subsidiaries		-	-
4- Due from Joint Ventures		-	-
5- Due from Personnel		-	-
6- Due from Other Related Parties		-	-
7- Rediscount on Receivables from Related Parties		-	-
8- Doubtful Receivables from Related Parties		-	-
9- Provision for Doubtful Receivables from Related Parties		-	-
C- Other Receivables		**-**	**-**
1- Finance Lease Receivables		-	-
2- Unearned Finance Lease Interest Income		-	-
3- Deposits and Guarantees Given		-	-
4- Other Miscellaneous Receivables		-	-
5- Rediscount on Other Miscellaneous Receivables		-	-
6- Other Doubtful Receivables		-	-
7- Provision for Other Doubtful Receivables		-	-
D- Financial Assets		**-**	**-**
1- Investments in Equity Shares		-	-
2- Investments in Associates		-	-
3- Capital Commitments to Associates		-	-
4- Investments in Subsidiaries		-	-
5- Capital Commitments to Subsidiaries		-	-
6- Investments in Joint Ventures		-	-
7- Capital Commitments to Joint Ventures		-	-
8- Financial Assets and Financial Investments with Risks on Policyholders		-	-
9- Other Financial Assets		-	-
10- Impairment in Value of Financial Assets		-	-
E- Tangible Assets	**6**	**300.807**	**173.404**
1- Investment Property		-	-
2- Impairment on Investment Property		-	-
3- Owner Occupied Property		-	-
4- Machinery and Equipments		-	-
5- Furniture and Fixtures	6	459.956	322.380
6- Motor Vehicles		-	-
7- Other Tangible Assets (Including Leasehold Improvements)	6	84.162	84.142
8- Tangible Assets Acquired Through Finance Leases		-	-
9- Accumulated Depreciation	6	(243.311)	(233.118)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		-	-
F- Intangible Assets	**8**	**905.642**	**1.122.234**
1- Rights	8	2.366.360	1.877.456
2- Goodwill		-	-
3- Pre-operating Expenses		-	-
4- Research and Development Costs		-	-
5- Other Intangible Assets		-	-
6- Accumulated Amortization	8	(1.460.718)	(799.455)
7- Advances Paid for Intangible Assets	8	-	44.233
G-Prepaid Expenses and Income Accruals		**487.467**	**122.907**
1- Deferred Acquisition Costs		-	-
2- Income Accruals		-	-
3- Other Prepaid Expenses		487.467	122.907
H-Other Non-Current Assets	**21**	**550.587**	**556.979**
1- Effective Foreign Currency Accounts		-	-
2- Foreign Currency Accounts		-	-
3- Stocks to be Used in the Following Years		-	-
4- Prepaid Taxes and Funds		-	-
5- Deferred Tax Assets	21	550.587	556.979
6- Other Miscellaneous Non-Current Assets		-	-
7- Amortization on Other Non-Current Assets		-	-
8- Provision for Other Non-Current Assets		-	-
II- Total Non-Current Assets		**2.244.503**	**1.975.524**
TOTAL ASSETS		**151.784.171**	**127.277.692**

The accompanying notes are an integral part of these financial statements

(Currency: Turkish Lira (TL))

LIABILITIES

III- Short-Term Liabilities	Notes	Audited Current Period 31 December 2018	Audited Prior Period 31 December 2017
A- Financial Liabilities	**20**	**50.064**	**23.683**
1- Borrowings from Financial Institutions	20	50.064	23.683
2- Finance Lease Payables		-	-
3- Deferred Leasing Costs		-	-
4- Current Portion of Long-Term Debts		-	-
5- Principal Installments and Interests on Bonds Issued		-	-
6- Other Financial Assets Issued		-	-
7- Valuation Differences of Other Financial Assets Issued		-	-
8- Other Financial Liabilities		-	-
B- Payables Arising from Main Operations	**19**	**32.589.044**	**33.625.477**
1- Payables Arising from Insurance Operations		-	-
2- Payables Arising from Reinsurance Operations	19	32.589.044	33.625.477
3- Cash Deposited by Insurance and Reinsurance Companies		-	-
4- Payables Arising from Individual Pension Business		-	-
5- Payables Arising from Other Main Operations		-	-
6- Discount on Payables from Other Main Operations		-	-
C-Due to Related Parties		**1.265**	**-**
1- Due to Shareholders		-	-
2- Due to Associates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		1.265	-
6- Due to Other Related Parties		-	-
D- Other Payables	**19**	**806.168**	**413.442**
1- Deposits and Guarantees Received		-	-
2- Payables to Social Security Institution		-	-
3- Other Miscellaneous Payables	19,4.2	806.168	413.442
4- Discount on Other Miscellaneous Payables		-	-
E-Insurance Technical Provisions	**17**	**9.185.836**	**11.500.256**
1- Reserve for Unearned Premiums - Net	17	3.134.566	7.470.284
2- Reserve for Unexpired Risks- Net	17	444.534	1.199.906
3- Life Mathematical Provisions - Net		-	-
4- Provision for Outstanding Claims - Net	17	5.606.736	2.830.066
5- Provision for Bonus and Discounts - Net		-	-
6- Other Technical Provisions - Net		-	-
F- Provisions for Taxes and Other Similar Obligations	**19**	**151.542**	**1.617.459**
1- Taxes and Funds Payable		75.692	51.611
2- Social Security Premiums Payable		75.850	57.419
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
4- Other Taxes and Similar Payables		-	-
5- Corporate Tax Payable	19	6.493.595	2.887.961
6- Prepaid Taxes and Other Liabilities Regarding Current Period Profit	19	(6.493.595)	(1.379.532)
7- Provisions for Other Taxes and Similar Liabilities		-	-
G- Provisions for Other Risks	**23**	**939.720**	**667.584**
1- Provision for Employee Termination Benefits		-	-
2- Provision for Pension Fund Deficits	23	61.720	52.584
3- Provisions for Costs	23	878.000	615.000
H- Deferred Income and Expense Accruals	**19**	**8.253.026**	**2.679.690**
1- Deferred Commission Income	10,19	8.174.662	2.631.371
2- Expense Accruals	19	78.364	48.319
3- Other Deferred Income		-	-
I- Other Short-Term Liabilities		**-**	**-**
1- Deferred Tax Liabilities		-	-
2- Inventory Count Differences		-	-
3- Other Various Short Term Liabilities		-	-
III – Total Short-Term Liabilities		**50.527.591**	**20.272.340**

The accompanying notes are an integral part of these financial statements

(Currency: Turkish Lira (TL))

LIABILITIES			
IV- Long-Term Liabilities	**Notes**	**Audited Current Period 31 December 2018**	**Audited Prior Period 31 December 2017**
A- Financial Liabilities		**-**	**-**
1- Borrowings from Financial Institutions		-	-
2- Finance Lease Payables		-	-
3- Deferred Leasing Costs		-	-
4- Bonds Issued		-	-
5- Other Financial Assets Issued		-	-
6- Valuation Differences of Other Financial Assets Issued		-	-
7- Other Financial Liabilities		-	-
B- Payables Arising from Main Operations		**-**	**-**
1- Payables Arising from Insurance Operations		-	-
2- Payables Arising from Reinsurance Operations		-	-
3- Cash Deposited by Insurance and Reinsurance Companies		-	-
4- Payables Arising from Individual Pension Business		-	-
5- Payables Arising from Other Operations		-	-
6- Discount on Payables from Other Operations		-	-
C- Due to Related Parties		**-**	**-**
1- Due to Shareholders		-	-
2- Due to Associates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		-	-
6- Due to Other Related Parties		-	-
D- Other Payables		**-**	**-**
1- Deposits and Guarantees Received		-	-
2- Payables to Social Security Institution		-	-
3- Other Miscellaneous Payables		-	-
4- Discount on Other Miscellaneous Payables		-	-
E-Insurance Technical Provisions	**17**	**506.134**	**506.134**
1- Reserve for Unearned Premiums - Net		-	-
2- Reserve for Unexpired Risks - Net		-	-
3- Life Mathematical Provisions - Net		-	-
4- Provision for Outstanding Claims - Net		-	-
5- Provision for Bonus and Discounts - Net		-	-
6- Other Technical Provisions - Net	17	506.134	506.134
F-Other Liabilities and Relevant Accruals		**-**	**-**
1- Other Liabilities		-	-
2- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
3- Other Liabilities and Expense Accruals		-	-
G- Provisions for Other Risks	**23**	**68.968**	**34.311**
1- Provisions for Employment Termination Benefits	23	68.968	34.311
2- Provisions for Employee Pension Funds Deficits		-	-
H-Deferred Income and Expense Accruals		**-**	**-**
1- Deferred Commission Income		-	-
2- Expense Accruals		-	-
3- Other Deferred Income		-	-
I- Other Long-Term Liabilities		**-**	**-**
1- Deferred Tax Liabilities		-	-
2- Other Long-Term Liabilities		-	-
IV- Total Long-Term Liabilities		**575.102**	**540.445**

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

(Currency: Turkish Lira (TL))

SHAREHOLDERS' EQUITY			
V- Shareholders' Equity	**Notes**	**Audited Current Period 31 December 2018**	**Audited Prior Period 31 December 2017**
A- Paid in Capital		**65.955.272**	**65.955.272**
1- (Nominal) Capital	2.13,15	65.955.272	65.955.272
2- Unpaid Capital		-	-
3- Positive Capital Restatement Differences		-	-
4- Negative Capital Restatement Differences		-	-
5- Unregistered Capital		-	-
B- Capital Reserves		**-**	**-**
1- Share Premium		-	-
2- Cancellation Profits of Equity Shares		-	-
3- Profit on Asset Sales That Will Be Transferred to Capital		-	-
4- Currency Translation Adjustments		-	-
5- Other Capital Reserves		-	-
C- Profit Reserves		**-**	**-**
1- Legal Reserves		-	-
2- Statutory Reserves		-	-
3- Extraordinary Reserves		-	-
4- Special Funds		-	-
5- Revaluation of Financial Assets		-	-
6- Other Profit Reserves		-	-
D- Retained Earnings		**10.254.384**	**-**
1- Retained Earnings		10.254.384	-
E- Accumulated Losses		**-**	**(48.029)**
1- Accumulated Losses		-	(48.029)
F-Net Profit/(Loss) for the Period		**23.022.748**	**10.302.413**
1- Net Profit for the Year		23.022.748	10.302.413
2- Net Loss for the Year		-	-
3- Net Profit for the Period not Subject to Distribution		-	-
V- Total Equity		**99.232.404**	**76.209.656**
TOTAL EQUITY AND LIABILITIES		**151.784.071**	**127.277.692**

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

(Currency: Turkish Lira (TL))

TECHNICAL SECTION	Notes	Audited Current Period 31 December 2018	Audited Prior Period 31 December 2017
A- Non-Life Technical Income		**5.576.359**	**270.586**
1- Earned Premiums (Net of Reinsurer Share)	17	5.575.935	270.276
1.1- Written Premiums (Net of Reinsurer Share)	17	484.845	1.796.621
1.1.1- Written Premiums, Gross	17	64.137.186	31.356.265
1.1.2- Written Premiums, Ceded	10,17	(63.652.341)	(29.559.644)
1.1.3- Written Premiums, transferred to SSI	17	-	-
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17,29	4.335.718	(659.943)
1.2.1- Reserve for Unearned Premiums, gross	17	(11.550.469)	(3.054.522)
1.2.2- Reserve for Unearned Premiums, ceded	10,17	15.886.187	2.394.579
1.2.3- Reserve for Unearned Premiums, SSI share		-	-
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)	17	755.372	(866.402)
1.3.1- Reserve for Unexpired Risks, gross	17,29	3.953.203	(3.737.423)
1.3.2- Reserve for Unexpired Risks, ceded	10,17	(3.197.831)	2.871.021
2- Investment Income - Transferred from Non-Technical Section		-	-
3- Other Technical Income (Net of Reinsurer Share)		-	-
3.1- Other Technical Income, gross		-	-
3.2- Other Technical Income, ceded		-	-
4. Accrued Salvage and Subrogation Income		424	310
B- Non-Life Technical Expense		**(6.557.984)**	**(4.168.237)**
1- Incurred Losses (Net of Reinsurer Share)	17,29	(3.368.583)	(2.432.888)
1.1- Claims Paid (Net of Reinsurer Share)	17	(591.913)	(78.949)
1.1.1- Claims Paid, Gross	17	(5.084.533)	(1.432.458)
1.1.2- Claims Paid, Ceded	10,17	4.492.620	1.353.509
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17,29	(2.776.670)	(2.353.939)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(15.434.514)	(26.899.543)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10,17	12.657.844	24.545.604
2- Change in Provision for Bonus and Discounts (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
2.1- Provision for Bonus and Discounts, gross		-	-
2.2- Provision for Bonus and Discounts, ceded		-	-
3- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	-	(160.198)
4- Operating Expenses	32	(3.189.401)	(1.575.151)
5- Change in Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
5.1- Mathematical Provisions		-	-
5.2- Mathematical Provisions, ceded		-	-
6- Other Technical Expense		-	-
6.1- Other Technical Expense, gross		-	-
6.2- Other Technical Expense, ceded		-	-
C- Net Technical Income-Non-Life (A – B)		**(981.625)**	**(3.897.651)**
D- Life Technical Income		**-**	**-**
1- Earned Premiums (Net of Reinsurer Share)		-	-
1.1- Written Premiums (Net of Reinsurer Share)		-	-
1.1.1- Written Premiums, gross		-	-
1.1.2- Written Premiums, ceded		-	-
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)		-	-
1.2.1- Reserve for Unearned Premiums, gross		-	-
1.2.2- Reserve for Unearned Premiums, ceded		-	-
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
1.3.1- Reserve for Unexpired Risks, gross		-	-
1.3.2- Reserve for Unexpired Risks, ceded		-	-
2- Investment Income		-	-
3- Unrealized Gains on Investments		-	-
4- Other Technical Income (Net of Reinsurer Share)		-	-

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

(Currency: Turkish Lira (TL))

TECHNICAL SECTION	Notes	Audited Current Period 31 December 2018	Audited Prior Period 31 December 2017
E- Life Technical Expense		-	-
1- Incurred Losses (Net of Reinsurer Share)		-	-
1.1- Claims Paid (Net of Reinsurer Share)		-	-
1.1.1- Claims Paid, gross		-	-
1.1.2- Claims Paid, ceded		-	-
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
1.2.1- Change in Provisions for Outstanding Claims, gross		-	-
1.2.2- Change in Provisions for Outstanding Claims, ceded		-	-
2- Change in Provision for Bonus and Discounts (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
2.1- Provision for Bonus and Discounts, gross		-	-
2.2- Provision for Bonus and Discounts, ceded		-	-
3- Change in Life Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
3.1- Change in Mathematical Provisions, gross		-	-
3.2- Change in Mathematical Provisions, ceded		-	-
4- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
5- Operating Expenses		-	-
6- Investment Expenses		-	-
7- Unrealized Losses on Investments		-	-
8- Investment Income Transferred to the Non-Life Technical Section		-	-
F- Net Technical Income- Life (D – E)		-	-
G- Pension Business Technical Income		-	-
1- Fund Management Income		-	-
2- Management Fee		-	-
3- Entrance Fee Income		-	-
4- Management Expense Charge in case of Suspension		-	-
5- Income from Individual Service Charges		-	-
6- Increase in Value of Capital Allowances Given as Advance		-	-
7- Other Technical Expense		-	-
H- Pension Business Technical Expense		-	-
1- Fund Management Expense		-	-
2- Decrease in Value of Capital Allowances Given as Advance		-	-
3- Operating Expenses		-	-
4- Other Technical Expenses		-	-
I- Net Technical Income - Pension Business (G – H)		-	-

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

(Currency: Turkish Lira (TL))

I-NON-TECHNICAL SECTION	Notes	Audited Current Period 31 December 2018	Audited Prior Period 31 December 2017
C- Net Technical Income – Non-Life (A-B)		**(981.625)**	**(3.897.651)**
F- Net Technical Income – Life (D-E)		**-**	**-**
I - Net Technical Income – Pension Business (G-H)		**-**	**-**
J- Total Net Technical Income (C+F+I)		**(981.625)**	**(3.897.651)**
K- Investment Income		**729.009.877**	**194.842.109**
1- Income from Financial Assets	4.2	2.445.715	1.168.959
2- Income from Disposal of Financial Assets		-	-
3- Valuation of Financial Assets		-	-
4- Foreign Exchange Gains	4.2	726.564.162	193.673.150
5- Income from Associates		-	-
6- Income from Subsidiaries and Joint Ventures		-	-
7- Income from Property, Plant and Equipment		-	-
8- Income from Derivative Transactions		-	-
9- Other Investments		-	-
10- Income Transferred from Life Section		-	-
L- Investment Expense		**(698.066.439)**	**(179.253.309)**
1- Investment Management Expenses (inc. interest)		-	-
2- Diminution in Value of Investments		-	-
3- Loss from Disposal of Financial Assets		-	-
4- Investment Income Transferred to Non-Life Technical Section		-	-
5- Loss from Derivative Transactions		-	-
6- Foreign Exchange Losses	4.2	(697.394.983)	(178.638.111)
7- Depreciation and Amortization Expenses	6,8	(671.456)	(615.198)
8- Other Investment Expenses		-	-
M- Income and Expenses From Other and Extraordinary Operations		**(445.470)**	**1.499.225**
1- Provisions	47	(449.372)	(196.753)
2- Rediscounts		-	-
3- Specified Insurance Accounts		-	-
4- Monetary Gains and Losses		-	-
5- Deferred Taxation (Deferred Tax Assets)	35	-	363.850
6- Deferred Taxation (Deferred Tax Liabilities)	35	(6.392)	-
7- Other Income	47	314.287	1.373.356
8- Other Expenses and Losses	47	(302.804)	(41.228)
9- Prior Year's Income		-	-
10- Prior Year's Expenses and Losses		(1.189)	-
N- Net Profit for the Year		**23.022.748**	**10.302.413**
1- Profit for the Year		29.516.343	13.190.374
2- Corporate Tax Provision and Other Fiscal Liabilities	19,35	(6.493.595)	(2.887.961)
3- Net Profit for the Year		-	-
4- Monetary Gains and Losses		-	-

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

(Currency: Turkish Lira (TL))

Shareholder's Equity – 31 December 2017-Audited

	Notes	Share Capital	Treasury Shares	Value Increase in Assets	Inflation Adjustments	Currency Translation Adjustments	Legal Reserves	Statutory Reserves	Other Reserves and Retained Profit	Net Profit for the Period	Retained Earnings /Previous Years' Losses	Total
I – Balance at the end of the previous year – 31 December 2016		65.955.272	-	-	-	-	-	-	-	4.881.879	(4.929.908)	65.907.243
II- Correction		-	-	-	-	-	-	-	-	-	-	-
III- Restated Balances (1 January 2017)		65.955.272	-	-	-	-	-	-	-	4.881.879	(4.929.908)	65.907.243
A – Capital increase		-	-	-	-	-	-	-	-	-	-	-
1 –In cash		-	-	-	-	-	-	-	-	-	-	-
2 – From reserves		-	-	-	-	-	-	-	-	-	-	-
B – Purchase of own shares		-	-	-	-	-	-	-	-	-	-	-
C – Gains and losses that are not included in the statement of income		-	-	-	-	-	-	-	-	-	-	-
D – Change in the value of financial assets		-	-	-	-	-	-	-	-	-	-	-
E – Currency translation adjustments		-	-	-	-	-	-	-	-	-	-	-
F – Other gains and losses		-	-	-	-	-	-	-	-	-	-	-
G – Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-
H – Net profit for the year		-	-	-	-	-	-	-	-	10.302.413	-	10.302.413
I – Other reserves and transfers from retained earnings		-	-	-	-	-	-	-	-	(4.881.879)	4.881.879	-
J – Dividends paid		-	-	-	-	-	-	-	-	-	-	-
IV- Balance at the end of the year – 31 December 2017	15	65.955.272	-	-	-	-	-	-	-	10.302.413	(48.029)	76.209.656

Shareholder's Equity – 31 December 2018-Audited

	Notes	Share Capital	Treasury Shares	Value Increase in Assets	Inflation Adjustments	Currency Translation Adjustments	Legal Reserves	Statutory Reserves	Other Reserves and Retained Profit	Net Profit for the Period	Retained Earnings /Previous Years' Losses	Total
I – Balance at the end of the previous year – 31 December 2017		65.955.272	-	-	-	-	-	-	-	10.302.413	(48.029)	76.209.656
II- Correction		-	-	-	-	-	-	-	-	-	-	-
III- Restated Balances (1 January 2018)	15	65.955.272	-	-	-	-	-	-	-	10.302.413	(48.029)	76.209.656
A – Capital increase		-	-	-	-	-	-	-	-	-	-	-
1 –In cash		-	-	-	-	-	-	-	-	-	-	-
2 – From reserves		-	-	-	-	-	-	-	-	-	-	-
B – Purchase of own shares		-	-	-	-	-	-	-	-	-	-	-
C – Gains and losses that are not included in the statement of income		-	-	-	-	-	-	-	-	-	-	-
D – Change in the value of financial assets		-	-	-	-	-	-	-	-	-	-	-
E – Currency translation adjustments		-	-	-	-	-	-	-	-	-	-	-
F – Other gains and losses		-	-	-	-	-	-	-	-	-	-	-
G – Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-
H – Net profit for the year		-	-	-	-	-	-	-	-	23.022.748	-	23.022.748
I – Other reserves and transfers from retained earnings		-	-	-	-	-	-	-	-	(10.302.413)	10.302.413	-
J – Dividends paid		-	-	-	-	-	-	-	-	-	-	-

	Notes	Audited Current Period 1 January – 31 December 2018	Audited Prior Period 1 January – 31 December 2017
A. Cash flows from operating activities			
1. Cash provided from insurance activities		-	-
2. Cash provided from reinsurance activities		99.476.186	86.813.665
3. Cash provided from pension business		-	-
4. Cash used in insurance activities		-	-
5. Cash used in reinsurance activities		(107.154.453)	(78.946.357)
6. Cash used in pension business		-	-
7. Cash provided from operating activities		**(7.678.267)**	**7.867.308**
8. Interest paid		-	-
9. Income taxes paid		(10.867.779)	(1.379.532)
10. Other cash inflows		1.967.580	6.961.489
11. Other cash outflows		(8.324.972)	(3.430.879)
12. Net cash provided from operating activities		**(24.903.438)**	**10.018.386**
B. Cash flows from investing activities			
1. Disposal of tangible assets		-	-
2. Acquisition of tangible assets	6, 8	(626.500)	(129.255)
3. Acquisition of financial assets		-	-
4. Disposal of financial assets		-	-
5. Interests received		2.445.715	1.168.959
6. Dividends received		-	-
7. Other cash inflows		22.936.587	15.606.005
8. Other cash outflows		-	-
9. Net cash provided by investing activities		**24.755.802**	**16.645.709**
C. Cash used in financing activities			
1. Equity shares issued		-	-
2. Cash provided from loans and borrowings		-	-
3. Finance lease payments		-	-
4. Dividends paid		-	-
5. Other cash inflows		26.381	-
6. Other cash outflows		-	(2.276)
7. Net cash used in financing activities		**26.381**	**(2.276)**
D. Impact of currency differences on cash and cash equivalents		**5.777.729**	**-**
E. Net increase/(decrease) in cash and cash equivalents		**5.656.474**	**26.661.819**
F. Cash and cash equivalents at the beginning of the period	**14**	**91.535.831**	**64.874.012**
G. Cash and cash equivalents at the end of the period	**14**	**97.192.305**	**91.535.831**

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

(Currency: Turkish Lira (TL))

	Notes	Audited Current Period 31 December 2018	Audited Prior Period 31 December 2017
I. DISTRIBUTION OF THE PERIOD PROFIT			
1.1. PERIOD PROFIT (*)		29.516.343	13.190.374
1.2. TAXES AND DUTIES PAYABLE	35	(6.493.595)	(2.887.961)
1.2.1. Corporate Tax (Income Tax)	35	(6.493.595)	(2.887.961)
1.2.2. Income Tax Deductions		-	-
1.2.3. Other Taxes and Legal Duties		-	-
A. CURRENT PERIOD PROFIT (1.1 – 1.2)		**23.022.748**	**10.302.413**
1.3. ACCUMULATED LOSSES (-)		10.254.384	(48.029)
1.4. FIRST LEGAL RESERVES (-)		-	-
1.5. OTHER STATUTORY RESERVES (-)		-	-
B. NET PROFIT AVAILABLE FOR DISTRIBUTION		**33.277.132**	**10.254.384**
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)		-	-
1.6.1. To owners of ordinary shares		-	-
1.6.2. To owners of privileged shares		-	-
1.6.3. To owners of redeemed shares		-	-
1.6.4. To holders profit sharing bonds		-	-
1.6.5. To holders of profit and loss sharing certificates		-	-
1.7. DIVIDENDS TO PERSONNEL (-)		-	-
1.8. DIVIDENDS TO FOUNDERS (-)		-	-
1.9. DIVIDENDS TO BOARD OF DIRECTORS (-)		-	-
1.10. SECOND DIVIDEND TO SHAREHOLDERS (-)		-	-
1.10.1. To owners of ordinary shares		-	-
1.10.2. To owners of privileged shares		-	-
1.10.3. To owners of redeemed shares		-	-
1.10.4. To holders profit sharing bonds		-	-
1.10.5. To holders of profit and loss sharing certificates		-	-
1.11. LEGAL RESERVES (-)		-	-
1.12. STATUTORY RESERVES(-)		-	-
1.13. EXTRAORDINARY RESERVES		-	(10.254.384)
1.14 OTHER RESERVES		-	-
1.15 SPECIAL FUNDS		-	-
II. DISTRIBUTION OF RESERVES		-	-
2.1. APPROPRIATED RESERVES		-	-
2.2. SECOND LEGAL RESERVES (-)		-	-
2.3. DIVIDENDS TO SHAREHOLDERS (-)		-	-
2.3.1. To owners of ordinary shares		-	-
2.3.2. To owners of privileged shares		-	-
2.3.3. To owners of redeemed shares		-	-
2.3.4. To holders of profit sharing bonds		-	-
2.3.5. To holders of profit and loss sharing certificates		-	-
2.4. DIVIDENDS TO PERSONNEL (-)		-	-
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)		-	-
III. EARNINGS PER SHARE		-	-
3.1. TO OWNERS OF ORDINARY SHARES		-	-
3.2. TO OWNERS OF ORDINARY SHARES (%)		-	-
3.3. TO OWNERS OF PRIVILEGED SHARES		-	-
3.4. TO OWNERS OF PRIVILEGED SHARES (%)		-	-
IV. DIVIDEND PER SHARE		-	-
4.1. TO OWNERS OF ORDINARY SHARES		-	-
4.2. TO OWNERS OF ORDINARY SHARES (%)		-	-
4.3. TO OWNERS OF PRIVILEGED SHARES		-	-
4.4. TO OWNERS OF PRIVILEGED SHARES (%)		-	-

(*) Due to profit distribution proposal for the year 2018 has not prepared by the Board of Directors, profit distribution table has not been filled yet.

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

VHV Reasürans Anonim Şirketi

Notes to the Financial Statements
As at 31 December 2018

(Currency: Turkish Lira (TL))

1 General Information

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

As at 31 December 2018, the shareholder having direct or indirect control over the shares of VHV Reasürans Anonim Şirketi ("the Company") is VHV Allgemeine Versicherungen A.G ("VHV Group") having 100% of the outstanding shares.

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

The Company was registered in Turkey in 15 June 2015 and has the status of 'Incorporated Company'. The address of the Company's registered office is Büyükdere Cd. No: 127 Astoria Kuleler B Blok Kat: 11 34394 Esentepe Şişli, İstanbul.

1.3 Business of the Company

The Company was registered on 15 June 2015, reinsurance activity licence was received from Undersecretariat of Treasury ("Turkish Treasury") and the approval letter dated 24 March 2016, and numbered 38681552-301.02[301.02]/-E.9070. The Company has started reinsurance activities at 1 July 2016.

The Company is primarily engaged in reinsurance and retrocession businesses in domestic and international markets. The Company may make all types of reinsurance and retrospective contracts that are legally incompatible with the Company's domestic and international transactions and may carry out all kinds of transactions related to these matters.

1.4 Description of the main operations of the Company

The Company conducts its operations in accordance with the Insurance Law No.5684 (the "Insurance Law") issued in 14 June 2007 dated and 26552 numbered Official Gazette and the communiqués and other regulations in force issued by the Turkish Treasury based on the Insurance Law. The Company operates in insurance branches as mentioned above *Note 1.3 Business of the Company.*

(Currency: Turkish Lira (TL))

1 General Information *(continued)*

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

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

	31 December 2018	31 December 2017
Senior managers	3	3
Personnel	22	16
Total	**25**	**19**

1.6 Wages and similar benefits provided to the senior management

For the year ended 31 December 2018, wages and similar benefits provided to the senior management including chairman, members of the board of the directors, general manager, general coordinator, and deputy general managers is amounting to TL 651.795 (31 December 2017: TL 467.213).

1.7 Keys used in the distribution of investment income and operating expenses (personnel, administrative, research and development, marketing and selling, services rendered from third parties and other operating expenses) in the financial statements

Procedures and principles related to keys used in the financial statements of the companies are determined in accordance with the 4 January 2008 dated and 2008/1 numbered "Communiqué Related to the Procedures and Principles for the Keys Used in the Financial Statements Being Prepared In Accordance With Insurance Accounting Plan" issued by the Turkish Treasury.

Under the said circular, companies may distribute the operating expenses of the technical department to the insurance departments by the method recommended by the Undersecretariat of Treasury or by the method which approved by Undersecretariat of Treasury. In this context, the Company makes its direct costs directly and externally within the rates determined by taking into consideration the benefit and service expenses and other operating expenses based on the gross written premiums for the first year of operation.

1.8 Stand-alone or consolidated financial statements

The accompanying financial statements comprise only the financial information of the Company (VHV Reasürans Anonim Şirketi). As further detailed in Note 2.2, the Company did not prepare consolidated financial statements as at and for the year ended 31 December 2018.

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

Trade name of the Company	: VHV Reasürans Anonim Şirketi
Registered address of the head office	: Büyükdere Cd. No:127 Astoria Kuleler B Blok Kat:11 34394 Şişli/İstanbul
The web page of the Company	: **www.vhvre.com**

1.10 Subsequent events

Explanations related to subsequent events are disclosed in Note 46 – *Subsequent events*.

2 Summary of significant accounting policies

2.1 Basis of preparation

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

The Company maintains its books of account and prepares its financial statements in accordance with the Turkish Accounting Standards ("TAS"), Turkish Financial Reporting Standards ("TFRS"), and other accounting and financial reporting principles, statements and guidance (collectively "the Reporting Standards") in accordance with the "Communiqué Related to the Financial Reporting of Insurance, Reinsurance, and Individual Pension Companies" as promulgated by the Turkish Treasury based on Article 18 of the Insurance Law and Article 11 of the The Individual (Personal) Pension Savings and Investment System Law numbered 4632.

According to numbered 4th related law of the accounting for the procedures and principles regarding the accounting of insurance contracts, subsidiaries, jointly controlled partnerships and associates and the preparation of financial statements to be announced to the public and explanations and footnotes related also shall be determined by notices to be issued by the Undersecretariat of Treasury.

The "Communiqué on Presentation of Financial Statements" published in the Official Gazette No. 26851 dated 18 April 2008 and numbered 26851 arranges the comparison of the financial statements with the financial statements of the prior periods and other companies along with the format and content of the financial statements.

Additional paragraph for convenience translation to English

The differences between the accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed, and International Financial Reporting Standards ("IFRS"), may have significant influence on the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles generally accepted in such countries other than Turkey and IFRS.

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

Information regarding other accounting polices is disclosed above in Note 2.1.1 - *Information about the principles and the special accounting policies used in the preparation of the financial statements"* and each under its own caption in the following sections of this report.

2.1.3 Current and presentation currency

The accompanying financial statements are presented in TL, which is the Company's functional currency.

2.1.4 Rounding scale of the amounts presented in the financial statements

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

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

The accompanying financial statements are prepared on the historical cost basis.

2.1.6 Accounting policies, changes in accounting estimates and errors

If changes of accounting estimations are related to only one period, it is applied on current period which is change made. If it's related to future period, it is applied rewardingly on future period. No changes were made on accounting estimation during current period.

Significant changes in accounting policies and identified significant accounting errors are applied retrospectively and previous period of financial statements are restated. In current period, there have been no changes in accounting policies and no significant accounting errors identified.

Critical accounting judgements used in applying the Company's accounting policies are explained in 3 – *Critical accounting estimates and judgments in applying accounting policies.*

(Currency: Turkish Lira (TL))

2. Summary of significant accounting policies *(continued)*

2.2 Consolidation

None (31 December 2017: None).

2.3 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. As at 31 December 2018, the Company operates in non-life branches and is not required to present segment reporting since its debt or equity instruments are not traded in a public market.

2.4 Foreign currency transactions

Transactions are recorded in TL, which is the Company's functional currency. Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date and all exchange differences, except for those arising on the translation of the fair value change of available-for-sale financial assets, are offset and are recognized as foreign exchange gains or losses.

2.5 Tangible assets

Tangible assets are recorded at cost. Depreciation on tangible assets is calculated using straight-line method to allocate their cost or revalued amounts over their estimated useful lives.

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

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

There are not any pledges, mortgages and other encumbrances on tangible fixed assets.

There are not any changes in accounting estimates that have significant effect on the current period or that are expected to have significant effect on the following periods.

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

Tangible assets	Estimated useful lives (years)	Depreciation rates (%)
Machinery and equipment	5-10	10-20
Leasehold improvements	5-10	10-20

2.6 Investment property

The Company has not any investment property as of the reporting date (31 December 2017: None).

2.7 Intangible assets

Intangible assets are recorded at cost in compliance with "TAS 38 – *Accounting for intangible assets*".

Intangible assets acquired

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives (5 years). 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.

2 Summary of significant accounting policies *(continued)*

2.7 Intangible assets *(continued)*

Computer software

Acquired computer software licences 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 (5 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 for more than one year are recognized as intangible assets. Costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs, which are considered to be fixed assets, are amortized over their useful lives (not exceeding 3 years).

2.8 Financial assets

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

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

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

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

"Cash and cash equivalents" based for preparing statement of cash flow are; the Company's free use or unblocked cash, received checks, other cash and cash equivalents and demand deposits with time deposits original maturities loss than three months and financial investments.

As of the 31 December 2018 and 31 December 2017, the Company has not any trading, held to maturity and available for sale financial assets.

2.9 Impairment on assets

Impairment on financial assets

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

2 Summary of significant accounting policies *(continued)*

2.9 Impairment on assets *(continued)*

Impairment on financial assets *(continued)*

Loans and receivables are presented net of specific allowances for uncollectibility. Specific allowances are made against the carrying amounts of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans measured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

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

Impairment on tangible and intangible assets

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

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

2.10 Derivative financial instruments

As of the reporting date, the Company has not any derivative financial instruments (31 December 2017: None).

2.11 Offsetting of financial assets

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

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

2.12 Cash and cash equivalents

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

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.13 Capital

The shareholder having direct or indirect control over the shares of the Company is VHV Allgemeine Versicherungen A.G. ("VHV Group") by having 100% of the outstanding shares of the Company. As at 31 December 2018 and 2017, the share capital and ownership structure of the Company are as follows:

	31 December 2018		31 December 2017	
Name	**Shareholding amount (TL)**	**Shareholding rate (%)**	**Shareholding amount (TL)**	**Shareholding rate (%)**
VHV Allgemeine Versicherungen A.G.	65.955.272	100,00	65.955.272	100,00
Paid in capital	**65.955.272**	**100,00**	**65.955.272**	**100,00**

Sources of the capital increases during the year

None.

Privileges on common shares representing share capital

There are not any privileges on common shares representing share capital.

Registered capital system in the Company

None.

Repurchased own shares by the Company

None.

2.14 Insurance and investment contracts - classification

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

Investment contracts are those contracts which transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

The Company acts as a reinsurer when writing insurance from an insurance company (cedent) on the basis of reinsurance contracts and cedes insurance business to another retrocessionaire (the retrocedant) on the basis of retrocession contracts. As at the reporting date, the Company does not have a contract which is classified as an investment contract.

2 Summary of significant accounting policies *(continued)*

2.15 Insurance contracts and investment contracts with discretionary participation feature

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

- *(i)* that are likely to comprise a significant portion of the total contractual benefits;
- *(ii)* whose amount or timing is contractually at the discretion of the Issuer; and
- *(iii)* that are contractually based on:
  - *(1)* the performance of a specified pool of contracts or a specified type of contract;
  - *(2)* realized and/or unrealized investments returns on a specified pool of assets held by the Issuer;
  - *(3)* the profit or loss of the Company, Fund or other entity that issues the contract

As of balance sheet date, the Company does not have any insurance or investment contracts that contain a DPF.

2.16 Investment contracts without DPF

As of the reporting date, the Company does not have any insurance contracts and investment contracts without DPF.

2.17 Liabilities

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

2.18 Income taxes

Corporate tax

Corporate income is subject to corporate tax at 20% in Turkey to be effective from January 1, 2006. However, according to the Article 91 of the Law numbered 7061 "Legislation on Amendment of Certain Tax Legislation and Other Certain Legislation" which was published on the Official Gazette numbered 30261 on 5 December 2017 and according to the provisional clause 10 added to the Corporate Tax Law numbered 5520; corporate tax rate for the taxation periods of 2018, 2019 and 2020 is amended to 22%, which would later be applied as 20% at the end of these periods. During these periods, Council of Ministers is entitled to decrease the corporate tax rate of 22% to 20%.

Statutory income is subject to corporate tax at 20%. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is not any dividend distribution planned, no further tax charges are made.

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

The prepaid taxes are calculated and paid at the rates valid for the earnings of the related years. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. As at 31 December 2018, the Company does not have deductible tax losses (31 December 2017: None).

2 Summary of significant accounting policies *(continued)*

2.18 Income taxes *(continued)*

Corporate tax *(continued)*

In Turkey, there is not any procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of 25th of the fourth month following the close of the accounting period to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Deferred tax

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

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

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

Transfer pricing

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

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

(Currency: Turkish Lira (TL))

2.19 Employee benefits

Pension and other post-retirement obligations

In accordance with existing Turkish Labour Law, the Company is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at 31 December 2018 is TL 5.434,42 (31 December 2017: 4.732,48 TL)

The Company accounted for employee severance indemnities using actuarial method in compliance with the TAS 19 – *Employee Benefits*. After the revision of TAS 19, as the amount of actuarial gain and loss are presented under the other profit reserves, which were previously shown under the income statement. The major actuarial assumptions used in the calculation of the total liability as at 31 December 2018 are as follows:

	31 December 2018	31 December 2017
Discount rate	%3,60	%4,69
Expected rate of salary/limit increase	%15,00	%7,00
Estimated employee turnover rate	%5,00	%2,00

The above expected rate of salary/limit increase is determined according to the annual inflation expectations of the government.

Other benefits

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

2.20 Provisions

A provision is made for an existing obligation resulting from past events if it is probable that the commitment will be settled and a reliable estimate can be made of the amount of the obligation. Provisions are calculated based on the best estimates of management on the expenses to incur as of the reporting date and, if material, such expenses are discounted to their present values. If the amount is not reliably estimated and there is not any probability of cash outflow from the Company to settle the liability, the related liability is considered as "contingent" and disclosed in the notes to the financial statements.

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

2 Summary of significant accounting policies *(continued)*

2.21 Revenue recognition

Written premiums

Written premiums represent premiums taken from insurance and reinsurance companies as a reinsurance company. Premiums ceded to retrocession companies are accounted as "written premiums, ceded" in the profit or loss statement.

Claims paid

Claims paid represent payments of the Company as a reinsurance company when risks taken from insurance and reinsurance companies are realized. Claims are recognised as expense upon the receipt of notifications. Notifications have not specific periods and depend on the initiative of the insurance and reinsurance companies. The net amount of claims paid as at 31 December 2018 is 591.913 TL (31 December 2017: 78.949).

Subrogation, salvage and quasi income

According to the Circular 2011/13 dated 20 September 2011; the Company can account for income accrual for subrogation receivables up to the guarantee limit of insurance companies without any voucher for insurance companies after the completion of the claim payments made to the insure and receipt of voucher (bank statement related to the claim payment) from third parties other than insurance companies and notice of the insurance companies or third part parties. If the amount cannot be collected from the counterparty insurance company, the Company provides provision for uncollected amounts due for six months. If the counter party is not an insurance Company, the provision is provided after four months.

On the other hand, if there is an agreement with the insurance company and third parties; where there is a payment plan up to one year, or receipt of cheques, bills or similar documents, the Company does not provide provision for subrogation receivables that are under the instalment plan, but uncollected for six months from insurance companies and four months for other counter parties after the payment date to the insure. If total payments exceed 12 months and it does not pay in maturity day, the Company should make provision for receivables in date of protocol signed.

Regardless of the protocol or document received the payment date, if total payments are in the 12 months from the date of payment compensation and it does not pay in maturity day, the Company should make provision for impaired payments/receivables for full amounts.

2 Summary of significant accounting policies *(continued)*

2.21 Revenue recognition *(continued)*

Subrogation, salvage and quasi income *(continued)*

In case of execution demand subrogation, procedures are accrued at the date of transaction and as the same date this amount is allocated for doubtful receivables.

The 12 month period, specified in "Communiqué For Subrogation and Salvage Income numbered 2011/13" dated 20 September 2011 of Undersecretariat of Treasury, have been allowed by Undersecretariat of Treasury with regarding the specific type of credit branch in "Communique For Accounting of Uncollected Subrogation and Salvage Income For Credit Sector and Addititonal Disclosures Related With Revenue And Providing Outstanding Claim For Responsibility Branbches numbered 2011/6" dated 25 February 2011. In addition to this, due to 36 month period is too long, when borrower's financial status should be examined closely and detecting the possibility that borrower can not comply with the protocol in the future, it requires provision depending on the size of the risk in line of the precautionary principle. As of 31 December 2018, the Company does not have any receivables of subrogation and salvage (31 December 2017: None).

In order to account for salvage income expected from the sale of the assets, the insurance amount should be paid to the insure and the ownership of the related assets should be transferred to the Company. When the assets are transferred to the insure, sold to third parties by the Company or by an intermediary; salvage income is recorded and should not be recorded as a deduction from provisions for outstanding claims and paid claims.

Commission income and expenses

Commissions paid to the agencies related to the production of the insurance policies and the commissions received from the reinsurance firms related to the premiums ceded are recognized over the life of the contract by deferring commission income and expenses within the calculation of reserve for unearned premiums for the policies produced.

Interest income and expenses

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

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

Trading income/expense

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

2 Summary of significant accounting policies *(continued)*

2.21 Revenue recognition *(continued)*

Dividends

Dividend income is recognized when the Company's right to receive payment is ascertained.

2.22 Leasing transaction

As of 31 December 2018 and 31 December 2017, there is not any financial lease contract of the Company.

2.23 Dividend distribution

According to the decision which has been taken at the Ordinary General Meeting of the Company held on 30 March 2018, unanimously it has been decided not to distribute the profit of prior year.

2.24 Reserve for unearned premiums

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

- Reserve for unearned premiums are calculated on the basis of 1/8 for reinsurance and retrocession transactions that are not subject to basis of day or 1/24 due to application limitations.

- For commodity transportation policies with indefinite expiration dates, 50% of the remaining portion of the premiums accrued in the last three months, less any commissions is also provided as unearned premium reserves.

In this context, the Company calculates the provision for unearned on the basis on day by considering beginning and ending of the reinsurance contracts on a day-to-day basis, taking into account the start and end dates of the contract for reinsurance contracts.

Reserve for unearned premiums is calculated for all insurance contracts except for the contracts for which the mathematical reserve is provided. Reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long term insurance contracts.

2.25 Provision for outstanding claims

In accordance with the "Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" ("Communiqué on Technical Reserves") which was issued in 26606 numbered and 7 August 2007 dated, companies are obliged to reserve outstanding claims provision for unearned compensation amounts that have been accrued and calculated but have not yet been paid in the previous accounting period or if this amount has not been calculated the provision should be reserved for the estimated amount that have accrued but have not been reported (IBNR).

In accordance with the Regulation, the calculation of provisions for outstanding claims and outstanding claims reserve adequacy difference calculated by the Company's actuary for the five years following the start of the activity are calculated. In addition, adequate differences will be calculated for extracted major damages that are determined by the actuary. The procedures and principles regarding the calculation of provisions for outstanding claim adequacy difference, the article to be sent to the Undersecretariat and the addition of the calculated difference to provision for outstanding claims shall be determined by the Undersecretariat at Treasury.

Calculations of provisions for outstanding claims reinsurer's share are determined according to current agreement or related reinsurance conditions.

2 Summary of significant accounting policies *(continued)*

2.25 Provision for outstanding claims *(continued)*

In calculating the unrecognized but not reported claim accruals for the period 31 December 2018, estimated gross and retrocession final loss premium (LP) ratios based on the activity line are used by the Company's officials in all branches except machine breakdown. Losses incurred as of 31 December 2018 has been deducted from the ultimate loss amount reached by LP rates, and branch-based IBNR amounts have been reached. In machine breakdown branch, Chain-Ladder Method was used considering previous damage records taken from Company's portfolio. As of 31 December 2018, while calculating IBNR retrosessesion amounts for each branch amount which is counted in retrocession account on branch, retrocession / gross ratio was used in claim files.

As of 31 December 2018, the Company represented gross TL 16.961.105 (31 December 2017: TL17.135.589), net TL 1.086.893 (31 December 2017: TL 1.060.656) amount of IBNR in financial statements with the calculation model as explained above.

"Circular for the Discounted Net Cash Flows from Outstanding Claims" that is issued on 10 June 2016 and entered into force on 30 June 2016, provides the companies with the right to discount the net cash flows from the outstanding claims provisions. The Company did not apply discounting on outstanding claims provision during the reporting period.

The gradual transition rates on IBNR amounts have been rearranged. This was brought by both the circular numbered 2016/11 that was published on 29 February 2016, ("Circular on the Amendment of the General Regarding the Outstanding Claim Provision (2014/16)") and before that "the Circular numbered 2015/28 on the Amendment of the General Regarding the Outstanding Claim Provision". The Company has not implemented gradual transition its own reports in year end report period.

2.26 Mathematical provisions

In accordance with the Communiqué on Technical Reserves, companies operating in life and non-life insurance branches are obliged to allocate adequate mathematical reserves based on actuarial basis to meet liabilities against policyholders and beneficiaries for long-term life, health and personal accident insurance contracts. Actuarial mathematical provisions, according to formulas and basis in approved technical basis of tariffs for over one year-length life insurance, are calculated by determining the difference between present value of liabilities that the Company meets in future and current value of premiums paid by policyholder in future (prospective method).

Mathematical provisions are recorded based on the data sent by ceding companies.

2.27 Reserve for unexpired risk

In accordance with the Communiqué on Technical Reserves, while providing reserve for unearned premiums, in each accounting period, the companies should perform adequacy test covering the preceding 12 months due to the probability that future claims and compensations of the outstanding policies may be in excess of the reserve for unearned premiums already provided. In performing this test, it is required to multiply the reserve for unearned premiums, net with the expected claim/premium ratio. Expected claim/premium ratio is calculated by dividing incurred losses (provision for outstanding claims, net at the end of the period + claims paid, net – provision for outstanding claims, net at the beginning of the period) to earned premiums (written premiums, net + reserve for unearned premiums, net at the beginning of the period – reserve for unearned premiums, net at the end of the period). In the calculation of earned premiums; deferred commission expenses paid to the agencies and deferred commission income received from the reinsurance firms which were netted off from reserve for unearned premiums both at the beginning of the period and at the end of the period are not taken into consideration.

2 Summary of significant accounting policies *(continued)*

2.27 Reserve for unexpired risk *(continued)*

According to the "Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" published in Official Gazette no 27655 dated 28 July 2010; besides the net reserve for unexpired risk detailed in the above, gross reserve for unexpired risk is also calculated. The test is performed on main branch basis and in case where the net and gross expected claim/premium ratio is higher than 95%, reserve calculated by multiplying the exceeding portion of the expected claim/premium ratio with the reserve for unearned premiums of that main branch is added to the reserves of that branch. Difference between the gross and net amount is represents reinsurer's share. Premiums paid for non-proportional reinsurance agreements are considered as premiums ceded to the reinsurance firms.

In order to eliminate the misleading impact of change in calculation method of provision for outstanding claims, provision for outstanding claims of the previous period is calculated by the new method and the amount calculated by the new method as provision for outstanding claims at the beginning of the period is used for calculation of reserve for unexpired risk.

As a result of new start of the company according to "Regulation on the technical provisions and assets which are to be invested of Insurance and Reinsurance and Pension Companies" ("Regulation"), reserve for unexpired risks ("URR") is not calculated on net claim/premium ratio (outstanding claims (net) + claims paid (net) – provision for outstanding claims, net at the beginning of the period)) / (written premiums (net) + reserve for unearned premiums, net at the beginning of the period – reserve for unearned premiums (net)) for one year. According to 6th subclause of 6th article of Regulation, URR is calculated on net claim/premium ratio (outstanding claims (net) + claims paid (net)) / ((written premiums (net) – reserve for unearned premiums (net)) as not to take catastrophic exccess of loss reinsurance premiums on a sub-branch basis. If the net claims/premiums ratio exceeds 95% , net amount of URR is calculated as ratio which exceeds 95% by multiplying with net amount of unearned premiums reserve, gross URR is calculated by multiplying with gross amount of unearned premiums reserve.

According to the Circular numbered 2012/15 dated 10 December 2012, reserve for unexpired risks are calculated on main branches.

As at the reporting date, the Company has provided net reserve for unexpired risk amounting to TL 444.534 in the accompanying financial statements (31 December 2017 TL 1.199.906).

2.28 Equalization reserve

In accordance with the Communiqué on Technical Reserves put into effect starting from 1 January 2008, the companies should provide reserve provision in credit insurance and earthquake branches to equalize the fluctuations in future possible claims and for catastrophic risks. Equalization reserve, started to be provided in 2008, is calculated as 12% of net premiums written in credit insurance and earthquake branches. In the calculation of net premiums, fees paid for non-proportional reinsurance agreements are considered as premiums ceded to the reinsurance firms. The companies should provide equalization reserve up to reaching 150% of the highest premium amount written in a year within the last five years. In case where claims incurred, the amounts below exemption limits as stated in the contracts and the share of the reinsurance firms cannot be deducted from equalization reserve. Claims payments are deducted from first year's equalization reserve by first in first out method.

2 Summary of significant accounting policies *(continued)*

2.28 Equalization reserve *(continued)*

With the Communiqué released on 28 July 2010 and numbered 27655 "Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves", ceded premiums of earthquake and credit for non-proportional reinsurance contracts covered multiple branches should be calculated according to percentage of premiums of those branches within the total premiums unless the Company is determined any other methods. Share of earthquake and credit premium of written premiums for non-proportional reinsurance contracts is based on share of earthquake and credit premiums of proportional reinsurance contracts. In accordance with the Communiqué on Technical Reserves, the Company considers 11% of net death premium (including damage payments) as earthquake premium and 12% of that amount is calculated as equalization reserve since the Company not having sufficient data for calculation. After five financial years, in case that provision amount is less than previous year amount depending on written premiums, the difference is recognized in other profit reserves under equity. This amount recorded in equity can either be kept under reserves or can also be used in capital increase or paying claims.

Equalization reserve are presented under "other technical reserves" within long term liabilities in the accompanying financial statements. As at the reporting date, the Company has recognized equalization reserve amounting to TL 506.134 (31 December 2017: TL 506.134).

2.29 Related parties

For the purpose of the accompanying financial statements, shareholders, key management and members of board of directors together with their families and companies controlled by or affiliated with them, and associated companies are considered and referred to as related parties.

2.30 Earning per share

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

2.31 Subsequent events

Post-balance sheet events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

2 Summary of significant accounting policies *(continued)*

2.32 New standards and interpretations not yet adopted

Standards issued but not yet effective and not early adopted

New standards, interpretations and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Company has not early adopted are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, after the new standards and interpretations become in effect.

TFRS 9 *Financial Instruments: Classification and measurement*

The last version of IFRS 9, issued in July 2014, replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement". It also carries forward the guidance on recognition, classification, measurement and derecognition of financial instruments from IAS 39 to IFRS 9. The last version of IFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of IFRS 9. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company has performed an initial assessment on these financial assets and liabilities and does not expect that there will be a significant impact on its financial statements resulting from the application of IFRS 19.

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

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TFRS.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 4 has been amended by IASB to reduce the impact of the differing effective dates of the new insurance contracts standard and IFRS 9. These amendments to IFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying IFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39; or ii) an optional temporary exemption from applying IFRS 9 for companies whose activities are predominantly connected with insurance before January 1, 2021. These companies will be permitted to continue to apply existing requirements for financial instruments in IAS 39. The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to IFRS 4.

2 Summary of significant accounting policies *(continued)*

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

Standards issued but not yet effective and not early adopted *(continued)*

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA *(continued)*

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

IFRS 17 –Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2022 but companies can apply it earlier. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 17.

3 Critical accounting estimates and judgments in applying accounting policies

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

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

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

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

Note 4.1 – Management of insurance risk

Note 4.2 – Financial risk management

Note 10 – Reinsurance assets/liabilities

Note 12 – Loans and receivables

Note 17 – Insurance liabilities and reinsurance assets

Note 17 – Deferred acquisition costs

Note 21 – Deferred income taxes

Note 23 – Other liabilities and cost provisions

(Currency: Turkish Lira (TL))

4 Management of insurance and financial risk

4.1 Management of insurance risk

Objective of managing risks arising from insurance (reinsurance) contracts and policies used to minimize such risks

Reinsurance risk is defined as a possibility of financial loss due to inappropriate and insufficient application of reinsurance techniques in the activities of taking insurance contract responsibility partially or completely.

Potential risks that may be exposed in transactions are described, classified and managed based on the requirements set out in the Company's "Regulative Framework on the Risk Management Activities, Risk Management Policies and Implementation Procedures and Principles of the Risk Management" issued by the approval of the Board of Directors.

The main objective of the "Regulative Framework on the Risk Management Activities, Risk Management Policies and Implementation Procedures and Principles of the Risk Management" is to determine the risk measurement, assessment, and control procedures and maintain consistency between the Company's asset quality and limitations allowed by the insurance standards together with the Company's risk tolerance of the accepted risk level assumed in return for a specific consideration. In this respect, instruments that are related to risk transfer, such as; insurance risk selection, risk quality follow-up by providing accurate and complete information, effective monitoring of level of claims by using risk portfolio claim frequency, treaties, facultative reinsurance contracts and coinsurance agreements, and risk management instruments, such as; risk limitations, are used in achieving the related objective. VHV RE Board of Directors will decide on any decision to make changes in this Policy and its Annexes. All changes are assessed taking into account the VHV Group Risk Strategy and the VHV Group General Management System, and all changes are documented in an updated version of this policy. The actuarial function of VHV RE is informed about significant changes in the Risk Acceptance and Damage policy and significant damage.

Main reinsurance companies that the Company works with and update graduation of these reinsurance companies are:

Reinsurer	Standard & Poors Graduation	Outlook	Date
VHV Allgemeine Versicherung A.G.	A	Positive	7 Haziran 2018

Branches of insurance coverage amounts given as

	31 December 2018	31 December 2017
Facultative earthquake	39.841.420.039	21.552.704.690
Fire	22.097.865.480	11.836.648.000
Construction	7.153.429.496	3.163.335.780
Machinery breakdown	5.430.069.852	3.142.717.394
Financial losses	4.522.553.148	2.246.363.658
Electronic device	1.118.188.098	820.322.547
Montage	1.000.563.570	435.317.523
Third party financial liability	506.780.219	272.270.412
Emtea	926.017.338	-
Mesleki sorumluluk sigortası	130.728.650	34.604.000
Total	**82.727.615.890**	**43.504.284.004**

(Currency: Turkish Lira (TL))

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

4.1 Management of insurance risk *(continued)*

Sensitivity to insurance risk

Insurance risks do not generally have significant unrecoverable losses in the course of ordinary transactions, except for risks associated with earthquake and other catastrophic risks. Therefore, there is a high sensitivity to earthquake and catastrophic risks.

The case of potential claims' arising from earthquake and other catastrophic risks exceeding the maximum limit of the excess of loss agreements, such risks are treated as the primary insurance risks and are managed based on the precautionary principle. Maximum limit of excess of loss agreements is determined based on the worst case scenario on the possibility of an earthquake in terms of its severity and any potential losses incurred in accordance with the generally accepted international earthquake models.

Insurance risk concentrations

The Company's gross and net insurance risk concentrations (after reinsurance) in terms of insurance branches are summarized as below:

		31 Aralık 2018	
Branches	**Gross total claims liability(*)**	**Reinsurance share of total claims liability**	**Net total claims liability**
Construction	3.829.988	(3.340.612)	489.376
Electronic device	3.430.876	(2.754.874)	676.002
Machinery breakdown	2.761.414	(2.487.449)	273.965
Fire and act of god	2.562.164	(2.376.950)	185.214
Financial losses	1.008.314	(942.424)	65.890
Montage	410.751	(328.600)	82.151
Professional indemnity insurance	(4.373)	3.498	(875)
Emtea	7.000	(7.000)	-
Third party financial liability	(11.459)	9.146	(2.313)
Toplam	**20.693.531**	**(17.351.185)**	**3.342.347**

		31 December 2017	
Branches	**Gross total claims liability(*)**	**Reinsurance share of total claims liability**	**Net total claims liability**
Construction	3.829.988	(3.340.612)	489.376
Electronic device	3.430.876	(2.754.874)	676.002
Machinery breakdown	2.761.414	(2.487.449)	273.965
Fire and act of god	2.562.164	(2.376.950)	185.214
Financial losses	1.008.314	(942.424)	65.890
Montage	410.751	(328.600)	82.151
Professional indemnity insurance	(4.373)	3.498	(875)
Third party financial liability	(11.459)	9.146	(2.313)
Total	**13.987.675**	**(12.218.265)**	**1.769.410**

(*) Total claims liability does not include IBNR reserve.

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

4.2 Management of financial risk

Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company if counterparties (parties issued financial instrument, insurance companies, reinsurance companies and other debtors) having business relationship with the Company fails to meet its contractual obligations. The Company manages this credit risk by regularly assessing reliability of the counterparties. The balance sheet items that the Company is exposed to credit risk are as follows:

- Cash at banks
- Premium receivables from insurance companies
- Premium receivables from brokers due to reissurance activities
- Receivables related to commission from Retrosons
- Due from related parties
- Other receivables

Credit risk is measured by both quantitative and qualitative methods and the weighted reinsurers in retrocession programs, credit ratings of them that indicate their financial strengths and their financial positions are analysed.

The results evaluated by the Risk Committee and reported regularly to the Board of Directors. Action plan is determined by the Board of Directors in the case of having exposure higher than acceptable level of risk and probability.

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Credit risk *(continued)*

Net carrying value of the assets that is exposed to credit risk is shown in the table below:

	31 December 2018	31 December 2017
Cash and cash equivalents *(Note 14)*	97.247.623	91.645.224
Receivables from main operations *(Note 12)*	43.189.716	29.926.452
Reinsurer share in provision for outstanding claims *(Note 10), (Note 17)*	40.951.042	28.293.198
Income accruals	270.609	1.221.399
Other receivables *(Note 12)*	122.326	125.069
Other current asset *(Note 12)*	4.374.184	2.931
Total	**186.155.500**	**151.214.273**

As at 31 December 2018 and 2017, the aging of the receivables from main operations and related provisions are as follows:

	31 December 2018		31 December 2017	
	Gross amount	Provision	Gross amount	Provision
Not past due	31.264.514	-	23.885.598	-
Past due 0-30 days	4.499.655	-	2.180.657	-
Past due 31-60 days	3.823.371	-	1.780.535	-
Past due 61-90 days	252.736	-	580.247	-
More than 90 days	3.349.440	-	1.499.415	-
Total	**43.189.716**	**-**	**29.926.452**	**-**

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset as a result of the imbalance between the Company's cash inflows and outflows in terms of maturity and volume.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities.

In respect of this risk which is measured by quantitative methods, any liquidity deficit is observed via the maturity analysis of assets and liabilities in the statement of balance sheet. Furthermore, liquidity structure of the Company is monitored by using the following basic indicators in respect of liquidity ratios.

- Liquid Assets / Total Assets
- Liquidity Ratio
- Current Ratio
- Premium and Reinsurance Receivables / Total Assets

The results evaluated by the Risk Committee and reported regularly to the Board of Directors. Action plan is determined by the Board of Directors in the case of having exposure higher than acceptable level of risk and probability.

Management of the liquidity risk

The Company considers the maturity match between asset and liabilities for the purpose of avoiding liquidity risk and ensure that it will always have sufficient liquidity to meet its liabilities when due.

Maturity distribution of monetary assets and liabilities:

31 December 2018	Carrying amount	Up to 1 montl	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Cash and cash equivalents	97.247.623	97.247.623	-	-	-	-
Receivables from main operations	43.189.716	16.378.091	10.123.005	5.094.088	11.594.532	-
Other receivables and current assets	4.496.510	4.496.510	-	-	-	-
Total monetary assets	**144.933.849**	**118.122.224**	**10.123.005**	**5.094.088**	**11.594.532**	**-**
Financial liabilities	50.064	50.064	-	-	-	-
Payables arising from main operations	32.589.044	6.469.695	8.198.289	1.292.438	16.628.622	-
Other liabilities	806.168	392.726	413.442	-	-	-
Insurance technical provisions	5.606.736	299.824	350.176	750.658	4.206.078	-
Provisions for taxes and other similar obligations	151.542	151.542	-	-	-	-
Provisions for other risks and expense accruals	1.087.052	-	604.422	413.662	-	68.968
Total monetary liabilities	**40.290.606**	**7.363.851**	**9.566.329**	**2.456.758**	**20.834.700**	**68.968**

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Liquidity risk *(continued)*

31 December 2017	Carrying amount	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Cash and cash equivalents	91.645.224	91.645.224	-	-	-	-
Receivables from main operations	29.926.452	9.988.834	7.144.430	4.471.210	8.321.978	-
Other receivables and current assets	128.000	128.000	-	-	-	-
Total monetary assets	**121.699.676**	**101.762.058**	**7.144.430**	**4.471.210**	**8.321.978**	-
Insurance technical provisions	23.683	23.683	-	-	-	-
Payables arising from main operations	33.625.477	9.195.746	9.687.102	9.461.092	5.281.537	-
Provisions for other risks and expense accruals	413.442	-	413.442	-	-	-
Other liabilities	2.830.066	67.521	958.221	1.245.887	558.437	-
Financial liabilities	1.617.459	1.617.459	-	-	-	-
Provisions for taxes and other similar obligations	750.214	-	667.584	48.319	-	34.311
Total monetary liabilities	**39.260.341**	**10.904.409**	**11.726.349**	**10.755.298**	**5.839.974**	**34.311**

Market risk

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

Foreign currency risk

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

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

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

31 December 2018	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	25.764.966	70.797.941	112.785	96.675.692
Receivables from main operations	19.814.942	16.150.873	307.709	36.273.524
Total foreign currency assets	**45.579.908**	**86.948.814**	**420.494**	**132.949.216**
Liabilities:				
Payables arising from main operations	14.767.374	13.105.107	96.559	27.969.039
Insurance technical provisions (*)	3.204.424	2.049.841	1.822	5.256.086
Total foreign currency liabilities	**17.971.797**	**15.154.948**	**98.380**	**33.225.125**
Net on-balance sheet position	**27.608.111**	**71.793.866**	**322.114**	**99.724.091**

(*) According to the "Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" published in Official Gazette no 27655 dated 28 July 2010; foreign currency denominated claims provisions evaluated by the Central Bank of the Republic of Turkey's spot sales rates.

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Foreign currency risk (continued)

31 December 2017	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	10.056.686	81.088.583	67.633	91.212.902
Receivables from main operations	17.503.489	8.900.321	431.004	26.834.814
Total foreign currency assets	**27.560.175**	**89.988.904**	**498.637**	**118.047.716**
Liabilities:				
Payables arising from main operations	10.201.881	16.400.853	326.462	26.929.196
Insurance technical provisions (*)	1.462.964	534.700	-	1.997.664
Total foreign currency liabilities	**11.664.845**	**16.935.553**	**326.462**	**28.926.860**
Net on-balance sheet position	**15.895.330**	**73.053.351**	**172.175**	**89.120.856**

(*) According to the "Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" published in Official Gazette no 27655 dated 28 July 2010; foreign currency denominated claims provisions evaluated by the Central Bank of the Republic of Turkey's spot sales rates.

TL equivalents of the related monetary amounts denominated in foreign currencies are presented in the above table.

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

	At the end of the period		Average	
	US Dollar	**Euro**	**US Dollar**	**Euro**
31 December 2018	5,2608	6,0280	4,8301	5,6789
31 December 2017	3,7719	4,5155	3,6436	4,1130

Exposure to foreign currency risk

A 10 percent depreciation of the TL against the following currencies as at 31 December 2018 and 2017 would have increased or decreased equity and profit or loss (excluding tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. In case of a 10 percent appreciation of the TL against the following currencies, the effect will be in opposite direction.

	31 December 2018		31 December 2017	
	Profit or loss	**Equity(*)**	**Profit or loss**	**Equity(*)**
US Dollar	2.760.811	2.760.811	1.587.496	1.587.496
Euro	7.179.387	7.179.387	7.296.433	7.296.433
Others	32.211	32.211	17.217	17.217
Total, net	**9.972.409**	**9.972.409**	**8.901.146**	**8.901.146**

(*) Equity effect also includes profit or loss effect of 10% depreciation of TL against related currencies.

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands.

As at reporting date; the interest rate profile of the Company's interest earning financial assets and interest bearing financial liabilities are detailed as below:

	31 December 2018	31 December 2017
Financial assets:		
Financial assets with fixed interest rates:	**90.674.916**	**86.825.858**
Cash at banks *(Note 14)*	90.674.916	86.825.858

Fair value information

The estimated fair values of financial instruments have been determined using available market information, and where it exists, appropriate valuation methodologies. As at 31 December 2018 and 31 December 2017, the Company does not have any financial instruments that can be measured at fair value.

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

Classification relevant to fair value information

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

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

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

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

Classification requires the utilization of observable market data, if available. As at 31 December 2018, there is not any financial assets (31 December 2017: None).

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Gain and losses from financial assets

Gains and losses recognized in the statement of income, net	31 December 2018	31 December 2017
Interest income from bank deposits	1.168.959	695.808
Foreign exchange gains	193.673.150	40.194.013
Investment income	**194.842.109**	**40.889.821**
Foreign exchange losses	(178.638.111)	(30.467.984)
Investment expenses	**(178.638.111)**	**(30.467.984)**
Investment income, net	**16.203.998**	**10.421.837**

Capital management

The Company's capital management policies include the following:

- To comply with the insurance capital requirements required by the Turkish Treasury,
- To safeguard the Company's ability to continue as a going concern,

In accordance with the "Communiqué on Measurement and Assessment of Capital Adequacy for Insurance, Reinsurance and Individual Pension Companies" issued by Turkish Treasury on 23 August 2015 dated and 29454 numbered; the Company measured its minimum capital requirement as TL 31.605.427 as at 31 December 2018. As at 31 December 2018, the capital amount of the Company presented in the financial statements is TL99.738.540 and capital surplus of the Company is amounting to TL 68.133.113 according to the communiqué.

5 Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Business segment

As of the reporting date the, Company operates only in non-life insurance segment, so the Company does not disclose business segment reporting.

Geographical segment

The main geographical segment the Company operates is in Turkey, so the Company does not disclose geographical segment reporting.

(Currency: Turkish Lira (TL))

6 Tangible assets

Movement in tangible assets in the period from 1 January to 31 December 2018 is presented below:

	1 January 2018	Additions	Disposals	Transfer	31 December 2018
Cost:					
Furniture and fixtures	322.380	137.596	-	-	459.976
Leasehold improvements	84.142	-	-	-	84.142
	406.522	**137.596**	**-**	**-**	**544.118**
Accumulated depreciation:					
Furniture and fixtures	196.467	10.193	-	-	206.660
Leasehold improvements	36.651	-	-	-	36.651
	233.118	**10.193**	**-**	**-**	**243.311**
Net book value	**173.404**				**300.807**

Movements of tangible assets in the period from 1 January to 31 December 2017 are presented below:

	1 January 2017	Additions	Disposals	Transfer	31 December 2017
Cost:					
Furniture and fixtures	821.736	83.104	-	(582.460)	322.380
Leasehold improvements	84.142	-	-	-	84.142
	905.878	**83.104**	**-**	**(582.460)**	**406.522**
Accumulated depreciation:					
Furniture and fixtures	141.252	200.830	-	(145.615)	196.467
Leasehold improvements	19.656	16.995	-	-	36.651
	160.908	**217.825**	**-**	**(145.615)**	**233.118**
Net book value	**744.970**				**173.404**

There is not any mortgage over tangible assets of the Company as at 31 December 2018 and 31 December 2017.

7 Investment property

The Company has not any investment property as at 31 December 2018 and 31 December 2017.

8 Intangible assets

Movement in intangible assets in the period from 1 January to 31 December 2018 is presented below:

	1 January 2018	Additions	Disposals	Transfer	31 December 2018
Cost:					
Rights	1.877.456	488.904	-	-	2.366.360
Advances on intangible fixed assets	44.233	-	(44.233)		-
	1.921.689	**488.904**	**(44.233)**	**-**	**2.366.360**
Accumulated amortization:					
Rights	799.455	661.263	-	-	1.460.718
	799.455	**661.263**	**-**	**-**	**1.460.718**
Net book value	**1.122.234**				**905.642**

Movements in intangible assets in the period from 1 January to 31 December 2017 are as follows:

	1 January 2017	Additions	Disposals	Transfer	31 December 2017
Cost:					
Rights	1.293.078	1.918	-	582.460	1.877.456
Advances on intangible fixed assets	74.755	44.233	(74.755)	-	44.233
	1.367.833	**46.151**	**(74.755)**	**582.460**	**1.921.689**
Accumulated amortization:					
Rights	256.467	397.373	-	145.615	799.455
	256.467	**397.373**	**-**	**145.615**	**799.455**
Net book value	**1.111.366**				**1.122.234**

(Currency: Turkish Lira (TL))

9 Investments in associates

As at 31 December 2018, the Company has not any associates (31 December 2017: None).

10 Reinsurance asset and liabilities

As at 31 December 2018 and 31 December 2017, outstanding reinsurance assets and liabilities of the Company, as Reinsurance company in accordance with existing reinsurance contracts are as follows:

Reinsurance assets	31 December 2018	31 December 2017
Receivables from reinsurance companies *(Note 12)*	11.386.935	12.669.301
Provision for outstanding claims, ceded *(Note 4.2), (Note 17)*	40.951.042	28.293.198
Reserve for unearned premiums, ceded *(Note 17)*	22.432.786	6.546.599
Total	**74.770.763**	**47.509.098**

There is not any impairment losses recognized for reinsurance assets.

Reinsurance liabilities	31 December 2018	31 December 2017
Deferred commission income *(Note 19)*	8.174.662	2.631.371
Total	**8.174.662**	**2.631.371**

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

	31 December 2018	31 December 2017
Premiums ceded during the period *(Note 17)*	(63.652.341)	(29.559.644)
Reserve for unearned premiums, ceded at the beginning of the period *(Note 17)*	(6.546.599)	(4.152.020)
Reserve for unearned premiums, ceded at the end of the period *(Note 17)*	22.432.786	6.546.599
Premiums earned, ceded *(Note 17)*	**(47.766.154)**	**(27.165.065)**
Claims paid, ceded during the period *(Note 17)*	4.492.620	1.353.509
Provision for outstanding claims, ceded at the beginning of the period *(Note 17)*	(28.293.198)	(3.747.594)
Provision for outstanding claims, ceded at the end of the period *(Note 17)*	40.951.042	28.293.198
Claims incurred, ceded *(Note 17)*	**17.150.464**	**25.899.113**
Commission income accrued from reinsurers during the period *(Note 32)*	22.040.889	10.803.701
Deferred commission income at the beginning of the period *(Note 19)*	2.631.371	2.290.059
Deferred commission income at the end of the period *(Note 19)*	(8.174.662)	(2.631.371)
Commission income earned from reinsurers *(Note 32)*	**16.497.598**	**10.462.389**
Changes in provision for outstanding claims, reinsurers' share *(Note 17)*	**(3.197.831)**	**2.871.021**
Total, net	**(17.315.923)**	**12.067.458**

11 Financial assets

The Company has not any financial assets as of 31 December 2018 and 31 December 2017.

(Currency: Turkish Lira (TL))

12 Loans and receivables

	31 December 2018	31 December 2017
Receivables from main operations *(Note 4.2)*	43.189.716	29.926.452
Other receivables *(Note 4.2)*	122.326	125.069
Other current assets	4.374.184	2.931
Total assets	**47.686.226**	**30.054.452**
Short-term receivables	47.686.226	30.054.452
Total	**47.686.226**	**30.054.452**

As at 31 December 2018 and 31 December 2017, receivables from main operations are detailed as follows:

	31 December 2018	31 December 2017
Receivables from insurance companies	15.927.209	10.159.354
Receivables from agencies, brokers and intermediaries	15.875.572	7.097.797
Receivables from reinsurance companies *(Note 10)*	11.386.935	12.669.301
Total receivables from reinsurance operations, net	**43.189.716**	**29.926.452**

Provisions provided for doubtful receivables that are due and not due

a) *Receivables under legal or administrative follow up (due):* There are not any legal and administrative follow-ups arising from main operations and other receivables (31 December 2017: None).

b) *Provision for premium receivables (due):*None (31 None 2017: None).

The Company's receivables from and payables to shareholders, associates and subsidiaries are detailed in *45.*

The details of the receivables and payables denominated in foreign currencies and foreign currency rates used for the translation are presented in *Note 4.2.*

13 Derivative financial assets

As at 31 December 2018 and 31 December 2017, the Company has not any derivative financial instruments.

14 Cash and cash equivalents

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

	31 December 2018		31 December 2017	
	At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
Banks	97.247.623	91.645.224	91.645.224	64.917.121
Cash and cash equivalents presented in the balance sheet	**97.247.623**	**91.645.224**	**91.645.224**	**64.917.121**
Interest accruals on bank deposits	(55.318)	(109.393)	(109.393)	(43.019)
Cash and cash equivalents presented in the statement of cash flows	**97.192.305**	**91.535.831**	**91.535.831**	**64.874.102**

As at 31 December 2018 and 31 December 2017, bank deposits are further analyzed as follows:

	31 December 2018	31 December 2017
Foreign currency denominated bank deposits		
- time deposits	90.674.916	86.825.858
- demand deposits	6.000.776	4.387.044
Bank deposits in Turkish Lira		
- demand deposits	571.931	432.322
Bank balances	**97.247.623**	**91.645.224**

As at 31 December 2018 and 31 December 2017, the Company has not any cash collateral kept at banks.

(Currency: Turkish Lira (TL))

15 Equity

Paid in capital

The shareholder having direct or indirect control over the shares of the Company is VHV Allgemeine Versicherungen A.G. having 100% of outstanding shares. As at 31 December 2018 and 31 December 2017, the shareholding structure of the Company is presented below:

	31 December 2018		31 December 2017	
Name	**Shareholding amount (TL)**	**Shareholding rate (%)**	**Shareholding amount (TL)**	**Shareholding rate (%)**
VHV Allgemeine Versicherungen A.G.	65.955.272	100	65.955.272	100
Paid in capital	**65.955.272**	**100**	**65.955.272**	**100**

As at 31 December 2018, the issued share capital of the Company is TL 65.955.272 (31 December 2017: TL 65.955.272) and the share capital of the Company consists of 65.955.272 (31 December 2017: 65.955.272 shares) issued shares with TL 1 nominal value each. There are no privileges over the shares of the Company.

Legal reserves

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

As of 31 December 2018 and 31 December 2017, the Company has not any legal reserves.

Extraordinary reserves

As of 31 December 2018 and 31 December 2017, the Company has not any extraordinary reserves.

16 Other reserves and equity component of Discretionary Participation Feature

As at 31 December 2018 and 31 December 2017, other reserves are explained in detail in Note 15 – *Equity* above.

31 December 2018 and 31 December 2017, the Company does not hold any insurance or investment contracts which contain a DPF.

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets

Estimation of the ultimate payment for the outstanding claims is one of the most important accounting assumptions of the Company. Estimation of the insurance contract liabilities contains several ambiguities by nature. The Company makes calculation of the related insurance technical provisions accordance with the Insurance Legislation and reflects them into financial statements as mentioned in Note 2 – *Summary of significant accounting policies*.

As at 31 December 2018 and 2017, technical reserves of the Company are as follows:

	31 December 2018	31 December 2017
Reserve for unearned premiums, gross	25.567.352	14.016.883
Reserve for unearned premiums, ceded *(Note 10)*	(22.432.786)	(6.546.599)
Reserves for unearned premiums, net	**3.134.566**	**7.470.284**
Provision for outstanding claims, gross	46.557.778	31.123.264
Provision for outstanding claims, ceded *(Note 4.2), (Note 10)*	(40.951.042)	(28.293.198)
Provision for outstanding claims, net	**5.606.736**	**2.830.066**
Reserve for unexpired risks, gross	3.920.391	7.873.594
Reserve for unexpired risks, ceded *(Note 10)*	(3.475.857)	(6.673.688)
Reserve for unexpired risks, net	**444.534**	**1.199.906**
Equalization reserve, net	**506.134**	**506.134**
Total technical provisions, net	**9.691.970**	**12.006.390**

As at 31 December 2018 and 31 December 2017, movements of the insurance liabilities and related reinsurance assets are presented below:

	31 December 2018		
Reserve for unearned premiums	**Gross**	**Ceded**	**Net**
Reserve for unearned premiums at the beginning of the period	14.016.883	(6.546.599)	7.470.284
Premiums written during the period	64.137.186	(63.652.341)	484.845
Premiums earned during the period	(52.586.717)	47.766.154	(4.820.563)
Reserve for unearned premiums at the end of the period	**25.567.352**	**(22.432.786)**	**3.134.566**

	31 December 2017		
Reserve for unearned premiums	**Gross**	**Ceded**	**Net**
Reserve for unearned premiums at the beginning of the period	10.962.361	(4.152.020)	6.810.341
Premiums written during the period	31.356.265	(29.559.644)	1.796.621
Premiums earned during the period	(28.301.743)	27.165.065	(1.136.678)
Reserve for unearned premiums at the end of the period	**14.016.883**	**(6.546.599)**	**7.470.284**

	31 December 2018		
Provision for outstanding claims	**Gross**	**Ceded**	**Net**
Provision for outstanding claims at the beginning of the period	31.123.264	(28.293.198)	2.830.066
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	20.519.047	(17.150.464)	3.368.583
Claims paid during the period	(5.084.533)	4.492.620	(591.913)
Provision for outstanding claims at the end of the period	**46.557.778**	**(40.951.042)**	**5.606.736**

(Currency: Turkish Lira (TL))

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

	31 December 2017		
Provision for outstanding claims	**Gross**	**Ceded**	**Net**
Provision for outstanding claims at the beginning of the period	4.223.721	(3.747.594)	476.127
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	28.332.001	(25.899.113)	2.432.888
Claims paid during the period	(1.432.458)	1.353.509	(78.949)
Provision for outstanding claims at the end of the period	**31.123.264**	**(28.293.198)**	**2.830.066**

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

The Company, being a reinsurance company, has not any obligation of providing guarantees.

Total amount of insurance risk on a branch basis

The Company's total amount of insurance risk on a branch basis is mentioned in *Note 4.1 – Management of insurance risk.*

Company's number of life insurance policies, additions, disposals during the year and the related mathematical reserves

None.

Distribution of new life insurance policyholders in terms of numbers and gross and net premiums as individual or group during the period

None.

Distribution of mathematical reserves for life insurance policyholders who left the Company's portfolio as individual or group during the period

None.

Pension investment funds established by the Company and their unit prices

None.

Number and amount of participation certificates in portfolio and circulation

None.

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

None.

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

None.

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

None.

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

None.

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

None.

(Currency: Turkish Lira (TL))

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

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

None.

Profit share distribution rate of life insurances

None.

Deferred commission expenses

The Company capitalizes commissions paid to the intermediaries related to policy production under short-term and long-term prepaid expenses. As at 31 December 2018, short-term deferred expenses amounting to TL 4.335.210 (31 December 2017: TL 2.381.093) totally consist of deferred commission expenses.

As at 31 December 2018 and 2017, the movement of deferred commission expenses is presented below:

	31 December 2018	31 December 2017
Deferred commission expenses at the beginning of the period	2.381.093	1.825.875
Commissions accrued during the period *(Note 32)*	10.983.575	5.119.305
Commissions expensed during the period *(Note 32)*	(9.029.458)	(4.564.087)
Deferred commission expenses at the end of the period	**4.335.210**	**2.381.093**

18 Investment contract liabilities

None.

19 Trade and other payables and deferred income

	31 December 2018	31 December 2017
Payables arising from reinsurance operations	32.589.044	33.625.477
Short/long term deferred income and expense accruals	8.253.026	2.679.690
Taxes and other liabilities and similar obligations	151.542	1.617.459
Other miscellaneous payables and other liabilities	1.745.888	1.081.026
Financial liabilities	50.064	23.683
Total	**42.789.564**	**39.027.335**
Short-term liabilities	42.789.564	39.027.335
Long-term liabilities	-	-
Total	**42.789.564**	**39.027.335**

As at 31 December 2018 and 31 December 2017, other payables mainly consist of outsourced benefits and services.

Short/long term deferred income and expense accruals include deferred commission income *(Note 10)* amounting to TL 8.174.662 (31 December 2017: TL 2.631.371).

Corporate tax liabilities and prepaid taxes are disclosed below:

	31 December 2018	31 December 2017
Corporate tax liabilities	6.493.595	2.887.961
Taxes paid during the year	(10.867.779)	(1.379.532)
Corporate tax liability/(Prepaid tax), net	**(4.374.184)**	**1.508.429**

Total amount of investment incentives which will be benefited in current and forthcoming periods

None.

(Currency: Turkish Lira (TL))

20 Financial liabilities

As of 31 December 2018, the Company's financial liabilities consist of TL 50.064 credit card loans (31 December 2017: TL 23.683).

21 Deferred tax

As at 31 December 2018 and 31 December 2017, deferred tax assets and liabilities are attributable to the following:

	31 December 2018	31 December 2017
	Deferred tax assets/ (liabilities)	**Deferred tax assets/ (liabilities)**
Unexpired risk reserve	97.797	239.981
Provision for personnel bonus	193.160	135.300
Equalization reserve	111.349	101.227
TAS adjustment differences in depreciation	119.529	62.041
Provision for unused vacation pay liability	13.578	11.568
Provision for employee termination benefits	15.173	6.862
Deferred tax assets/liabilities, net	**550.587**	**556.979**

As at 31 December 2018, the Company has not any deductible tax losses (31 December 2017: None).

Movement of deferred tax assets as at 31 December 2018 and 31 December 2017 are given below:

	31 December 2018	31 December 2017
Opening balance	556.979	193.129
Recognised in profit or loss	(6.392)	363.850
Closing balance	**550.587**	**556.979**

22 Retirement benefit obligations

None (31 December 2017: None).

(Currency: Turkish Lira (TL))

23 Provision for other liabilities and charges

As at 31 December 2018 and 31 December 2017; the provisions for other risks are disclosed as follows:

	31 December 2018	31 December 2017
Provision for personnel bonus	878.000	615.000
Provision for unused vacation pay liability	61.720	52.584
Provision for employee termination benefits	68.968	34.311
Total provision for other risks	**1.008.688**	**701.895**

Movement of provision for severance pay during the period is presented below:

	31 December 2018	31 December 2017
Provision at the beginning of the period	34.311	13.249
Interest cost	2.214	1.460
Service cost	10.131	13.744
Payments during the period	-	-
Actuarial differences	22.312	5.858
Provision at the end of the period	**68.968**	**34.311**

24 Net insurance premium

Net insurance premium revenue for non–life branches is presented in detailed in the accompanying statement of income.

25 Fee revenue

None.

26 Investment income

Presented in "*Note 4.2* – Financial Risk Management" above.

27 Net income accrual on financial assets

Presented in "*Note 4.2* – Financial Risk Management" above.

28 Asset held at fair value through profit or loss

Presented in "*Note 4.2* – Financial Risk Management" above.

29 Insurance rights and claims

	31 December 2018	31 December 2017
Claims paid, net off reinsurers' share	591.913	78.949
Changes in provision for outstanding claims, net off reinsurers' share	2.776.670	2.353.939
Changes in reserve for unearned premium, net off reinsurers' share	(4.335.718)	659.943
Changes in reserve for unexpired risks, net off reinsurers' share	(755.372)	866.402
Change in equalization reserve, net off reinsurers' share	-	160.198
Total	**(1.722.507)**	**4.119.431**

30 Investment contract benefits

None.

31 Other expenses

The allocation of the expenses with respect to their nature or function is presented in Note 32 – *Expenses by nature* below.

(Currency: Turkish Lira (TL))

32 Operating expenses

For the years ended 31 December 2018 and 2017, the operating expenses are disclosed as follows:

	31 December 2018	31 December 2017
Commission expenses *(Note 17)*	9.029.458	4.564.087
Commissions to the intermediaries accrued during the period (Note 17)	*10.983.575*	*5.119.305*
Changes in deferred commission expenses (Note 17)	*(1.954.117)*	*(555.218)*
Employee benefit expenses *(Note 33)*	4.566.549	3.311.399
Administration expenses	6.074.648	4.085.258
Commission income from reinsurers *(Note 10)*	(16.497.598)	(10.462.389)
Commission income from reinsurers accrued during the period (Note 10)	*(22.040.889)*	*(10.803.701)*
Change in deferred commission income (Note 10)	*5.543.291*	*341.312*
Outsourced benefits and services	2.360	40.672
Other	13.984	36.124
Total	**3.189.401**	**1.575.151**

33 Employee benefit expenses

For the years ended 31 December 2018 and 31 December 2017, employee benefit expenses are disclosed as follows:

	31 December 2018	31 December 2017
Wages and salaries	3.651.121	2.686.865
Employer's share in social security premiums	621.194	420.385
Pension fund benefits	294.234	204.149
Total *(Note 32)*	**4.566.549**	**3.311.399**

34 Financial costs

Finance costs of the period are presented in "Note 4.2 – Financial Risk Management" above. There are not any finance costs classified in production costs or capitalized on tangible assets. All financial costs are directly recognised as expense in the statement of income.

35 Income tax expense

Income tax expense in the accompanying financial statements is as follows:

	31 December 2018	31 December 2017
Corporate tax expense:		
Corporate tax provision	(6.493.595)	(2.887.961)
Deferred taxes:		
Arising from origination (+)/ reversal (-) of taxable temporary differences	(6.392)	363.850
total income tax expense recognized in profit or loss		
Total income tax(expense)/income	**(6.499.987)**	**(2.524.111)**

(Currency: Turkish Lira (TL))

35 Income tax expense *(continued)*

A reconciliation of tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the year ended 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018		31 December 2017	
Profit / (loss) before tax	**29.522.735**	**Tax**	**12.826.524**	**Tax Ratio (%)**
Income tax provision at statutory tax rate	(6.495.002)	(22,00)	(2.565.305)	(20,00)
Tax rate increase	-	-	22.936	(0,01)
Non-tax deductible expenses	(4.985)	(0,00)	18.258	(0,01)
Total tax expense recognized in profit or loss	**(6.499.987)**	**(22,01)**	**(2.524.111)**	**(20,02)**

36 Net foreign exchange gains

Net foreign exchange gains are presented in Note 4.2 – *Financial Risk Management* above.

37 Earnings per share

Earnings per share are calculated by dividing net profit of the year to the weighted average number of shares.

	31 December 2018	31 December 2017
Net profit / (loss) for the period	23.022.748	10.302.413
Weighted average number of shares	65.955.272	65.955.272
Earnings / (loss) per share (TL)	0,34907	0,15620

38 Dividend per share

None.

39 Cash generated from operations

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

40 Convertible bonds

None.

41 Redeemable preference shares

None.

42 Risks

None.

(Currency: Turkish Lira (TL))

43 Commitments

In the normal course of its operations, the Company provides guarantee to ceding companies in the non-life branch as a reinsurance company and transfers insurance risks through treaties, facultative reinsurance contracts and coinsurance agreements to reinsurance and coinsurance companies.

The future aggregate minimum lease payments under operating leases for properties rented for use are as follows:

TL commitments	31 December 2018	31 December 2017
Within one year	865.240	649.367
More than one year less than five years	1.069.653	1.075.423
More than 5 years	-	-
Total of minimum rent payments	**1.934.894**	**1.724.790**

44 Business combinations

None.

45 Related party transactions

The main shareholder of VHV Reasürans A.Ş. ("The Company") is VHV Allgemeine Versicherungen AG ("VHV Group"), which holds 100% of the issued capital of the Company. And the groups to which they are affiliated and the associates and subsidiaries of these groups are defined as related parties for these financial statements.

As at 31 December 2018 and 31 December 2017, the related parties and their related transactions are as follows:

	31 December 2018	31 December 2017
VHV Allgemeine Versicherung A.G	16.217.097	11.354.290
Receivables from main operations	**16.217.097**	**11.354.290**
VHV Allgemeine Versicherung A.G	22.557.445	24.162.781
Payables from main operations	**22.557.445**	**24.162.781**
VHV Allgemeine Versicherung A.G	270.609	1.221.399
Income accruals	**270.609**	**1.221.399**
VHV Allgemeine Versicherung A.G	51.424.855	22.886.020
Premiums written, ceded	**51.424.855**	**22.886.020**

46 Subsequent events

None.

(Currency: Turkish Lira (TL))

47 Other

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

Other income and profit	**31 December 2018**	**31 December 2017**
Potfolio management income *(Note 4.2)*	274.322	1.221.399
Other income and profit	39.995	151.957
Other income and profit	**314.287**	**1.373.356**

Other income and profit	**31 December 2018**	**31 December 2017**
Other income and profit	(245.150)	(8.835)
Non-tax deductible expenses	(57.654)	(32.393)
Other income and profit	**(302.804)**	**(41.228)**

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

None.

Subrogation recorded in "Off-Balance Sheet Accounts"

None.

Real rights on immovable and their values

None.

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

None.

As at and for the year ended 31 December 2018 and 31 December 2017, details of provision expenses are as follows:

	31 December 2018	**31 December 2017**
Change in provision for employee termination *(Note 23)*	(34.657)	(21.062)
Provision for unused vacation pay liability (*Note 23)*	(9.136)	(52.584)
Change in provision reversal income	(263.000)	(70.790)
Other	(142.579)	(52.317)
Provision expense	**(449.372)**	**(196.753)**