

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

VHV Reasürans Anonim Şirketi

**Financial Statements as of December 31, 2019 together with the
Independent Auditors' Report**

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

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of VHV Reasürans Anonim Şirketi

A) Report on the Audit of the Financial Statements

1) Opinion

We have audited the financial statements of VHV Reasürans Anonim Şirketi (the Company), which comprise the statement of financial position as at December 31, 2019, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with the prevailing accounting principles and standards as per the insurance legislation and Turkish Financial Reporting Standards decree for the matters not regulated by insurance legislation; "Insurance Accounting and Financial Reporting Legislation".

2) Basis for Opinion

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

3) Other Matter

The financial statements of the Company as of December 31, 2018 were audited by another audit firm, which expressed an unqualified opinion in their reports issued on March 11, 2019.



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4) Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Estimates and assumptions used in calculation of insurance contract liabilities</p> <p>As of December 31, 2019, the Company has insurance liabilities of TL 14.956.242 representing 6,99% of the Company's total liabilities. The Company has reflected a net provision of TL 9.560.651 for the future outstanding claims for insurance contracts. In the calculation of Incurred But Not Reported (IBNR) claims provisions (net amount of TL 2.719.062) which is accounted under the outstanding claims reserves, the Company Management has used the actuarial assumptions and estimates detailed in note 2 and 17. Uncertainty of estimation and management judgment containing, IBNR calculations has been considered as a key audit matter.</p>	<p>We have performed the audit procedures related the actuarial assumptions which disclosed in the Note 2 and 17 together with the actuary auditor who is part of our audit team.</p> <p>These procedures are primarily intended to assess whether the estimates and methods that used in the calculation of the outstanding claims reserve by the Company are appropriate.</p> <p>In this context, we have performed the audit procedures related to the recording of the Company's incurred outstanding claims; performed the analytical review, performed detailed testing on the incurred case files which selected randomly; have performed the audit procedures related to the completeness of the data used in the calculation of insurance contract liabilities; assessed the properness of the IBNR calculation method used by the Company for each line of businesses both the relevant claim characteristics and the Company's claim history; performed the recalculation procedure on the amount of IBNR calculated by the Company; reviewed the claim analyzes made by the Company's actuary and questioned these analyzes in terms of suitability and consistency of both legislation and Company past experience; assessed whether the explanation in the notes of the financial statements are sufficient.</p>



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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the 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.



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- 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.

B) Report on Other Legal and Regulatory Requirements

- 1) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period January 1 – December 31, 2019 and financial statements are not in compliance with laws and provisions of the Company's articles of association in relation to financial reporting.
- 2) In accordance with paragraph 4 of Article 402 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

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

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



Seda Akkuş Tecer, SMMM
Partner

March 5, 2020
Istanbul, Turkey

VHV REASÜRANS ANONİM ŞİRKETİ

**CONVENIENCE TRANSLATION OF THE COMPANY'S REPRESENTATION ON THE
FINANCIAL STATEMENT PREPARED AS OF DECEMBER 31, 2019**

We confirm that the financial statements and related disclosures and footnotes as of December 31, 2019 which were prepared in accordance with the accounting principles and standards in force as per the regulations of Republic of Turkey Ministry of Treasury and Finance 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,
March 5, 2020



Maximilian G.F. Stahl
Board Member
General Manager



Gülen Özaktürk
Board Member
Assistant General Manager



Faik Ağacık
Board Member
Assistant General Manager



Orhun Ejre Çelik
Actuary
Registration No:40

ASSETS			
I- Current Assets	Note	Audited Current Period December 31, 2019	Audited Prior Period December 31, 2018
A- Cash and Cash Equivalents	4.2,14	117.047.109	97.247.623
1- Cash		-	-
2- Cheques Received		-	-
3- Banks	4.2,14	117.047.109	97.247.623
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	83.743.266	43.189.716
1- Receivables from Insurance Operations		-	-
2- Provision for Receivables from Insurance Operations		-	-
3- Receivables from Reinsurance Operations	4.2,12	83.743.266	43.189.716
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	125.695	122.326
1- Finance Lease Receivables		-	-
2- Unearned Finance Lease Interest Income		-	-
3- Deposits and Guarantees Given	4.2,12	49.514	44.878
4- Other Miscellaneous Receivables	4.2,12	76.181	77.448
5- Rediscount on Other Miscellaneous Receivables		-	-
6- Other Doubtful Receivables		-	-
7- Provision for Other Doubtful Receivables		-	-
F- Prepaid Expenses and Income Accruals		6.516.859	4.605.819
1- Deferred Acquisition Costs	17	6.041.336	4.335.210
2- Accrued Interest and Rent Income		-	-
3- Income Accruals	4.2,45	233.356	270.609
4- Other Prepaid Expenses	4.2	242.167	-
G- Other Current Assets	4.2,12	3.495.697	4.374.184
1- Stocks to be Used in the Following Months		-	-
2- Prepaid Taxes and Funds	19	3.471.474	4.374.184
3- Deferred Tax Assets		-	-
4- Job Advances	12	24.223	-
5- Advances Given to Personnel		-	-
6- Inventory Count Differences		-	-
7- Other Miscellaneous Current Assets		-	-
8- Provision for Other Current Assets		-	-
I- Total Current Assets		210.928.626	149.539.668

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

VHV Reasürans Anonim Şirketi
Balance Sheet
As at December 31, 2019
(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	Note	Audited Current Period December 31, 2019	Audited Prior Period December 31, 2018
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	1.507.260	300.807
1- Investment Property		-	-
2- Impairment on Investment Property		-	-
3- Owner Occupied Property		-	-
4- Machinery and Equipments		-	-
5- Furniture and Fixtures	6	591.507	459.956
6- Motor Vehicles		-	-
7- Other Tangible Assets (Including Leasehold Improvements)	6	175.315	84.162
8- Tangible Assets Acquired Through Finance Leases	6	2.281.460	-
9- Accumulated Depreciation	6	(1.541.022)	(243.311)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		-	-
F- Intangible Assets	8	1.017.040	905.642
1- Rights	8	2.835.157	2.366.360
2- Goodwill		-	-
3- Pre-operating Expenses		-	-
4- Research and Development Costs		-	-
5- Other Intangible Assets		-	-
6- Accumulated Amortization	8	(1.818.117)	(1.460.718)
7- Advances Paid for Intangible Assets		-	-
G-Prepaid Expenses and Income Accruals		-	487.467
1- Deferred Acquisition Costs		-	-
2- Income Accruals		-	-
3- Other Prepaid Expenses		-	487.467
H-Other Non-Current Assets	21	591.883	550.587
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	591.883	550.587
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		3.116.183	2.244.503
TOTAL ASSETS		214.044.809	151.784.171

The accompanying notes are an integral part of these financial statements

VHV Reasürans Anonim Şirketi
Balance Sheet
As at December 31, 2019
(Currency: Turkish Lira (TL))

*Convenience Translation of Financial Statements
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Originally Issued in Turkish, See Note 2.1.1*

LIABILITIES			
III- Short-Term Liabilities	Note	Audited Current Period December 31, 2019	Audited Prior Period December 31, 2018
A- Financial Liabilities	4.2,20	984.102	50.064
1- Borrowings from Financial Institutions	4.2,20	36.977	50.064
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	4.2,20	947.125	-
B- Payables Arising from Main Operations	4.2,19	95.301.048	32.589.044
1- Payables Arising from Insurance Operations		-	-
2- Payables Arising from Reinsurance Operations	4.2,19	95.301.048	32.589.044
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	4.2,19	925.936	806.168
1- Deposits and Guarantees Received		-	-
2- Payables to Social Security Institution		-	-
3- Other Miscellaneous Payables	4.2,19	925.936	806.168
4- Discount on Other Miscellaneous Payables		-	-
E-Insurance Technical Provisions	17	13.984.449	9.185.836
1- Reserve for Unearned Premiums - Net	17	4.265.634	3.134.566
2- Reserve for Unexpired Risks- Net	2.27,17	128.164	444.534
3- Life Mathematical Provisions - Net		-	-
4- Provision for Outstanding Claims - Net	17	9.590.651	5.606.736
5- Provision for Bonus and Discounts - Net		-	-
6- Other Technical Provisions - Net		-	-
F- Provisions for Taxes and Other Similar Obligations	19	252.405	151.542
1- Taxes and Funds Payable	19	140.855	75.692
2- Social Security Premiums Payable	19	111.550	75.850
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
4- Other Taxes and Similar Payables		-	-
5- Corporate Tax Payable	19	1.795.210	6.493.595
6- Prepaid Taxes and Other Liabilities Regarding Current Period Profit	19	(1.795.210)	(6.493.595)
7- Provisions for Other Taxes and Similar Liabilities		-	-
G- Provisions for Other Risks	23	1.407.461	939.720
1- Provision for Employee Termination Benefits		-	-
2- Provision for Pension Fund Deficits	4.2,23	180.095	61.720
3- Provisions for Costs	23	1.227.366	878.000
H- Deferred Income and Expense Accruals	19	9.244.723	8.253.026
1- Deferred Commission Income	10,19	9.208.143	8.174.662
2- Expense Accruals	4.2,19	36.580	78.364
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		122.100.124	51.976.665

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VHV Reasürans Anonim Şirketi
Balance Sheet
As at December 31, 2019
(Currency: Turkish Lira (TL))

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LIABILITIES			
IV- Long-Term Liabilities	Note	Audited Current Period December 31, 2019	Audited Prior Period December 31, 2018
A- Financial Liabilities	4.2,20	223.791	-
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	4.2,20	223.791	-
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	971.793	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	2.38,17	971.793	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	91.328	68.968
1- Provisions for Employment Termination Benefits	23	91.328	68.968
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		1.286.912	575.102

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

VHV Reasürans Anonim Şirketi
Balance Sheet
As at December 31, 2019
(Currency: Turkish Lira (TL))

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SHAREHOLDERS' EQUITY			
	Note	Audited Current Period December 31, 2019	Audited Prior Period December 31, 2018
V- Shareholders' Equity			
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	15	2.776.781	-
1- Legal Reserves		2.778.123	-
2- Statutory Reserves		-	-
3- Extraordinary Reserves		-	-
4- Special Funds		-	-
5- Revaluation of Financial Assets		-	-
6- Other Profit Reserves	15	(1.342)	-
D- Retained Earnings		15.814.803	10.254.384
1- Retained Earnings		15.814.803	10.254.384
E- Accumulated Losses		-	-
1- Accumulated Losses		-	-
F-Net Profit/(Loss) for the Period		6.110.917	23.022.748
1- Net Profit for the Year		6.110.917	23.022.748
2- Net Loss for the Year		-	-
3- Net Profit for the Period not Subject to Distribution		-	-
V- Total Equity		90.657.773	99.232.404
TOTAL EQUITY AND LIABILITIES		214.044.809	151.784.171

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

VHV Reasürans Anonim Şirketi
Statement of Income
For the Year Ended December 31, 2019
(Currency: Turkish Lira (TL))

*Convenience Translation of Financial Statements
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	Note	Audited Current Period January 1- December 31, 2019	Audited Prior Period January 1- December 31, 2018
TECHNICAL SECTION			
A- Non-Life Technical Income		8.852.848	5.576.359
1- Earned Premiums (Net of Reinsurer Share)	17	8.843.453	5.575.935
1.1- Written Premiums (Net of Reinsurer Share)	17	9.658.151	484.845
1.1.1- Written Premiums, Gross	17	94.421.032	64.137.186
1.1.2- Written Premiums, Ceded	10,17	(84.762.881)	(63.652.341)
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	(1.131.068)	4.335.718
1.2.1- Reserve for Unearned Premiums, gross	17	(9.667.298)	(11.550.469)
1.2.2- Reserve for Unearned Premiums, ceded	10,17	8.536.230	15.886.187
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	316.370	755.372
1.3.1- Reserve for Unexpired Risks, gross	17,29	2.639.927	3.953.203
1.3.2- Reserve for Unexpired Risks, ceded	10,17	(2.323.557)	(3.197.831)
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		9.395	424
B- Non-Life Technical Expense		(11.802.605)	(6.557.984)
1- Incurred Losses (Net of Reinsurer Share)	17,29	(5.707.501)	(3.368.583)
1.1- Claims Paid (Net of Reinsurer Share)	17	(1.723.586)	(591.913)
1.1.1- Claims Paid, Gross	17	(12.523.557)	(5.084.533)
1.1.2- Claims Paid, Ceded	10,17	10.799.971	4.492.620
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17,29	(3.983.915)	(2.776.670)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(37.958.871)	(15.434.514)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10,17	33.974.956	12.657.844
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	(465.659)	-
4- Operating Expenses	32	(5.629.445)	(3.189.401)
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)		(2.949.757)	(981.625)
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)		-	-
4.1- Gross Other Technical Income (+/-)		-	-
4.2- Reinsurance Share of Other Technical Income (+/-)		-	-
5- Accrued Subrogation and Salvage Income (+)		-	-

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

VHV Reasürans Anonim Şirketi
Statement of Income
For the Year Ended December 31, 2019
(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period January 1- December 31, 2019	Audited Prior Period January 1- December 31, 2018
TECHNICAL SECTION			
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.

VHV Reasürans Anonim Şirketi
Statement of Income
For the Year Ended December 31, 2019
(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period January 1- December 31, 2019	Audited Prior Period January 1- December 31, 2018
I-NON-TECHNICAL SECTION			
C- Net Technical Income – Non-Life (A-B)		(2.949.757)	(981.625)
F- Net Technical Income – Life (D-E)		-	-
I - Net Technical Income – Pension Business (G-H)		-	-
J- Total Net Technical Income (C+F+I)		(2.949.757)	(981.625)
K- Investment Income		354.964.194	729.009.877
1- Income from Financial Assets	4,2	1.486.919	2.445.715
2- Income from Disposal of Financial Assets		-	-
3- Valuation of Financial Assets		-	-
4- Foreign Exchange Gains	4,2	353.477.275	726.564.162
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		(343.908.882)	(698.066.439)
1- Investment Management Expenses (inc. interest)	4,2	(265.740)	-
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	(341.985.710)	(697.394.983)
7- Depreciation and Amortization Expenses	6,8	(1.655.110)	(671.456)
8- Other Investment Expenses	4,2	(2.322)	-
M- Income and Expenses From Other and Extraordinary Operations		(199.428)	(445.470)
1- Provisions	47	(464.303)	(449.372)
2- Rediscounts		-	-
3- Specified Insurance Accounts		-	-
4- Monetary Gains and Losses		-	-
5- Deferred Taxation (Deferred Tax Assets)	35	40.961	-
6- Deferred Taxation (Deferred Tax Liabilities)	35	-	(6.392)
7- Other Income	47	365.354	314.287
8- Other Expenses and Losses	47	(141.440)	(302.804)
9- Prior Year's Income		-	-
10- Prior Year's Expenses and Losses		-	(1.189)
N- Net Profit for the Year		6.110.917	23.022.748
1- Profit for the Year		7.906.127	29.516.343
2- Corporate Tax Provision and Other Fiscal Liabilities	19,35	(1.795.210)	(6.493.595)
3- Net Profit for the Year		6.110.917	23.022.748
4- Monetary Gains and Losses		-	-

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

VHV Reasürans Anonim Şirketi
Statement of Change in Equity
For the Year Ended December 31, 2019

(Currency: Turkish Lira (TL))

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

Shareholder's Equity – December 31, 2019-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 – December 31, 2018		65.955.272	-	-	-	-	-	-	-	23.022.748	10.254.384	99.232.404
II- Correction		-	-	-	-	-	-	-	-	-	-	-
III- Restated Balances (January 1, 2019)	15	65.955.272	-	-	-	-	-	-	-	23.022.748	10.254.384	99.232.404
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		-	-	-	-	-	-	-	(1.342)	-	-	(1.342)
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		-	-	-	-	-	-	-	-	6.110.917	-	6.110.917
I – Other reserves and transfers from retained earnings		-	-	-	-	-	2.778.123	-	-	(23.022.748)	20.244.625	-
J – Dividends paid		-	-	-	-	-	-	-	-	-	(14.684.206)	(14.684.206)
IV- Balance at the end of the year – December 31, 2019	15	65.955.272	-	-	-	-	2.778.123	-	(1.342)	6.110.917	15.814.803	90.657.773
Shareholder's Equity – December 31, 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 – December 31,2017		65.955.272	-	-	-	-	-	-	-	10.302.413	(48.029)	76.209.656
II- Correction		-	-	-	-	-	-	-	-	-	-	-
III- Restated Balances (January 1, 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		-	-	-	-	-	-	-	-	-	-	-
IV- Balance at the end of the year – December 31, 2018	15	65.955.272	-	-	-	-	-	-	-	23.022.748	10.254.384	99.232.404

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

VHV Reasürans Anonim Şirketi
Statement of Cash Flows
For the Year Ended December 31, 2019

(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period January 1- December 31, 2019	Audited Prior Period January 1- December 31, 2018
A. Cash flows from operating activities			
1. Cash provided from insurance activities		-	-
2. Cash provided from reinsurance activities		169.449.274	99.476.186
3. Cash provided from pension business		-	-
4. Cash used in insurance activities		-	-
5. Cash used in reinsurance activities		(145.491.929)	(107.154.453)
6. Cash used in pension business		-	-
7. Cash provided from operating activities		23.957.345	(7.678.267)
8. Interest paid		-	-
9. Income taxes paid		(892.500)	(10.867.779)
10. Other cash inflows		1.668.843	1.967.580
11. Other cash outflows		(921.160)	(8.324.972)
12. Net cash provided from operating activities		23.812.528	(24.903.438)
B. Cash flows from investing activities			
1. Disposal of tangible assets		-	-
2. Acquisition of tangible assets	6, 8	(691.501)	(626.500)
3. Acquisition of financial assets		-	-
4. Disposal of financial assets		-	-
5. Interests received		1.479.738	2.445.715
6. Dividends received		-	-
7. Other cash inflows		6.034.706	22.936.587
8. Other cash outflows		-	-
9. Net cash provided by investing activities		6.822.943	24.755.802
C. Cash used in financing activities			
1. Equity shares issued		-	-
2. Cash provided from loans and borrowings		-	-
3. Finance lease payments		-	-
4. Dividends paid		(14.684.206)	-
5. Other cash inflows		-	26.381
6. Other cash outflows		-	-
7. Net cash used in financing activities		(14.684.206)	26.381
D. Impact of currency differences on cash and cash equivalents		3.841.040	5.777.729
E. Net increase/(decrease) in cash and cash equivalents		19.792.305	5.656.474
F. Cash and cash equivalents at the beginning of the period	14	97.192.305	91.535.831
G. Cash and cash equivalents at the end of the period	14	116.984.610	97.192.305

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

VHV Reasürans Anonim Şirketi
Statement of Profit Distribution
For the Year Ended December 31, 2019
(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period December 31, 2019 ^(*)	Audited Prior Period December 31, 2018
I. DISTRIBUTION OF THE PERIOD PROFIT			
1.1. PERIOD PROFIT (*)		7.906.127	29.516.343
1.2. TAXES AND DUTIES PAYABLE	35	(1.795.210)	(6.493.595)
1.2.1. Corporate Tax (Income Tax)	35	(1.795.210)	(6.493.595)
1.2.2. Income Tax Deductions		-	-
1.2.3. Other Taxes and Legal Duties		-	-
A. CURRENT PERIOD PROFIT (1.1 – 1.2)		6.110.917	23.022.748
1.3. ACCUMULATED LOSSES (-)		15.814.803	10.254.384
1.4. FIRST LEGAL RESERVES (-)		-	(2.778.123)
1.5. OTHER STATUTORY RESERVES (-)		-	-
B. NET PROFIT AVAILABLE FOR DISTRIBUTION		21.925.720	30.499.009
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)		-	14.684.206
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		-	-
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 2019 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.

1 General Information

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

As at December 31, 2019, 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 June 15, 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 June 15, 2015, reinsurance activity licence was received from The ministry of Treasury and Finance of Turkey (“Turkish Treasury”) and the approval letter dated March 24, 2016, and numbered 38681552-301.02[301.02]/-E.9070. The Company has started reinsurance activities at July 1, 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 June 14, 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*.

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:

	December 31, 2019	December 31, 2018
Senior management personnel	3	3
Other personnel	27	22
Total	30	25

1.6 Wages and similar benefits provided to the senior management

For the year ended December 31, 2019, 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 874.544 (31 December 2018: TL 651.795).

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 January 4, 2008 dated and 2008/1 numbered “Communiqué Related to the Procedures and Principles for the Keys Used in the Financial Statements Being Prepared In Accordance With Insurance Accounting Plan” issued by the The ministry of Treasury and Finance of Turkey.

Under the said circular, companies may distribute the operating expenses of the technical department to the insurance departments by the method recommended by the The ministry of Treasury and Finance of Turkey or by the method which approved by The ministry of Treasury and Finance of Turkey. 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 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

1.9 Subsequent events

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

The financial statements for the period January 1 – December 31, 2019 have been approved by the Board of Directors on March 5, 2020.

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 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 The ministry of Treasury and Finance of Turkey 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 The Ministry of Treasury and Finance of Turkey .

The “Communiqué on Presentation of Financial Statements” published in the Official Gazette No. 26851 dated April 18, 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.

The Company recorded premiums, commissions and claims accruals based on the notifications sent by the insurance and reinsurance companies after the closing of their balances. Premiums, commissions and claims accruals are recorded in the accompanying financial statements with the three-month delay. Therefore, related income statement balances include last quarter results for the year ended December 31, 2019 and nine-month results as at and for the period ended September 30, 2019 and accordingly related balance sheet balances as of December 31, 2019 do not reflect the actual position. According to the letter dated November 8, 2010 and numbered 38681552-111.04.01-E.480979 sent by Republic of Turkey Ministry of Treasury and Finance to the Company, it is stated that account statements sent by the ceding companies are subject to possible delays and Republic of Turkey Ministry of Treasury and Finance is considered that the Company recorded premiums, commissions and claims accruals based on the latest notifications.

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 Summary of significant accounting policies (continued)

2.2 Basis of preparation (continued)

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*.

2.2 Consolidation

None (December 31, 2018: 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 December 31, 2019, 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. Summary of significant accounting policies (continued)

2.4 Foreign currency transactions

Transactions are recorded in TL, which is the Company's functional currency. Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at 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 (December 31, 2018: 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 less than three months and financial investments.

As of the December 31, 2019 and 2018, 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 (December 31, 2018: 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.

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 December 31, 2019 and 2018, the share capital and ownership structure of the Company are as follows:

Name	December 31, 2019		December 31, 2018	
	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 discretionary participation feature.

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 December 5, 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%.

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

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

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. As at December 31, 2019 the Company does not have deductible tax losses (December 31, 2018: None).

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.

2 Summary of significant accounting policies (continued)

2.18 Income taxes (continued)

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.

Since the tax rate effective for 3 years has changed from 22% as of January 1, 2018, as of December 31, 2019 and 2018, 22% tax rate is used for temporary differences that are expected to be realized / closed within 3 years (2018, 2019 and 2020). However, since the applicable corporate tax rate for the period after 2020 is 20%, 20% tax rate is used for the valid differences that are expected to occur / close after 2020.

Transfer pricing

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

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

2.19 Employee benefits

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 December 31, 2019 is TL 6.380 (December 31, 2018: TL 5.434)

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 2019 are as follows:

	December 31, 2019	December 31, 2018
Discount rate	%4,09	%3,60
Expected rate of salary/limit increase	%14,50	%15,00
Estimated employee turnover rate	%6,02	%5,00

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. Written premiums are recorded upon the receipt of quarterly statements of accounts from ceding companies in treaties whereas facultative accounts are registered upon the receipt of monthly payrolls.

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 December 31, 2019 is TL 1.723.586 (December 31, 2018: TL 591.913).

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.

Dividends

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

2 Summary of significant accounting policies (continued)

2.22 Leasing transaction

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

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

Summary of the new standards, amendments and interpretations:

Set out below are the new accounting policies of the Company upon adoption of TFRS 16.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The right of use which is calculated on leasing agreements is accounted under “Property, Plant and Equipment” account.

The interest expense on the lease obligation is accounted under “Investment Management Expense - Including Interest”, and the depreciation expense of the usage right asset is accounted under “Depreciation and Amortization Expenses ”

Information on the duration of the operating leases and discount rates applied are as follows:

Assets subject to operational leasing	Contract Period (Year)	Discount Rate - TL (%)
Buildings	2 years	24,2
Vehicles	2-3 years	24,2

2 Summary of significant accounting policies (continued)

2.23 Dividend distribution

The Company unanimously paid TL 14.684.206 of its profit for 2016, 2017 and 2018 to the Parent Company VHV Allgemeine Versicherungen AG on August 21, 2019, in accordance with the decision number 3 taken at the Extraordinary General Assembly Meeting on August 21, 2019.

2.24 Reserve for unearned premiums

In accordance with the “Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves” (“Communiqué on Technical Reserves”) which was issued in 26606 numbered and August 7, 2007 dated Official Gazette and put into effect starting from January 1, 2008, the reserve for unearned premiums represents the proportions of the gross premiums written without deductions of commission or any other allowance, in a period that relate to the period of risk subsequent to the reporting 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 line with the Communiqué on Technical Reserves, the calculation of unearned premium reserve is performed as follows by the Company: for proportional reinsurance contracts, on the basis of 1/8 over the ceded premiums for treaty and facultative contracts, 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 and for facultative and non-proportional reinsurance contracts, on the basis on day by considering beginning and ending of the contracts. The Company calculates unearned premiums reserve for ceded premium as retrocedant on the same basis.

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 August 7, 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 Republic of Turkey Ministry of Treasury and Finance and the addition of the calculated difference to provision for outstanding claims shall be determined by the Republic of Turkey Ministry of Treasury and Finance.

2 Summary of significant accounting policies (continued)

2.25 Provision for outstanding claims (continued)

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

In calculating the unrecognized but not reported claim accruals for the period December 31, 2019, 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 December 31, 2019 have 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 December 31, 2019, while calculating IBNR retrocession amounts for each branch amount which is counted in retrocession account on branch, retrocession / gross ratio was used in claim files.

As of December 31, 2019, the Company has calculated IBNR amounting to gross TL 34.377.919 (December 31, 2018: TL 16.961.105) and net amount of TL 2.719.062 in the financial statements (December 31, 2018: TL 1.086.893).

2017/2 numbered which came into force on September 15, 2017, "With the Genel Circular on the Discount of Net Cash Flows Arising from Outstanding Claims Provision" the companies were offered the right to discount the net cash flows arising from outstanding claims. The Company did not apply discounts 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 February 29, 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 interim report period ended.

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 28356 dated July 17, 2012; 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”), DERK 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, DERK 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 excess of loss reinsurance premiums on a sub-branch basis. If the net claims/premiums ratio exceeds 95% , net amount of DERK is calculated as ratio which exceeds 95% by multiplying with net amount of unearned premiums reserve, gross DERK is calculated by multiplying with gross amount of unearned premiums reserve.

According to the Circular numbered 2012/15 dated December 10, 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 128.164 in the accompanying financial statements (December 31, 2018: TL 444.534).

2.28 Equalization reserve

In accordance with the Communiqué on Technical Reserves put into effect starting from January 1, 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 July 17, 2012 and numbered 28356 “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 971.793 (December 31, 2018: 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 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at December 31, 2019 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2019. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at January 1, 2018 are as follows

TFRS 16 Leases

In April 2018, POA has published a new standard, TFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. TFRS 16 supersedes TAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to TFRS 16:

The Company elected to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value.

Impact on the statement of financial position (increase/(decrease)) as at January 1, 2019:

Assets

Property, plant and equipment (right-of-use assets) 2.281.460

Liabilities

Lease liabilities 2.281.460

2 Summary of significant accounting policies (continued)

2.32 The new standards, amendments and interpretations (continued)

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

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

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

The interpretation is effective for annual reporting periods beginning on January 1, 2019. The amendments did not have a significant impact on the financial position or performance of the Company

TFRIC 23 Uncertainty over Income Tax Treatments

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

When there is uncertainty over income tax treatments, the interpretation addresses:

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

The interpretation is effective for annual reporting periods beginning on January 1, 2019. The amendments did not have a significant impact on the financial position or performance of the Company.

Annual Improvements – 2015–2017 Cycle

In January 2019, POA issued Annual Improvements to TFRS Standards 2015–2017 Cycle, amending the following standards:

- TFRS 3 Business Combinations and TFRS 11 Joint Arrangements — The amendments to TFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to TFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- TAS 12 Income Taxes — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- TAS 23 Borrowing Costs — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments are effective from annual periods beginning on or after January 1, 2019. The amendments are not applicable for the Company and did not have an impact on the financial position or performance of the Company.

2 Summary of significant accounting policies (continued)

2.32 The new standards, amendments and interpretations (continued)

Plan Amendment, Curtailment or Settlement” (Amendments to TAS 19)

In January 2019, the POA published Amendments to TAS 19 “Plan Amendment, Curtailment or Settlement” The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs.

These amendments are applied for annual periods beginning on or after January 1, 2019. The amendments are not applicable for the Company and did not have an impact on the financial position or performance of the Company

Prepayment Features with Negative Compensation (Amendments to TFRS 9)

The POA issued minor amendments to TFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

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

These amendments are applied for annual periods beginning on or after January 1, 2019. The amendments are not applicable for the Company and did not have an impact on the financial position or performance of the Company

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

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

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

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. Early application of the amendments is still permitted. The Company will wait until the final amendment to assess the impacts of the changes.

2 Summary of significant accounting policies (continued)

2.32 The new standards, amendments and interpretations (continued)

IFRS 17 - The new Standard for insurance contracts

The PAO issued IFRS 17 in February 2019, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. IFRS 17 will become effective for annual reporting periods beginning on or after January 1, 2021; early application is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

Definition of a Business (Amendments to IFRS 3)

In May 2019, the PAO issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after January 1, 2020 and apply prospectively. Earlier application is permitted. The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

Definition of Material (Amendments to IAS 1 and IAS 8)

In June 2019, the PAO issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after January 1, 2020. The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company

2 Summary of significant accounting policies (continued)

2.32 The new standards, amendments and interpretations (continued)

Amendments to TFRS 9, TAS 39 and TFRS 7- Interest Rate Benchmark Reform

The amendments issued to TFRS 9 and TAS 39 which are effective for periods beginning on or after January 1, 2020 provide certain reliefs for 4 fundamental matters in connection with interest rate benchmark reform. These reliefs are related to hedge accounting as follows:

- Highly probable requirement
- Prospective Assessments
- Retrospective Assessments
- Separately identifiable risk components

Reliefs used as a result of amendments in TFRS 9 and TAS 39 is aimed to be disclosed in financial statements based on the amendments made in TFRS 7. The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company

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

Amendments to IAS 1- Classification of Liabilities as Current and Non-Current Liabilities

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2022, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted. The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company

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

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	August 9, 2019
Branches of insurance coverage amounts given as			
	December 31, 2019	December 31, 2018	
Facultative earthquake	51.059.164.148	39.841.420.039	
Fire	31.020.944.125	22.097.865.480	
Construction	6.609.366.402	7.153.429.496	
Machinery breakdown	7.606.846.450	5.430.069.852	
Financial losses	6.723.711.395	4.522.553.148	
Cargo	3.642.254.409	926.017.338	
Electronic device	1.560.327.225	1.118.188.098	
Montage	546.164.977	1.000.563.570	
Third party financial liability	332.582.390	506.780.219	
Professional Indemnity Insurance	359.513.142	130.728.650	
Employer financial liability	288.914	-	
Total	109.461.163.577	82.727.615.890	

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:

Branches	December 31, 2019		
	Gross total claims liability^(*)	Reinsurance share of total claims liability	Net total claims liability
Fire	14.369.561	(12.043.627)	2.325.934
Machinery breakdown	10.824.709	(9.534.336)	1.290.373
Financial Losses	6.848.191	(6.169.264)	678.927
Electronic device	3.137.955	(2.500.194)	637.761
Cargo	369.862	(357.181)	12.681
Employer financial liability	13.199	(7.349)	5.850
Facultative earthquake	96.673	(92.254)	4.419
Marine vehicles	8.865	(6.206)	2.659
Accident	5.568	(3.897)	1.671
Glass breakdown	1.962	(1.374)	588
Theft	20	(14)	6
Tüpgaz mandatory responsibility	(725)	508	(217)
Professional indemnity insurance	(213.057)	170.446	(42.611)
Montage	(238.567)	104.692	(133.875)
Third party financial liability	(216.748)	2.345	(214.403)
Total	33.056.219	(28.990.282)	4.065.937

Branches	December 31, 2018		
	Gross total claims liability^(*)	Reinsurance share of total claims liability	Net total claims liability
Construction	4.309.668	(3.536.882)	772.786
Electronic device	1.837.735	(1.474.230)	363.506
Machinery breakdown	3.932.974	(3.228.616)	704.357
Fire and act of god	9.055.156	(8.031.283)	1.023.873
Financial losses	637.145	(552.877)	84.268
Cargo	7.000	(7.000)	-
Montage	797.390	(597.056)	200.335
Professional indemnity insurance	(72.153)	57.722	(14.431)
Third party financial liability	188.617	19.035	207.652
Total	20.693.531	(17.351.185)	3.342.347

(*) Total claims liability does not include incurred but not reported claims.

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 reinsurance activities
- Receivables related to commission from Retrososns
- 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.

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:

	December 31, 2019	December 31, 2018
Cash and cash equivalents (Note 14)	117.047.109	97.247.623
Receivables from main operations (Note 12)	83.743.266	43.189.716
Reinsurer share in provision for outstanding claims (Note 10), (Note 17)	74.925.998	40.951.042
Income accruals (Note 47)	233.356	270.609
Other receivables (Note 12)	149.918	122.326
Total	276.099.647	181.781.316

As at 31 December 2019 and 2018, the aging of the receivables from main operations and related provisions are as follows:

	December 31, 2019		December 31, 2018	
	Gross amount	Provision	Gross amount	Provision
Not past due	69.224.493	-	31.264.514	-
Past due 0-30 days	5.584.875	-	4.499.655	-
Past due 31-60 days	4.409.243	-	3.823.371	-
Past due 61-90 days	1.424.363	-	252.736	-
More than 90 days	3.100.292	-	3.349.440	-
Total	83.743.266	-	43.189.716	-

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:

December 31, 2019	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	117.047.109	117.047.109	-	-	-	-
Receivables from main operations	83.743.266	20.003.125	31.707.375	6.378.404	25.654.362	-
Other receivables	392.085	-	392.085	-	-	-
Income Accruals	233.356	233.356	-	-	-	-
Total monetary assets	201.415.816	137.283.590	32.099.460	6.378.404	25.654.362	-
Financial liabilities	1.207.893	82.009	164.017	246.026	492.050	223.791
Payables arising from main operations	95.301.048	10.463.150	43.135.386	9.824.795	31.877.717	-
Other liabilities	925.936	-	925.936	-	-	-
Insurance technical provisions	14.956.242	-	5.459.017	6.576.041	1.949.391	971.793
Provisions for taxes and other similar obligations	2.047.615	2.047.615	-	-	-	-
Provisions for other risks and expense accruals	1.444.041	125.347	1.227.366	-	-	91.328
Total monetary liabilities	115.882.775	12.718.121	50.911.722	16.646.862	34.319.158	1.286.912

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Liquidity risk (continued)

December 31, 2018	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	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	122.326	-	122.326	-	-	-
Income Accruals	270.609	270.609	-	-	-	-
Total monetary assets	140.830.274	113.896.323	10.245.331	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	3.699.944	506.134
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	20.328.566	575.102

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:

December 31, 2019	US Dollar	Euro	Other currencies	Total
Assets:				
Receivables from main operations	40.171.393	28.969.468	1.345.835	70.486.696
Other receivables	1.271.817	1.279.574	13.093	2.564.484
Cash and cash equivalents	48.186.059	68.264.281	-	116.450.340
Total foreign currency assets	89.629.269	98.513.323	1.358.928	189.501.520
Liabilities:				
Insurance technical provisions (*)	(3.769.547)	(3.990.566)	(1.219)	(7.761.332)
Payables arising from main operations	(48.057.976)	(29.177.091)	(1.055.524)	(78.290.591)
Total foreign currency liabilities	(51.827.523)	(33.167.657)	(1.056.743)	(86.051.923)
Net on-balance sheet position	37.801.746	65.345.666	302.185	103.449.597

(*) 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 July 28, 2010; foreign currency denominated claims provisions evaluated by the Central Bank of the Republic of Turkey's spot sales rates.

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Market risk (continued)

Foreign currency risk (continued)

December 31, 2018	US Dollar	Euro	Other currencies	Total
<i>Assets:</i>				
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
<i>Liabilities:</i>				
Payables arising from main operations	(14.767.373)	(13.105.107)	(96.559)	(27.969.039)
Insurance technical provisions (*)	(3.204.424)	(2.049.841)	(1.821)	(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 July 28, 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
December 31, 2019	5,9402	6,6506	5,6712	6,3481
December 31, 2018	5,2609	6,0280	4,8301	5,6789

Exposure to foreign currency risk

A 10 percent depreciation of the TL against the following currencies as at December 31, 2019 and 2018 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.

	December 31, 2019		December 31, 2018	
	Profit or loss	Equity(*)	Profit or loss	Equity(*)
US Dollar	3.780.175	3.780.175	2.760.811	2.760.811
Euro	6.534.567	6.534.567	7.179.387	7.179.387
Others	30.219	30.219	32.211	32.211
Total, net	10.344.961	10.344.961	9.972.409	9.972.409

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

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:

	December 31, 2019	December 31, 2018
Financial assets:		
Financial assets with fixed interest rates:	102.282.129	90.624.852
Cash at banks (Note 14)	103.490.022	90.674.916
Other financial liabilities	(1.207.893)	(50.064)

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 December 31, 2019 and 2018, 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

IFRS 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 December 31, 2019, there is not any financial assets (December 31, 2018: None).

4 Management of insurance and financial risk (continued)

4.2 Management of financial risk (continued)

Market risk (continued)

Gain and losses from financial assets

<i>Gains and losses recognized in the statement of income, net</i>	December 31, 2019	December 31, 2018
Interest income from bank deposits	1.486.919	2.445.715
Foreign exchange gains	353.477.275	726.564.162
Investment income	354.964.194	729.009.877
Foreign exchange losses	(341.985.710)	(697.394.983)
Investment management expenses - Including interest	(265.710)	-
Other investment income	(2.322)	-
Investment expenses	(342.253.772)	(697.394.983)
Investment income, net	12.710.422	31.614.894

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 August 23, 2015 dated and 29454 numbered; the Company measured its minimum capital requirement as TL 41.870.166 as at December 31, 2019 (December 31, 2018: TL 31.605.427). As at December 31, 2019, the capital amount of the Company presented in the financial statements is TL 91.629.565 (December 31, 2018: TL 99.738.540) and capital surplus of the Company is amounting to TL 49.759.399 according to the communiqué. (December 31, 2018: TL 58.156.264)

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.

6 Tangible assets

Movement in tangible assets in the period from January 1 to December 31, 2019 is presented below:

	January 1, 2019	Additions	Disposals	Transfer	December 31, 2019
<i>Cost:</i>					
Furniture and fixtures	459.956	131.551	-	-	591.507
Operating leases	-	2.281.460	-	-	2.281.460
Leasehold improvements	84.162	91.153	-	-	175.315
	544.118	2.504.164	-	-	3.048.282
<i>Accumulated depreciation:</i>					
Furniture and fixtures	206.660	95.449	-	-	302.109
Operating leases	-	1.157.685	-	-	1.157.685
Leasehold improvements	36.651	44.577	-	-	81.228
	243.311	1.297.711	-	-	1.541.022
Net book value	300.807		-	-	1.507.260

Movements of tangible assets in the period from January 1 to December 31, 2018 are presented below:

	January 1, 2018	Additions	Disposals	Transfer	December 31, 2018
<i>Cost:</i>					
Furniture and fixtures	322.380	137.596	-	-	459.976
Leasehold improvements	84.142	-	-	-	84.142
	406.522	137.596	-	-	544.118
<i>Accumulated depreciation:</i>					
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

There is not any mortgage over tangible assets of the Company as at December 31, 2019 and 2018.

7 Investment property

The Company has not any investment property as at 31 December 2019 and 2018.

8 Intangible assets

Movement in intangible assets in the period from January 1 to December 31, 2019 is presented below:

	January 1, 2019	Additions	Disposals	Transfer	December 31, 2019
<i>Cost:</i>					
Rights	2.366.360	468.797	-	-	2.835.157
Advances on intangible fixed assets	-	-	-	-	-
	2.366.360	468.797	-	-	2.835.157
<i>Accumulated amortization:</i>					
Rights	1.460.718	357.399	-	-	1.818.117
	1.460.718	357.399	-	-	1.818.117
Net book value	905.642				1.017.040

Movements in intangible assets in the period from January 1 to December 31, 2018 are as follows:

	January 1, 2018	Additions	Disposals	Transfer	December 31, 2018
<i>Cost:</i>					
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
<i>Accumulated amortization:</i>					
Rights	799.455	661.263	-	-	1.460.718
	799.455	661.263	-	-	1.460.718
Net book value	1.122.234				905.642

9 Investments in associates

As at December 31, 2019, the Company has not any associates (December 31, 2018: None).

10 Reinsurance asset and liabilities

As at December 31, 2019 and 2018, outstanding reinsurance assets and liabilities of the Company, as Reinsurance company in accordance with existing reinsurance contracts are as follows:

Reinsurance assets	December 31, 2019	December 31, 2018
Provision for outstanding claims, ceded (Note 4.2), (Note 17)	74.925.998	40.951.042
Receivables from reinsurance companies (Note 12)	39.718.285	11.386.935
Reserve for unearned premiums, ceded (Note 17)	30.969.016	22.432.786
Reserve for unexpired risks, ceded (Note 17)	1.152.300	3.475.857
Total	146.765.599	78.246.620

There is not any impairment losses recognized for reinsurance assets.

Reinsurance liabilities	December 31, 2019	December 31, 2018
Payables arising from reinsurance operations (Note 19)	95.301.048	32.589.044
Deferred commission income (Note 19)	9.208.143	8.174.662
Total	104.509.191	40.763.706

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

	December 31, 2019	December 31, 2018
Premiums ceded during the period (Note 17)	(84.762.881)	(63.652.341)
Reserve for unearned premiums, ceded at the beginning of the period (Note 17)	(22.432.786)	(6.546.599)
Reserve for unearned premiums, ceded at the end of the period (Note 17)	30.969.016	22.432.786
Premiums earned, ceded (Note 17)	(76.226.651)	(47.766.155)
Claims paid, ceded during the period (Note 17)	10.799.971	4.492.620
Provision for outstanding claims, ceded at the beginning of the period (Note 17)	(40.951.042)	(28.293.198)
Provision for outstanding claims, ceded at the end of the period (Note 17)	74.925.998	40.951.042
Claims incurred, ceded (Note 17)	44.774.927	17.150.464
Commission income accrued from reinsurers during the period (Note 32)	25.879.475	22.040.889
Deferred commission income at the beginning of the period (Note 19)	8.174.662	2.631.371
Deferred commission income at the end of the period (Note 19)	(9.208.143)	(8.174.662)
Commission income earned from reinsurers (Note 32)	24.845.994	16.497.598
Changes in provision for outstanding claims, reinsurers' share (Note 17)	(2.323.557)	(3.197.831)
Total, net	(8.929.287)	(17.315.924)

11 Financial assets

The Company has not any financial assets as of December 31, 2019 and 2018.

12 Loans and receivables

	December 31, 2019	December 31, 2018
Receivables from main operations (Note 4.2)	83.743.266	43.189.716
Other receivables (Note 4.2)	149.918	122.326
Income Accruals (Note 4.2)	233.356	270.609
Prepaid Taxes and Funds	3.471.474	4.374.184
Total assets	87.598.014	47.956.835
Short-term receivables	87.598.014	47.956.835
-Total	87.598.014	47.956.835

As at December 31, 2019 and 2018, receivables from main operations are detailed as follows:

	December 31, 2019	December 31, 2018
Receivables from insurance companies	22.574.278	15.927.209
Receivables from agencies, brokers and intermediaries	21.450.703	15.875.572
Receivables from reinsurance companies (Note 10)	39.718.285	11.386.935
Total receivables from reinsurance operations, net	83.743.266	43.189.716

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 (December 31, 2018: None).

b) Provision for premium receivables (due): None (December 31, 2018: 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 December 31, 2019 and 2018, the Company has not any derivative financial instruments.

14 Cash and cash equivalents

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

	December 31, 2019		December 31, 2018	
	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	117.047.109	97.247.623	97.247.623	91.645.224
Cash and cash equivalents presented in the balance sheet	117.047.109	97.247.623	97.247.623	91.645.224
Interest accruals on bank deposits	(62.499)	(55.318)	(55.318)	(109.393)
Cash and cash equivalents presented in the statement of cash flows	116.984.610	97.192.305	97.192.305	91.535.831

As at December 31, 2019 and 2018, bank deposits are further analyzed as follows:

	December 31, 2019	December 31, 2018
Foreign currency denominated bank deposits		
- time deposits	103.490.022	90.674.916
- demand deposits	13.010.317	6.000.776
Bank deposits in Turkish Lira		
- demand deposits	546.770	571.931
Bank balances	117.047.109	97.247.623

As at December 31, 2019 and 2018, the Company has not any cash collateral kept at banks.

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 December 31, 2019 and 2018, the shareholding structure of the Company is presented below:

Name	December 31, 2019		December 31, 2018	
	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 December 31, 2019, the issued share capital of the Company is TL 65.955.272 (December 31, 2018: TL 65.955.272) and the share capital of the Company consists of 65.955.272 (December 31, 2018: 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 December 31, 2019, legal reserves of the Company's are TL 2.778.123 (December 31, 2018: None).

Extraordinary reserves

As of December 31, 2019 and 2018, the Company has not any extraordinary reserves.

Other profit reserves

According to revision on TAS 19, actuarial profit and losses that recognized in income statement in termination indemnity calculation before, is recognized in "Other Profit Reserves" account under equity in current period financial statements. The amount of TL 1.324, (December 31, 2018: None) regarding actuarial calculation is presented in other profit reserves account, in calculation of termination indemnity as of December 31, 2019.

Movement of other profit reserves is presented below:

	December 31, 2019	December 31, 2018
Other profit reserves at the beginning of the period	-	-
Actuarial gains/losses	(1.324)	-
Other profit reserves at the end of the period	(1.324)	-

16 Other reserves and equity component of Discretionary Participation Feature

As at December 31, 2019 and 2018, other reserves are explained in detail in Note 15 – *Equity* above.

December 31, 2019 and 2018, the Company does not hold any insurance or investment contracts which contain a discretionary participation feature.

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 December 31, 2019 and 2018, technical reserves of the Company are as follows:

	December 31, 2019	December 31, 2018
Reserve for unearned premiums, gross	35.234.650	25.567.352
Reserve for unearned premiums, ceded (Note 10)	(30.969.016)	(22.432.786)
Reserves for unearned premiums, net	4.265.634	3.134.566
Provision for outstanding claims, gross	84.516.649	46.557.778
Provision for outstanding claims, ceded (Note 4.2), (Note 10)	(74.925.998)	(40.951.042)
Provision for outstanding claims, net	9.590.651	5.606.736
Reserve for unexpired risks, gross	1.280.464	3.920.391
Reserve for unexpired risks, ceded (Note 10)	(1.152.300)	(3.475.857)
Reserve for unexpired risks, net	128.164	444.534
Equalization reserve, net	971.793	506.134
Total technical provisions, net	14.956.242	9.691.970

As at December 31, 2019 and 2018, movements of the insurance liabilities and related reinsurance assets are presented below:

	December 31, 2019		
	Gross	Ceded	Net
Reserve for unearned premiums			
Reserve for unearned premiums at the beginning of the period	25.567.352	(22.432.786)	3.134.566
Premiums written during the period	94.421.032	(84.762.881)	9.658.151
Premiums earned during the period	(84.753.734)	76.226.651	(8.527.083)
Reserve for unearned premiums at the end of the period	35.234.650	(30.969.016)	4.265.634

	December 31, 2018		
	Gross	Ceded	Net
Reserve for unearned premiums			
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

	December 31, 2019		
	Gross	Ceded	Net
Provision for outstanding claims			
Provision for outstanding claims at the beginning of the period	46.557.778	(40.951.042)	5.606.736
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	50.482.428	(44.774.927)	5.707.501
Claims paid during the period	(12.523.557)	10.799.971	(1.723.586)
Provision for outstanding claims at the end of the period	84.516.649	(74.925.998)	9.590.651

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

Provision for outstanding claims	December 31, 2018		
	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

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.

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 December 31, 2019, short-term deferred commission expenses amounting to TL 6.041.336 (December 31, 2018: TL 4.335.210) totally consist of deferred commission expenses.

As at December 31, 2019 and 2018, the movement of deferred commission expenses is presented below:

	December 31, 2019	December 31, 2018
Deferred commission expenses at the beginning of the period	4.335.210	2.381.093
Commissions accrued during the period (Note 32)	17.054.713	10.983.575
Commissions expensed during the period (Note 32)	(15.348.587)	(9.029.458)
Deferred commission expenses at the end of the period	6.041.336	4.335.210

18 Investment contract liabilities

None.

19 Trade and other payables and deferred income

	December 31, 2019	December 31, 2018
Payables arising from reinsurance operations	95.301.048	32.589.044
Short/long term deferred income and expense accruals	9.244.723	8.253.026
Taxes and other liabilities and similar obligations	252.405	151.542
Other miscellaneous payables and other liabilities	2.333.397	1.745.888
Financial liabilities	1.207.893	50.064
Total	108.339.466	42.789.564
Short-term liabilities	108.115.675	42.789.564
Mid and Long-term liabilities	223.791	-
Total	108.339.466	42.789.564

As at December 31, 2019 and 2018, 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 9.208.143 (December 31, 2018: TL 8.174.662).

Corporate tax liabilities and prepaid taxes are disclosed below:

	December 31, 2019	December 31, 2018
Corporate tax liabilities	1.795.210	6.493.565
Taxes paid during the year	(5.266.684)	(10.867.779)
Corporate tax liability/(Prepaid tax), net	(3.471.474)	(4.374.184)

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

None.

20 Financial liabilities

As of December 31, 2019, the Company's financial liabilities consist of credit card liabilities amounting to TL 36.977 (December 31, 2018: TL 50.064) and financial liabilities arising from leasing agreements amounting to TL 1.170.916. (December 31, 2018: None.)

As of December 31, 2019, the Company's discounted repayment plans for operating leases are as follows (December 31, 2018: None)

	Total
Up to 1 year	947.125
1 to 2 years	223.791
Total	1.170.916

21 Deferred tax

As at December 31, 2019 and 2018, deferred tax assets and liabilities are attributable to the following:

	December 31, 2019	December 31, 2018
	Deferred tax assets/ (liabilities)	Deferred tax assets/ (liabilities)
Unexpired risk reserve	28.196	97.797
Provision for personnel bonus	270.021	193.160
Equalization reserve	101.227	111.349
TAS adjustment differences in depreciation	138.155	119.529
Provision for unused vacation pay liability	36.019	13.578
Provision for employee termination benefits	18.265	15.173
Deferred tax assets/liabilities, net	591.883	550.587

As at December 31, 2019, the Company has not any deductible tax losses (December 31, 2018: None).

Movement of deferred tax assets as at December 31, 2019 and 2018 are given below:

	December 31, 2019	December 31, 2018
Opening balance	550.587	556.979
Recognised in profit or loss	40.961	(6.392)
Özsermayaya altında muhasebeleşen	335	-
Closing balance	591.883	550.587

22 Retirement benefit obligations

None (December 31, 2018: None).

23 Provision for other liabilities and charges

As at December 31, 2019 and 2018; the provisions for other risks are disclosed as follows:

	December 31, 2019	December 31, 2018
Provision for personnel bonus	1.227.366	878.000
Provision for unused vacation pay liability	180.095	61.720
Provision for employee termination benefits	91.328	68.968
Total provision for other risks	1.498.789	1.008.688

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

	December 31, 2019	December 31, 2018
Provision at the beginning of the period	68.968	34.311
Interest cost	5.130	2.214
Service cost	15.553	10.131
Payments during the period	-	-
Actuarial differences	1.677	22.312
Provision at the end of the period	91.328	68.968

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

	December 31, 2019	December 31, 2018
Claims paid, net off reinsurers’ share	1.723.586	591.913
Changes in provision for outstanding claims, net off reinsurers’ share	3.983.915	2.776.670
Changes in reserve for unearned premium, net off reinsurers’ share	1.131.068	(4.335.718)
Changes in reserve for unexpired risks, net off reinsurers’ share	(316.370)	(755.373)
Change in equalization reserve, net off reinsurers’ share	465.659	-
Total	6.987.858	(1.722.508)

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.

32 Operating expenses

For the years ended December 31, 2019 and 2018, the operating expenses are disclosed as follows:

	December 31, 2019	December 31, 2018
Commission expenses (Note 17)	15.348.587	9.029.458
<i>Commissions to the intermediaries accrued during the period (Note 17)</i>	17.054.713	10.983.575
<i>Changes in deferred commission expenses (Note 17)</i>	(1.706.126)	(1.954.117)
Employee benefit expenses (Note 33)	6.341.730	4.566.549
Administration expenses	8.582.390	6.074.648
Advertising and marketing expenses	85.908	-
Outsourced benefits and services	4.984	2.360
Commission income from reinsurers (Note 10)	(24.845.994)	(16.497.598)
<i>Commission income from reinsurers accrued during the period (Note 10)</i>	(25.879.475)	(22.040.889)
<i>Change in deferred commission income (Note 10)</i>	1.033.481	5.543.291
Other	111.840	13.984
Total	5.629.445	3.189.401

33 Employee benefit expenses

For the years ended December 31, 2019 and 2018, employee benefit expenses are disclosed as follows:

	December 31, 2019	December 31, 2018
Wages and salaries	5.094.626	3.651.121
Employer's share in social security premiums	683.561	621.194
Pension fund benefits	563.543	294.234
Total (Note 32)	6.341.730	4.566.549

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:

	December 31, 2019	December 31, 2018
Corporate tax expense:		
Corporate tax provision	(1.795.210)	(6.493.595)
Deferred taxes:		
Arising from origination (+)/ reversal (-) of taxable temporary differences	40.961	(6.392)
total income tax expense recognized in profit or loss	(1.754.249)	(6.499.987)
Total income tax(expense)/income	(1.754.249)	(6.499.987)

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 December 31, 2019 and 2018 is as follows:

	December 31, 2019		December 31, 2018	
Profit / (loss) before tax	7.865.166	Tax	29.522.735	Tax Ratio (%)
Income tax provision at statutory tax rate	(1.730.337)	(22,00)	(6.495.002)	(22,00)
Other	(23.912)	(0,30)	(4.985)	(0,02)
Total tax expense recognized in profit or loss	(1.754.249)	(22,30)	(6.499.987)	(22,02)

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.

	December 31, 2019	December 31, 2018
Net profit / (loss) for the period	6.110.917	23.022.748
Weighted average number of shares	65.955.272	65.955.272
Earnings / (loss) per share (TL)	0,0927	0,34907

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.

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	December 31, 2019	December 31, 2018
Within one year	947.125	865.240
More than one year less than five years	223.791	1.069.653
Total of minimum rent payments	1.170.916	1.934.893

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 December 31, 2019 and 2018, the related parties and their related transactions are as follows:

	December 31, 2019	December 31, 2018
VHV Allgemeine Versicherung A.G	43.177.061	16.217.097
Receivables from main operations	43.177.061	16.217.097
VHV Allgemeine Versicherung A.G	74.627.326	22.557.445
Payables from main operations	74.627.326	22.557.445
VHV Allgemeine Versicherung A.G	233.356	270.609
Income accruals	233.356	270.609
VHV Allgemeine Versicherung A.G	69.508.722	51.424.855
Premiums written, ceded	69.508.722	51.424.855

46 Subsequent events

None.

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

They are presented in the related notes above.

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 December 31, 2019 and 2018, details of provision expenses are as follows:

	December 31, 2019	December 31, 2018
Change in provision for employee termination <i>(Note 23)</i>	(20.683)	(34.657)
Provision for unused vacation pay liability <i>(Note 23)</i>	(118.375)	(9.136)
Change in provision reversal income / (expense)	(349.366)	(263.000)
Other	24.121	(142.579)
Provision expense	(464.303)	(449.372)