



ANNUAL REPORT 2016

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Contact Information of Regional Offices

We are always by your side for a sustainable future.

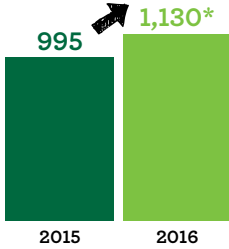
Our vision of becoming the best “Private Pension and Life Insurance Company” in Europe and supporting the society, economy and environment with universally accepted values is our corporate responsibility. As the Garanti Pension family, we are here to ensure a happy and sustainable future for our customers. We are always by your side.



Financial Indicators

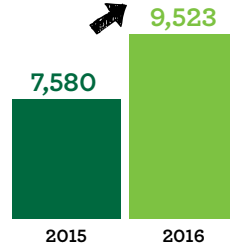
Garanti Pension recorded 1,130 thousand participants and TL 9,523 million in funds under management.**

Number of Participants (thousand)



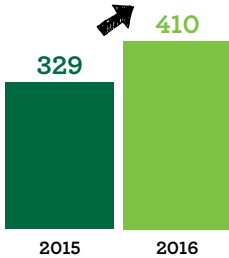
13.6%*
Growth

Fund Size (TL million)



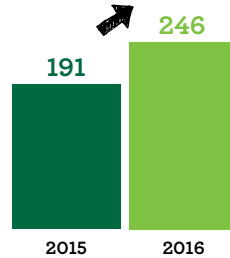
25.6%
Growth

Life Insurance Premium (TL million)



24.6%
Growth

Net Profit (TL million)



28.7%
Growth

Maintaining steady and rapid growth, Garanti Pension and Life has been the most profitable company in the private pension and life insurance industry since 2010.**

* The source is Pension Monitoring Center, dated 30.12.2016

** The source is TSB, dated 30.09.2016

About Garanti Pension and Life

Garanti Pension and Life has always aimed for sustainable success and has led the industry since its founding.

Garanti Emeklilik ve Hayat Anonim Şirketi (Garanti Pension and Life) was incorporated as “AGF Garanti Hayat Sigorta Anonim Şirketi” on July 24, 1992.

The Company trade name was changed to “Garanti Hayat Sigorta Anonim Şirketi” on May 18, 1999.

Following the decision to include private pension in its field of activities, the Company applied to convert from a life insurance company to a pension company on November 14, 2002. The Company’s name was changed initially to “Garanti Emeklilik Anonim Şirketi” and then to “Garanti Emeklilik ve Hayat Anonim Şirketi.” Subsequently, the Company set up pension mutual funds pursuant to the Board of Directors resolution dated June 28, 2003 and obtained authorization from the Capital Markets Board.

On June 21, 2007, 15% of the Company’s issued capital was sold to Achmea B.V. for € 100 million.

Embracing a customer- and employee-oriented approach, Garanti Pension and Life has always aimed for sustainable success and has led the industry since its founding. The Company adds value to Turkey’s private pension and life insurance sectors with customer-centric product and service offerings and dynamism that keeps pace with emerging needs. Garanti Pension and Life also has the capability to rapidly adapt to a changing legislative and regulatory landscape and maintain stability regardless of economic conditions. The Company implements pioneering practices by adopting innovations in both sectors in which it operates. Garanti Pension and Life broke new ground in the industry by restructuring its technological applications as part of its customer-oriented approach. As the most preferred company in the private pension system and the most profitable* enterprise in the industry since 2010, Garanti Pension continues to lead the industry with its experience in bancassurance and solid financial foundation.

Garanti Pension and Life also has the capability to rapidly adapt to a changing legislative and regulatory landscape and maintain stability regardless of economic conditions.

* According to data provided by the Insurance Association of Turkey dated September 30, 2016.

From Past to Today Garanti Pension and Life

Innovative approaches for changing market conditions

Marketing activities to promote corporate pension plans started. Due to evolving customer needs, the Company updated its Credit Life products and added “Guarantor Life Insurance” to the product lineup.

Market leader in group plans in its third year

Garanti Pension and Life became the market leader in group pension plans in its third year after entering the market.

Introducing pension products to customers

Garanti Pension and Life entered the sector by offering pension products.

Different solutions for different needs

Garanti Pension and Life developed group funds to meet the needs of corporate clients.

The Company launched the “Guaranteed Tomorrows” insurance product which provides life and critical illness coverage.

2003

2004

2005

2006

A pioneer in innovation

Garanti Pension and Life achieved another first in the sector by launching the “Flexible Alternative Fund” which invests exclusively in income-indexed securities.

The Company became the first to launch Pension Income Plans and to make salary payments to retired customers under an income drawdown plan.

The Company launched its mobile website, a first-of-its-kind in the sector, thus allowing customers to monitor their accounts via mobile phones 24/7.

The Company again served as a model for the sector by offering private pension contracts over the Internet.

The “Garanti Pension” brand grows stronger with innovations

The Company launched the “Online Pension Advisor” service, a first in the sector.

Private pension plans were developed specially for participation banking customers.

The Company launched the corporate social responsibility initiative “Back to School.”

The Social Security Advisor application launched as another innovation in the sector.

Thought leader of the sector

The “Garanti Pension Hobby Clubs” initiative, which aims to add value to the social lives of customers, launched.

The Company rolled out three different life insurance products with additional unemployment coverage.

Strong international partnerships

Fifteen percent of the Company’s issued capital was sold to Achmea B.V. for € 100 million.



2007



2008



2009



2010

Garanti Pension and Life spearheads the sector's transformation

The Company set up a Special Customer Relations Unit to offer customers a differentiated service point.

Garanti Pension and Life updated the credit life products in line with the changing needs of customers.

Garanti Pension and Life has launched unique products specially designed for self-employed and young customers.

Customer-focused investments and practices

Garanti Pension and Life Flexible (TL), Garanti Pension and Life Domestic Government Debt Securities Income, Garanti Pension and Life Equity, and Garanti Pension and Life Group Equity and Pension Mutual Funds launched.

The Company created a Facebook page to enable social media interaction.

Sector leader in number of participants

The Company became the sector leader in terms of the number of private pension participants.

The Company revamped garantiemeklilik.com.tr with an appealing visual quality, user-friendliness and advanced functionality to further improve customer accessibility and increase user satisfaction.

Having performed strongly in the compliance review by Investors in People (IiP), the world's only international human resources quality standard, Garanti Pension and Life became the first and the only company in the sector to be awarded "Silver" certification.



2011

2012

2013

From Past to Today Garanti Pension and Life

“Always by your side”

Garanti Pension and Life maintained its market leadership in the number of participants throughout 2013 and 2014.

Garanti Pension’s new communication concept is “Always by your side”.

The Company further strengthened its social media presence by adding Twitter and LinkedIn to its communication channels.

Garanti Pension and Life won the “Highest Corporate Governance Rating Score” award in the “Private Companies” category at the 8th International Corporate Governance Summit.

“We achieve customer satisfaction with happy employees!”

Garanti Pension and Life was the first and the only private pension provider in Turkey to be awarded the “Gold” certificate by Investors in People, the only international quality standard in human resources.

Garanti Pension and Life signed the United Nations Global Compact, the world’s largest voluntary corporate responsibility initiative which is based on signatories’ commitment to implement universal sustainability principles and signed the United Nations Women’s Empowerment Principles.

Garanti Pension and Life became the sector’s first private pension company to accept PPS applications via Facebook.

As a pioneer in the digital world, Garanti Pension and Life launched an Instagram account, adding a new social media tool to its digital media portfolio and became the first company in the sector to use Periscope, Twitter’s video streaming app.

The first company to receive ISO 14001 Environmental Management System certification

Garanti Pension became the first private pension and life insurance company in Turkey to obtain ISO 14001 Environmental Management System certification after being certified by TÜV SÜD in March.

In light of the “Women’s Empowerment Principles” issued by the United Nations, a life insurance product called “Healthy Women” was developed for types of cancer afflicting women (e.g. thyroid cancer). The new product launched on March 8, International Women’s Day.

The Company provided support to the “He for She” solidarity campaign initiated by the United Nations Women in 2015 to emphasize men’s support for women’s rights and gender equality.

Garanti Pension became the first private pension and life insurance company in Turkey to obtain OHSAS 18001 Occupational Health and Safety Management System certification after being certified by the German institution TÜV SÜD in July.

Garanti Pension issued a Declaration of Human Rights.

Garanti Pension joined the WWF Green Office Program.

Garanti Pension Mobile Branch application was launched.

2014

2015

2016

Vision

To become the best Private Pension and Life Insurance Company in Europe.

Mission

We stake a claim on the happy future of our stakeholders, guide them, add value and make them feel assured.

Core Values

- *I exceed customers' expectations.*
- *I believe in open dialogue.*
- *I strictly abide by all applicable laws.*
- *I conduct myself in an honest and ethical manner.*
- *I achieve customer satisfaction with happy employees.*
- *I strive to learn continuously to achieve the best performance in my job.*
- *I am innovative and creative.*
- *I care about society and the environment.*

Competitive Advantages

Garanti Pension and Life's competitive advantages stem from the fact that it effectively utilizes the bancassurance channel and creates the right strategies for changing conditions. Focusing on operational efficiency as it benefits from economies of scale, Garanti Pension's technical profit is on the rise.

The market strength, trust and synergy created with Garanti Bank, the main distribution channel, provides leadership in the industry. The know-how and deep-rooted experience that comes from international collaborations such as with BBVA and Achmea take the Company to a higher level in the industry.

Our Outmaneuvering Advantages

Garanti Pension and Life's most important competitive advantages include:

Brand equity of "Garantî"

- The reliability provided by the Garanti brand
- The synergy and collaboration with Garanti Bank

Customer-centric service approach

- Customized and exclusive solutions for the needs of customers
- Continuous development of after sales services
- Practices that reinforce closer customer relationships

Effective sales force

- Effective use of bancassurance
- Superior alternative distribution channels and widespread distribution network

Financial strength and an advanced technology infrastructure

- Robust capital and stable financial structure
- Reinsurance capacity
- Profitable risk acceptance practices
- Continuously improving technology infrastructure

Corporate culture and human resources

- Organizational structure that enables rapid adaptation to a changing market environment
- Creative and highly competent workforce capable of taking initiative
- Emphasis on life-long development
- Internal customer satisfaction efforts

A sustainable approach

- Management systems in the areas of human rights, labor standards, environment and anti-corruption
- Communication on gender equality and empowerment of women
- Strong partnerships with leading organizations in sustainability
- Efforts to reduce consumption of natural resources

Garanti Bank in Brief

Garanti Bank formulates its strategy to provide customers with products and services that are tailored to meet their needs in a “transparent”, “understandable” and “responsible” manner.

Established in Ankara in 1946, Garanti Bank is Turkey’s second largest private bank with consolidated assets totaling TL 295 billion as of September 30, 2016.

Garanti Bank operates in corporate, commercial, private, retail and investment banking as well as in SME banking and payment systems. The Bank serves as an integrated financial services group with subsidiaries that operate in the private pension, life insurance, leasing, factoring, securities and asset management sectors. Garanti Bank’s international subsidiaries are located in the Netherlands and Romania.

As of September 30, 2016, Garanti Bank provides a wide range of financial services to almost 14.4 million customers with about 20 thousand employees. The Bank’s branch network includes 987 domestic locations and nine foreign branches, with seven in Cyprus and one each in Luxembourg and Malta. In addition, the Bank has representative offices in London, Düsseldorf and Shanghai; 4,686 ATMs; an award-winning Call Center; an extensive distribution network consisting of internet and mobile branches as well as social banking platforms, all of which feature an advanced technology infrastructure.

Aiming to achieve sustainable growth by creating value for all its stakeholders, Garanti builds its strategy on the principles of “transparency”, “straightforwardness” and “accountability”. The Company continually works to improve customer experience by offering customers products and services that are tailored to meet their needs. Thanks to its skilled and dynamic workforce, unrivalled technology infrastructure, customer-focused service approach, innovative and high quality products and services, Garanti Bank is the leader of the Turkish banking industry.

Garanti Bank in Brief

In addition, Garanti Bank strives to adopt the best corporate governance practices. Banco Bilbao Vizcaya Argentaria S.A. ("BBVA") and Doğuş Group own 39.9% and 10% of Garanti Bank shares, respectively. The Bank's shares are publicly listed and traded in Turkey with a free float of 50.07% on Borsa Istanbul as of September 30, 2016. In addition, Garanti Bank depositary receipts are traded in the UK and US.

With its dynamic business model and pioneering approach that integrates technology into its products and services, Garanti Bank continues to make a difference in the sector while making life easier for its customers. Standing out with a dynamic business model, Garanti Bank facilitates the lives of customers through the use of advanced technology applications, which are integrated into its innovative products and services. Custom-tailored solutions and a wide product variety play a key role in the Bank's TL 239 billion cash and non-cash loan portfolio. Garanti Bank's high asset quality is achieved through advanced risk management systems and a well-established risk management culture, which differentiate the Bank in the sector.

Building on the Bank's Core Values, Garanti defines sustainability as a commitment to create a strong, successful business model for the future, while minimizing negative environmental and social impacts, and sharing long-term values with its customers, employees, shareholders and the local communities, wherever it operates. Garanti continues to bolster its approach to sustainable banking with social investment programs in various areas, including sports, education, arts, the environment and business information.

Garanti Bank continues to make a difference and facilitate the lives of its customers with a dynamic work model and pioneering technology that is integrated with innovative products and services.

Achmea B.V. in Brief

Achmea is a leading international insurance group with 200 years of experience. Based in the Netherlands, Achmea is one of the world's largest cooperative insurance organizations, operating with 18,000 employees in seven countries. Achmea provides customers with products and services that are transparent, financially affordable and easily understandable.

Achmea considers its customers as the actual owners of the Group and ranks them first among stakeholders. Believing that solidarity forms the basis of cooperative insurance, Achmea undertakes sustainable initiatives for its customers to achieve common goals by sharing strategic and financial risks. Achmea Group is widely known as an innovative employer, one of the best places to work in the finance industry, and a leader in boosting diversity.

Achmea develops solutions for health related issues when necessary; provides coverage and protection against damages resulting from fire, traffic accidents and theft; and ensures long-term financial security of its customers and their families. Through its micro insurance projects, Achmea also contributes to establishing economic stability in underdeveloped countries.

Active in all insurance branches and distribution channels, Achmea is preferred by one in two people in its home market, the Netherlands. Outside the Netherlands, Achmea is the second largest insurance company in Greece; the Group also holds strong market positions in Turkey, Slovakia, Ireland, and Romania.

Achmea's gross premium production under contract totals EUR 20 billion, shareholders' equity amounts to EUR 9.7 billion, and the Group's solvency ratio stands at 202%. International credit rating agency Standard & Poor's affirmed Achmea's Insurer Financial Strength Rating as 'A+'.

Operating in the non-life insurance market, Eureka Sigorta is a member of Achmea in Turkey and the country's leader in bancassurance, thanks to its powerful partnership with Garanti Bank.

Believing that an insurance partnership is based on solidarity, Achmea engages in sustainable initiatives so its customers can achieve common goals with the sharing of strategic and financial risks.

Chairman's Message

Garanti Pension closed the year as the leader in the industry which has fully matured over the past 13 years. The Company manages a total of TL 9.5 billion in retirement savings for its 1.1 million participants.

At the start of 2016, global markets harbored the concern that the world economy, especially China, will enter another downturn caused by political and geopolitical risks in addition to uncertainties surrounding the Federal Reserve's round of interest rate hikes.

Markets began the year with a tendency to avoid risks due to oil prices falling to their lowest level since 2004. However, as United States growth expectations weakened in the following three months, the Fed delayed its interest rate hike. The markets recovered after announcements by the European and Japanese central banks that they would implement additional expansionary monetary policies when necessary with negative interest rates. In addition, due to the rebound in commodity prices, especially oil, risk appetite increased and investors once again gravitated toward risky assets.

The referendum held in the UK unexpectedly resulted in the decision for that country to exit the EU. This initially had a negative impact on risk appetite, leading to the strengthening of the US dollar and transitioning into exchanges and assets perceived as safe havens. However, the postponement of the interest rate increase by the Federal Reserve helped buoy investors' risk appetite.

In addition, risk appetite was supported, especially in emerging markets, by the expectation that the central banks of developed countries might boost their current expansionary monetary policies due to the downward revision of global growth forecasts.

In the last quarter of the year, America's economic outlook improved and US bond yields rose after the presidential election was finalized and the new US president stated his intention to implement growth-oriented policies by increasing public spending. As a result, the US dollar gained value against all currencies and emerging market countries experienced significant fund outflows.

Even though Turkey made a weak start to 2016 in parallel with other developing countries, the improvement in risk appetite later in the year helped it record a positive performance ultimately. In addition to the downturn in inflation and the interest rate cuts by Turkey's Central Bank, there was a decline in bond interest rates and a sharp rise in the stock market, mostly due to positive global factors. The improvement in the country's current account deficit also helped drive this performance. In 2017, global markets are expected to turn their attentions to the new, post-election economic policies in the US and the monetary policy of the Federal Reserve, which is dependent on the new administration's economic policies.

The Federal Reserve is expected to raise its policy interest rate in a restrained manner and over a period of time. However, risk appetite may be adversely affected if this expectation changes.

The growth performance of developing countries, especially China, also will have an impact on the risk perception.

In Turkey, the extent of structural reforms undertaken by the government, potentially low economic growth, and inflation problems due to high foreign exchange rates in the coming year will impact the prices of Turkish assets, which have retreated to attractive levels.

The Turkish private pension system, which is completely voluntary, has reached more than 6.6* million participants and TL 61 billion* in funds including government contributions in 2016. Garanti Pension closed the year as the leader in the industry which has fully matured over the past 13 years. The Company manages a total of TL 9.5 billion in retirement savings for its 1.1 million participants.

In life insurance, another core business area of ours, we increased our year-end premium production by 25% to TL 410 million. The Company's efficient efforts in its business lines are also reflected in our financial results. As the most profitable company in the industry for the past six years, Garanti Pension maintained that title in 2016** with net profit of TL 246 million.

Garanti Pension continues to create happy employees and happy customers by establishing simple, close and constructive communications as part of its employee- and customer-oriented mission. At the same time, Garanti Pension has demonstrated its success locally and globally with major awards. We won the "Best Call Center in the World" designation at the World Finals of the Contact Center World Awards. Aiming to make our customers' lives easier and provide the best customer experience, we developed a new online banking branch and mobile app in 2016. We achieved this success with our strong systems infrastructure and advanced technology, which we have built up through important collaborations.

Garanti Pension conducts its operations with a social and environmental responsibility in addition to considering financial success. The Company continues to take major steps toward sustainability to ensure the needs of today without sacrificing the needs of future generations. In the coming period, we aim to add new certifications and awards to those we have already obtained in this key area.

At Garanti Pension, we will continue to guide the industry in the coming year with our ongoing success in the private pension and life insurance sectors. In 2017, Garanti Pension aims to remain the leader in the new era that will commence with the Automatic Participation System. I have no doubt that Garanti Pension will achieve further success with its expert sales staff, strong systems infrastructure and advanced technology. I would like to extend my thanks to our employees, participants and stakeholders for all the success we have achieved in 2016, propelled forward by our efficient business operations.

Sincerely,



Garanti Pension continues to create happy employees and happy customers by establishing simple, close and constructive communications as part of its employee- and customer-oriented mission.

Ali Fuat ERBİL

Chairman of the Board of Directors

* According to data provided by the Pension Monitoring Center dated December 30, 2016.

** According to data provided by the Insurance Association of Turkey dated September 2016.

CEO's Message

Garanti Pension and Life adopted the concept of customer-centrism as a management principle. To this end, we designed our technology infrastructure in a way that will make our customers' lives easier.

2016 witnessed significant developments both in Turkey and the rest of the world. In addition to the global economic slowdown, the presidential elections that took place in the US, the rise in the value of the US dollar in the period that followed, and Turkey's unemployment rate climbing to double digits were among the factors that negatively affected the Turkish economy. When looking back at the political and economic situation in Turkey, we see that the current account deficit increased and that we had a tougher year than in 2015.

The most important way to achieve sustainable growth in our country and narrow the current account gap is to boost the savings rates. The most effective way to increase saving rates, especially by including low- and middle-income groups, is through the private pension system. An evaluation of the industry shows that in the 13 years since it launched, the private pension system has expanded to 6.6 million participants and a fund size of TL 61 billion, TL 7 billion of which is government contributions. The system, which had 3 million participants in its first nine years, doubled in less than three-and-a-half years due to the state contribution that was introduced in 2013. The point we have reached in this completely voluntary system to date is encouraging.

A closer look at 2016 reveals that the growth rate of the industry, which has reached a certain maturity level over the past 13 years, somewhat slowed. Garanti Pension and Life, a pioneering and exemplary company of bancassurance in Turkey, achieved significant success in this period during which the rate of growth of the industry downshifted. While the overall sector slowed by 38% compared to a year earlier, Garanti Pension increased its new participant numbers by 10%.* Currently, we are the sector leader with 17.1%* market share. Garanti Pension and Life also continued to grow its life insurance business. Turkey's life insurance sector is directly affected by the contraction or growth of consumer loans. In 2016, the Company matched the increase in consumer loans with the right sales strategy and captured a market share of 8.2%** with premium production of TL 410 million.

Our customers are our priority!

Garanti Pension and Life adopted the concept of customer-centrism as a management principle. To this end, we designed our technology infrastructure in a way that will make our customers' lives easier. In the last days of 2015, we revamped our user-friendly internet service for our customers. While the internet branch, which is used by more than 150 thousand customers, continues to develop, we added a new service channel in 2016. With our newly launched mobile branch, we aim to provide a high quality experience for our individual pension and life insurance clients. While delivering faster service with the "Voice Routing" project, which we developed to place the needs of our customers directly at the Company's headquarters, we also made very important steps in terms of boosting productivity. In the coming year, we will continue our customer-centric efforts on lean, close and constructive approaches while structuring all our business processes from the outside.

Our employees are key to our success!

As the Garanti Pension and Life family, we believe that employees are our power source. With our employee-oriented approach, we have restructured our core human resources strategies – including recruitment processes, training modules and career maps – as the Company reconsiders every process that will benefit staff development.

The “Our Job is to Read” initiative has helped 800 children go back to school!

Garanti Pension and Life’s “Our Job is to Read” project, ongoing for seven years, is designed to encourage middle school students who are working on the streets or in various businesses to return to school. In 2016, this effort helped 100 youth return to school. To date, we have reached out to a total of 5,500 students and parents. We have encouraged some 800 children to leave work, go back to school and resume their education.

We continue to inspire the industry with our sustainability efforts!

Garanti Pension and Life believes that maintaining environmental, economic and social sustainability is a vital step towards securing a viable future for our country. We work hard to conduct our business activities by keeping this responsibility in mind. Our Environment and Occupational Health and Safety Management Systems, which were established in 2016, received ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management System certifications during the year. The certifications were granted following inspections conducted by the independent German certification institution TÜV SÜD. We are proud to be the one and only private pension and life insurance company with these certifications in our industry. Garanti Pension and Life continues to inspire the sector with its pioneering efforts in human rights and employee rights, as part of the international principles the Company embraces. We also take the lead in protecting the environment and fighting against corruption, together with our customers and all our stakeholders.

Sincerely,



As the Garanti Pension and Life family, we believe that employees are our power source. With our employee-oriented approach, we have restructured our core human resources strategies – including recruitment processes, training modules and career maps – as the Company reconsiders every process that will benefit staff development.

Burak Ali GÖÇER
CEO***

* According to data provided by the Pension Monitoring Center dated December 30, 2016.

** According to data provided by the Insurance Association of Turkey dated December 31, 2016.

*** As of January 1, 2017.

Sector Developments and Garanti Pension in 2016

2016 was a year full of political and geopolitical risks, uncertainties regarding global growth and interest rate policies of central banks. High fluctuations in stocks, bond rates and foreign exchange rates continued throughout the year. The funds that were set up by Garanti Pension and Life – the majority of which are comprised of stocks and bonds – were able to turn this volatility into an opportunity. In 2016, the BIST 100 index rose by 7.4%. Both the Company's equity funds outperformed the index by 400 basis points, making them two of the three highest yielding funds in their category.

Garanti Pension and Life invests, for the most part, in TL denominated public debt instruments. In 2016, the Company yielded its participants a 9.2% return with the Government Bond Fixed Income Fund, which also was a great success as one of the two highest yielding funds in its category. Meanwhile, one of our funds in which state contributions are invested, the Garanti Pension and Life Contribution Fund, was the best yielding fund in its category in 2016, achieving a 10.9% return.

The private pension system continues to grow

Turkey's private pension system entered a rapid growth phase due to legislative changes made in 2013, particularly the 25% state contribution. The PPS penetration rate increased, climbing to 6.6 million participants in 13 years. However, the PPS's expansion rate slowed slightly in 2016. While 2.9 million new participants entered the PPS in 2013-2015, 587 thousand new participants joined up in 2016.

Automatic Private Pension System

The implementation of the Automatic Private Pension System, scheduled to take effect in 2017, will launch a new era in the private pension system. One of the biggest steps taken to boost the savings rate in Turkey, the Automatic Private Pension System aims to provide employees additional income during their retirement.

From January 1, 2017 onwards, employees under the age of 45 will be able to start saving by paying a monthly contribution that equals 3% of their insurance base. The automatic enrollment system will start on January 1, 2017 for companies with more than 1,000 employees. It is expected to bring about 6.4 million additional participants into the PPS in 2017, by gradually including public employees and companies

with more than 100 personnel. The gradual transition will continue in 2018 and 2019 with some 13 million additional employees automatically included as participants. These new participants will include the staff of any company with more than five employees as well as those working in municipalities and state economic enterprises.

The Automatic Private Pension System will allow participants to withdraw from the system within the first two months without loss of any contribution that they have already paid. Other unique advantages include: a 25% state contribution in addition to the current state contribution; an additional state contribution of TL 1,000 for those participants who do not exercise their right to withdraw from the system; and an additional state contribution of up to 5% of the savings amount to those who purchase annual income insurance when they retire. The new system will be a fresh start for both Turkey and the industry.

Industry Leader: Garanti Pension

While the rate of new participant acquisition slowed for the sector in 2016, Garanti Pension experienced the opposite. Industry-wide, new participant numbers decreased 38% compared to a year earlier. However, Garanti Pension recorded a 10%* increase, adding 135 thousand* new participants over 2015. Thanks to this successful performance, Garanti Pension leads the competition with 1.1 million participants and is proud to be the most preferred company in the sector.

Life insurance sector expands with consumer loans

Turkey's life insurance industry, which grew 15% in 2015 after a period of stagnation in 2014, continued to expand in 2016. The sector posted 18% growth in the first eight months of the year compared to the same period a year earlier. The life insurance industry recorded 34% overall growth in 2016 with TL 5 billion in premium production. This performance was aided by the restructuring of loans by public banks following the tax reconciliation.

Annuity insurance will complement private pension income

The rules of annuity insurance, which complements the private pension system and which practically means "lifetime salary" for participants, were clarified with the regulation published in April 2015. Feasibility studies regarding annuity insurance were completed in 2016. The product will receive its final form and begin to be offered to customers in 2017.

While the rate of new participant acquisition slowed for the sector in 2016, Garanti Pension experienced the opposite. Industry-wide, new participant numbers decreased 38% compared to a year earlier. However, Garanti Pension recorded a 10% increase, adding 135 thousand new participants over 2015. This performance made Garanti Pension the sector leader.

* According to data provided by the Pension Monitoring Center dated December 30, 2016.

Financial Strength of Garanti Pension and Life

Maintaining stability by boasting a strong financial structure, effective balance sheet management and solid customer trust, Garanti Pension and Life successfully closed fiscal year 2016. During the year, Garanti Pension and Life achieved both its sales and profitability targets. The Company benefited from economies of scale due to the decline in revenues of pension companies and revised all its business processes by focusing on operational efficiency.

Garanti Pension and Life recorded a very strong performance in 2016 with its customer-focused strategies, human resource practices aimed at employee satisfaction, investments in technology infrastructure, integrated communications, innovative marketing and sales activities, and effective balance sheet management. The Company achieved rapid growth in total assets and profitability during the fiscal year, as in prior reporting periods.

In 2016, Garanti Pension's total assets grew 25,5%, to TL 11.4 billion, while shareholders' equity was up 23%, to TL 1.3 billion. Further strengthening its already robust financial structure with these results, the Company increased net profit after taxes by 29% over the previous year, to TL 246 million. The Company was once again the most profitable company* in the sector, as in last six years.

A significant portion of Garanti Pension and Life's profit originates from technical profit earned from operations in the life insurance and private pension segments. In 2016, the Company's gross technical profit was TL 207 million. Technical profit amounted to 67% of TL 308 million, the profit before tax in 2016.

Ensuring that customers feel the Company's unwavering support is a primary goal of Garanti Pension and Life in 2017. Moreover, the Company aims to maintain steady growth through new investments and new products in both segments, while sustaining its financial strength.

* According to data provided by the Insurance Association of Turkey dated September 30, 2016.

Review of 2016 Operations

Industry leader in terms of the participant numbers

Garanti Pension and Life reached 1.1 million participants to become the sector leader in 2016.

Although the private pension sector continued to expand in terms net increase in participant numbers in 2016, the growth rate slowed by 38%*, which made it a difficult year. Having recorded 123,000 new participants in 2015, Garanti Pension's participant base grew 10% in 2016, with 135,000 new participants.

In addition, sales per Savings and Assurance Expert rose by 22% while contribution/entry fees went up by 21% compared to 2015.

Thanks to the 2016 Field Commission system, which prioritizes quality, the collection rate of private pension and life insurance sales increased.

Life insurance premium production

In 2016, Garanti Pension's life insurance premium production increased 25% year-on-year to TL 410 million.

The rise in premiums is primarily due to pricing efficiency, the increase in the volume of loans granted through alternative distribution channels and the ability to structure existing loans with up to 72-month maturity thanks to the structuring law.

As a result of targeted efforts, the long-term credit life insurance premium rate was increased from 45% in January-March to 67% from April onwards.

As part of the premium production in the "Other Life" category, which is not extended on the basis of any bank risk, the "I Am the Customer, My Life" project, which was initiated in 2015 to prioritize the power of being prepared for the future whatever life brings about, was strengthened this year. This effort contributed significantly to the production of "Other Life" premiums. In 2016, the Company broke its own record, reaching TL 41 million. This figure was reached with a premium production of TL 11,500 per month per the Savings and Assurance Expert in the field sales team.



Koray Pişirici
Retail Sales

Reaching 1.1 million participants, Garanti Pension was the industry leader in 2016.

* According to data provided by the Pension Monitoring Center dated December 30, 2016.

Review of 2016 Operations



Özlem Özkök
Corporate Sales

In 2016, Garanti Pension started working with a total of 963 new groups in corporate pension plans.

963 new employer-sponsored group plans

In 2016, Garanti Pension and Life began to work with 963 new groups for employer-sponsored plans. The Company sold more than 15,000 contracts, and the number of employer-sponsored group contracts exceeded 58,400.

Automatic Participation System

We undertook efforts at the start of 2016 related to the Automatic Participation System that will commence in January 2017. With the draft regulation finalized, we stepped up company visits. From among those companies that have 1,000 or more employees that will become a part of the system in January, we signed agreements with 160 of the 474 companies that we visited. A total of 4,400 companies were visited during 2016. We will continue conducting visits for companies that will be gradually joining the system from 2017 onwards to explain the system and offer the services of Garanti Pension.

Garanti Pension Five Years Statement in Private Pensions

	2012	2013	2014	2015	2016
Pension Fund Size (TL million)	3,325.80	4,249.32	6,092.81	7,580.28	9,523.45
Pension Fund Size Market Share (%)	16.3	16.2	16.1	15.8	15.7*
Number of Pension Participants	610,487	763,520	872,224	995,416	1,130,475*
Pension Participants Market Share (%)	19.5	18.4	17.1	16.5	17.1*
Total Pension Contributions (TL million)	2,677.30	3,567.71	4,542.90	5,789.90	6,830.80*
Pension Contributions Market Share (%)	16.5	16.3	16.0	15.6	15.4*

* According to data provided by the Pension Monitoring Center dated December 30, 2016.

A Year of Growth in the Life Insurance Sector

Stable growth continues.

Even though the life insurance industry in Turkey contracts or grows largely depending on consumer loans, Garanti Pension and Life steadily increases its premium production every year. Garanti Pension and Life grew by 24.6% in 2016, closing the year ranked fourth in the industry with TL 410 million in premium production and 8.2% market share.

Thanks to its fruitful collaboration with Garanti Bank in the area of life insurance production, the Company has proven to be highly successful in bancassurance, setting an example for other companies in the sector. Through the Bank's extensive branch network, Garanti Pension and Life reaches a broad customer base. The Company's market share in bank distribution channel premium production was 9.7%.

With TL 105.1 million in premium production generated through alternative distribution channels, Garanti Pension gained a 49% market share. The Company plans to further bolster its leading position in this area in coming years.

Garanti Pension is the leader in the life insurance industry with TL 105.1 million generated through alternative distribution channels.

Garanti Pension Five Years Statement in Life Insurance

	2012	2013	2014	2015	2016
Life Insurance Premium Production (TL million)	262.9	298.1	318.8	328.8	409.8
Life Insurance Premium Production Market Share (%)	9.8	8.9	9.9	8.9	8.2

The most successful practitioner of bancassurance in both private pension and life insurance segments, and the most profitable* company in the sector, Garanti Pension and Life will continue to implement its effective and profitable business model in the coming years.

*According to data provided by the Insurance Association of Turkey dated September 30, 2016.

We are Always by Our Customers' Side.



Aylin Eşkinat

Customer Relationship Management,
Marketing and Strategic Planning

*Customers are a key part of
Garanti Pension and Life's
core values.*

Garanti Pension designs customer experience not “from the inside to outside” but “from the outside to inside.”

Customers are at the center of Garanti Pension and Life's core values. Garanti Pension designs customer experience from the outside to inside. The Company designs its systems and processes by closely following the footsteps of its customers to provide the best solutions. In 2016, Garanti Pension prioritized its projects with this vision, defining first and foremost what kind of experience it would like to deliver to customers.

Starting in 2013, Garanti Pension improved each experience moment via the conceptualization of emotional maps, comparisons of desired and expected results, and special needs analyses that are specific to that moment of customer experience. In 2016, the Company added new strategic moments of experience to these efforts and developed new projects in parallel to its customers' needs.

Garanti Pension and Life manages its strategies with the assumption that a continuously evolving customer experience is one of the most important components of sustainable economic performance. As such, the Company is the leader of the industry with its comprehensive business solutions that are structured by putting customers at the center.

Customer values

While diversifying its services in 2016, Garanti Pension and Life introduced the “To Change Your Life” initiative as an important component to complement the Company's customer-oriented vision.

The project aims to adopt and internalize the Company's values with regard to customers. Garanti Pension defined three fundamental values that exist in its culture of customer-centeredness: simplicity, closeness and constructiveness.

Customer Friendly Projects

Proactive service approach

Garanti Pension and Life develops its products and services with this insight: organizations that listen to their customers, accurately identify their needs and benefit from their experiences have a customer-oriented vision. The Company aims to integrate this vision into its customers' lives in every channel it operates.

Garanti Pension conducted data mining work to diversify the proactive services, which was among the 2016 priorities. This effort improved customer experience and enabled the most efficient use of the right channels. The Company has also conducted pilot studies on the applicability of existing data mining projects, with some project results selected for implementation as regular practices. Garanti Pension increased the success of its purchase trend models by adding data – related to banking, channel usage, and demographics as well as the responses of customers to various offers – to its models for certain products.

A more effective summary statement

Always listening to its customers as part of its “Customer First” approach, Garanti Pension and Life implemented a detailed project on savings statements in response to customer requests for a more effective summary on their private pension savings.

As part of the project, all questions and needs raised about the private pension contracts were analyzed; afterwards, customer-friendly designs were introduced to deliver a better customer experience. The inter-channel experience of the customers has also been restructured under the same project; the “Savings Summary,” which includes many innovations in the industry, was also launched. The effort, which provides proactive information and marketing services to customers, aims to enable customers to receive the most accurate information from whichever channel they like in line with their personal preferences.

We are a recommended company

Putting customers at the heart of its operations, Garanti Pension and Life aims to create a memorable customer experience. To this end, the Company structured all of its projects along these lines in 2016.

Garanti Pension always “listens” to its customers in order to deliver the best possible experience to them. In 2016, the Company further expanded the scope of “Customer’s Voice,” a project it has carried out for many years. As a result, Garanti Pension increased world-class Net Promoter Score (NPS) to 68*, a great success for the Company.

Garanti Pension and Life has always closely listened to its customers. The Company developed the “Customer’s Voice” initiative, ongoing for many years, in order to deliver the best experience to its customers. In 2016, Garanti Pension achieved great success by raising its recommendation score to 68 – a world class level.*

Wide Range of Products for Everyone



Şenol Serkan Şentürk
Product Development and Actuary

Placing great importance on product diversity to meet the needs of customers in different segments, Garanti Pension offers six alternatives for pension products.

Due to the close collaboration with Garanti Bank and their shared corporate values, Garanti Pension and Life adds to its achievements in its operational areas, and maintains a high level of customer satisfaction. By effectively using Garanti Bank's extensive distribution network, the Company offers customers the opportunity to choose from a wide range of products with a "one-stop shop" approach.

Private pension plans

The introduction of state subsidy contributions to private pensions led to considerable growth, and the sector maintained growth momentum in 2016. The number of participants in the system exceeded 6,5 million.

Garanti Pension and Life places great importance on product diversity in order to meet the needs of customers in its operational sectors. For that reason, the Company offers six different private pension plans. Garanti Pension and Life customers who want to start saving for the future can confidently choose from among these six private pension plans, each of which will ensure a happy and secure retirement:

1. Practical Pension Plan: targets participants who want to make advantageous investments with modest savings.
2. Prestige Pension Plan: offers exclusive advantages for those customers who prefer to make large contributions with a prestigious retirement in mind.
3. Select Pension Plan: is designed for participants who would like to accumulate resources rapidly with the most advantageous plan.
4. Self-employed Pension Plan: is exclusively developed for small- and medium-size business owners.
5. The e-Pension Plan: is for customers who prefer to apply on the Internet and want to take advantage of the exclusive features offered by this innovative plan.
6. Savings Continuation Plan: The Central Sales Unit contacts those customers who exit the system due to a shortage of cash. At the exit stage, the saving continuation plan is explained to them with an advantageous plan, thereby enabling these customers to remain in the system.

The Company offers customers a total of 21 funds as part of its private pension plans, including Public and Private Sector Debt Instruments, Contribution, Alternative Contribution, Gold and Alternative Standard Funds.

In addition, group pension plans, which enable employees to form a group and join the private pension system with or without contributions from their employers, also have a significant position in Garanti Pension and Life's product line-up. Group pension plans offer special advantages to companies and their employees.

In order to meet the needs of customers in different segments and to further enhance customer satisfaction, the Company obtained approval from the Undersecretariat of Treasury for 31 plans and 20 additional benefits in 2016.

Changes and effects of the new deduction structure implemented in 2016

A new deduction structure was implemented during the year. The modified deduction schedule aims to reduce the deductions to international levels; decrease the number of complaints by the participants due to different deductions or misinformation; enable participants to understand the system more easily; and expand the period participants stay in the system.

The changes in the deduction structure with the implementation of the new private pension system legislation are as follows:

The total sum of annual deductions for the first five years after the commencement of the deductions will be up to a maximum of 8,5% of the monthly minimum gross wage that is valid for the first six months of each year. In existing contracts, if the amount of deduction made prior to January 1, 2016 is equal to the amount of five year deductions, no deduction will be made after January 1, 2016. Contracts that were completed five years also will not be subject to any deductions. In the event that the contracts are terminated within the first five years, any outstanding deductions for the remaining period may be taken as a lump sum at the time of the termination. Annual deduction calculations do not include Total Fund Expense Deductions.

The new deduction schedule brings advantages to those who are interested in staying in the system in the long term:

- The deferred entry fee will not be charged from those participants who stay in the system for more than five years.
- After five years, the contracts will start to receive refunds from the Total Fund Expense Deductions. Participants will then be able to gradually receive back a portion of the fund operating expenses deducted from them depending on the time they have been in the system. Also applicable after five years, certain upper limits are set for the amount of deductions to be made from the contracts based on the percentage of the government contributions.

Insurance products

Garanti Pension and Life's insurance products insure individuals and their families against unexpected risks in life, within certain coverage limits. With the effective and extensive use of bancassurance, the Company always takes into account the changing circumstances and needs of customers, and enhances its insurance product portfolio accordingly.

Life Insurance

- Credit life insurance products,
- Risk life insurance products,
- Guaranteed Tomorrows Insurance which offers financial coverage against critical illnesses,
- Education Insurance for those customers who would like to secure the educational expenses of their loved ones and children,
- Hospitalization Insurance covers the cost of medical treatments in case of accidents or sickness, within the claim amounts payable under the policy.
- The Healthy Women Insurance provides coverage against life-threatening diseases for women.



Şadiye Çimeli

Fund Management, Budgeting and Reporting

The Company offers customers a total of 21 fund options under private pension plans, including the Public and Private Sector Securities Fund, Contribution Fund, Alternative Contribution Fund, Gold Fund and Alternative Standard Fund.

Wide Range of Products for Everyone



Şükri Yıldırım
Operations

The developments in customer satisfaction and experience prove that Garanti Pension is on the right track and that every improvement will lead to more successful results. A total of 9,616 indemnity payments were made in 2016.

Unemployment Insurance Products

- Income Protection Insurance guarantees monthly income in case of job loss,
- Payment Protection Insurance makes the customer's loan payments in the event of unemployment,
- Garanti Credit Card Unemployment Insurance pays customers' credit card debt in case of job loss,
- Overdraft Account Payment Protection Insurance makes the policyholder's overdraft account payments in case of loss of employment,
- Bill Payment Insurance pays the customer's monthly bills in the event of unemployment.
- Loan Payment Protection Based on Age for Mortgage Loans in Case of Unemployment

Annual Income Insurance

The rules of annual income insurance - which complements the private pension system and which practically means "lifetime salary" for the participants - were clarified with the regulation published in April 2015. Garanti Pension and Life completed the technical work on annual income insurance in 2016 within the framework of the new regulations. The product will be offered in 2017. With this product, Garanti Pension will provide its customers the opportunity to receive a lifetime salary based on the consumer price index by staying in the private pension system.

Improvements in indemnity projects and processes

Aiming to provide a quality of service that exceeds expectations in all areas including damages, Garanti Pension and Life implemented an indemnity project in 2014. The Company continued to further develop this effort in 2016. The project, which positions the customer at the heart of the Garanti Pension's operations, uses the changes made in the business processes and technological infrastructure to provide a customer experience in which the Company is by its customers' side at every stage. This aim has been achieved to a great extent. The developments in customer satisfaction and experience prove that Garanti Pension is on the right track and that every improvement will lead to more successful results. A total of 9,616 indemnity payments were made in 2016.

As part of the support service provided by the Operation Unit Pension Help Desk team at the Garanti Bank branches, approximately 38,000 calls were received in 2016 with 91% service capacity. Garanti Bank aims to boost not only overall customer satisfaction but also internal customer satisfaction by raising the quality of support services provided to its employees.

Organization, Process and Project Management



Aykut Tamer

Organization, Process and Project Management

Legal Affairs and Shareholder Relations Unit established

The Department of Legal Consultancy, which was responsible for legal affairs and shareholder relations, was restructured as the Legal Affairs and Shareholder Relations Unit as of October 11, 2016.

Changes in the corporate service functions

The Corporate Services team, which was set up to serve corporate clients as part of the Corporate Sales Unit, was incorporated into the Operations Unit as the Corporate Operations team as of June 1, 2016.

Improvements in the authorization processes

In the third quarter of the year, the Company undertook an Authority Regulation Project based on the job positions. As a result of individual interviews conducted with 113 employees, the entire authorization structure was reorganized to meet current needs.

3D Secure authentication for PPS and life insurance products in the Garanti Pension Internet Branch

In the new Internet Branch, customers can deposit payments for their private pension or life products or schedule future contributions and premium payments safely with their credit cards by using the 3D Secure infrastructure.

Under the Automatic Participation System project, Garanti Pension has undertaken process and project work to meet the demands of both employers and employees as soon as possible while continuing the employer-employee-pension company relationship with maximum efficiency and satisfaction.

Organization, Process and Project Management

Call steering

In order to provide faster service to those customers who contact the Call Center, the Company enabled customers to receive automatic service from the system by expressing their request or transaction without being connected to a customer representative. With this new system infrastructure, customers can complete their transactions related to private pension or life insurance products in a matter of few minutes without waiting to be connected to a customer representative. Through call steering functionality, following security confirmations by the system, customers receive information and change their method of payment themselves without the help of a customer representative. After switching to the call steering system, the number of calls transferred to customer representatives decreased about 16%.

Alternative distribution channels vision and loan integration

Aiming to accelerate the process of applying for loans, life insurance sales also are allowed while making loan application through the Garanti Bank Internet branch, mobile branch, and ATMs. Life insurance products are sold without signature and printed documentation in line with distance sales regulations. During the application process for a loan, customers can quickly generate life insurance policies on these channels. They are also able to complete their transactions on a different channel than the one they originally started.

Automatic Participation System

The Automatic Participation System will provide automatic participation to the PPS for employees who are covered by the provision of the law. As part of the project, Garanti Pension aims to meet demands as soon as possible with systems-based services offered to both employees and employers. In addition, the Company plans to continue the employer-employee-pension company relationship with maximum efficiency and satisfaction.

WebEx

The WebEx application minimizes the disadvantages of being in different locations for Garanti Pension and Life employees and enables team management to be more efficient. It also allows the Company to have video meetings on demand.

Risk Based Approach (RBA)

The Risk Based Approach (RBA) tool is used to determine customer risk scores in whole of the Banco Bilbao Vizcaya Argentaria (BBVA) Group. RBA has now been adapted to the Company systems infrastructure and started to be used thanks to the collaborative efforts with BBVA. RBA, which calculates the risk score of customers by evaluating different criteria simultaneously, is a major step taken to use a common language with BBVA Group.

Garanti Pension and Life's Distribution Channels

Since 2005, Garanti Pension has undertaken proactive customer communication efforts through outbound calls to welcome customers, provide information and encourage greater contribution. In 2016, the Company continued to use this approach in After Sales Services to improve productivity.

Retirement Process Project

Redefining the retirement experience, one of the most important moments on the journey to one's retired years, Garanti Pension formed a Retirement Services team. This dedicated team provides consultancy on the various options available to customers nearing retirement and delivers a unique customer service experience. As the number of retired customers increases, the number of employees increases as well and the current team expands.

Great success in Distance Sales

The Distance Sales channel, which emerged for private pension companies after the legislative changes in 2013, is an increasingly important component in Garanti Pension and Life's business plan while the channel's scope continues to expand. The Company's Central Sales team responds to those customers who had to exit the PPS due to urgent cash needs or some other reason but who still believe in the benefits of the system, as well as applications received via the Internet or bank branches. Central Sales sells these customers plans over the phone. In 2016, the share of Distance Sales in the Company's total pension sales rose from 13% to 22%.

New era in distance sales with video chat

Garanti Pension has accomplished another first in distance sales. The Central Sales team started to support distance sales by providing support and services through video chat to those customers who are in bank branches.



Okan Arman
Telemarketing

The share of distance sales increased from 13% to 22% in 2016.

Garanti Pension and Life's Distribution Channels



Mert Çabuker
Customer Services and Call Center

*Garanti Pension launched
“Call Steering,” the first
and only application of its
kind in the industry.*

Customer Services and Call Center

Garanti Pension Customer Services and Call Center is committed to providing continuous and high quality communication to customers, with whom they will be taking a long journey, to meet all their needs. The Call Center aims to deliver customer satisfaction beyond expectations and to make customers feel that Garanti Pension is always by their side.

Staffed by expert, satisfaction-oriented customer representatives, the Call Center meets all the needs of customers related to private pension, life and unemployment insurance seven days a week. At the same time, customers are also able to obtain self-service assistance on many issues without needing to be connected to a customer representative 24 hours a day, seven days a week.

Conducting its activities with the core objective of satisfying its customers, Garanti Pension carefully monitors all communication channels with its Customer Services. The Company provides solutions by contacting them as soon as possible with regard to their feedback, dissatisfaction, information and transaction requests. In 2016, Corporate Customer Services was included in the Customer Services team to better serve corporate customers.

Garanti Pension Call Center received more than 1.5 million calls in 2016. It completed the year with 95% coverage and a 71% service level thanks to technological improvements and accurate human resource management, despite the high volume of calls received especially in the first half of the year due to changes in legislation. Customer Services, meanwhile, received approximately 75,000 different customer requests together with those from corporate customers. Dissatisfactions of customers were resolved within an average of 1.5 business days.

First in the industry: Call Steering

Garanti Pension differentiates by implementing innovations that create value in the lives of its customers. The Company continued its innovative efforts in the area of call centers in 2016. With “Call Steering,” the first and only application of its kind in the pension and life insurance industry, customers can be directed only by talking and without pressing any keys. This functionality gives callers the opportunity to receive information and make their transactions without being connected to a customer representative.

Thanks to call steering, the potential loss of time due to old-generation keyed menus was avoided. In addition, a considerable gain was recorded in terms of work force as 13% of incoming calls were directed to self-service without the need to connect to a customer representative. The application achieved a success rate that exceeds industry standards: within a short time, the Company reached a rate of 98% accurate recognition and 94% accurate orientation.

We are always by our customers' side with the "Best Call Center in the World"!

Aiming to be always by its customers' side, Garanti Pension was recognized with two prestigious awards in the international arena for its Call Center, a constant contact point for its customers.

Garanti Pension Call Center was named the Best Call Center in the Europe, Middle East and Africa (EMEA) Region in its category in the first stage of the Contact Center World Awards 2016. This competition is the largest of its kind worldwide in the Call Center field and included about 1,600 projects from over 50 countries. Garanti Pension Call Center later also received the Best Call Center in the World award at the World Finals, a competition among the EMEA, America and Asia-Pacific regional winners.

The A.L.F.A. of the Industry: Best Pension and Life Brand in Managing Customer Experience

Placing customer satisfaction at the heart of its operations, the Company received the Best Management of Customer Experience award in the "Life and Pension" category at the A.L.F.A. Awards. This competition is organized by Marketing Türkiye magazine and is based on real complaints placed on sikayetvar.com.

Garanti Pension was named the best in the industry by a significant point difference at the event. The competition's results are determined by the customers themselves by measuring customer satisfaction parameters at many levels, including the resolution process of the complaint, quality of the services and efforts, and the impact of all stages on brand perception.

Garanti Pension Call Center was named the "Best Call Center in the Europe, Middle East and Africa (EMEA) Region" in its category in the first stage of the Contact Center World Awards 2016. Subsequently, it was presented with the "Best Call Center in the World" award at the World Finals, a competition among the EMEA, America and Asia-Pacific regional winners.

Communication Activities



Deniz Güney

Corporate Communications and Digital Marketing

Aiming to keep customer satisfaction at the highest level also in the digital world, Garanti Pension launched its Mobile Branch application in November 2016.

CORPORATE COMMUNICATIONS ACTIVITIES

We are always by your side!

As a customer-oriented company, Garanti Pension and Life places customers at the heart of its communication activities, as in all its other operations. As part of the “We are always by your side” slogan, the Company’s communications efforts focused on the automatic Private Pension System, especially in the final period of 2016. The communication channels used included radio, newspapers, magazines, outdoor and digital media.

“Customer Values Project”

One of the most important projects initiated in 2016 was an internal communication corporate culture project: “Customer Values Project.”

Keenly aware that it needs to take customer communication to the highest level to maximize customer satisfaction, Garanti Pension implemented the “Customer Values” initiative.

Surveys conducted to realize the objective of “exceeding customer expectations,” one of the core values of the Company determined that three fundamental values –simplicity, closeness, constructiveness – are very important to customers.

Aiming to establish simple, close, and constructive communication with its customers, Garanti Pension and Life aims for personnel to adopt and implement these three values in both their business and personal lives. With this objective in mind, several internal communication activities were undertaken as part of the project.

These efforts will continue in 2017.

Hobby Clubs reached 40,000 participants.

Launched in 2008, Garanti Pension and Life Hobby Clubs celebrated its eighth anniversary.

The Company’s Hobby Clubs – numbering 18 and with over 150 program partners – aim to introduce various hobbies to members and facilitate socializing among members. To date, nearly 40,000 participants attended.

Garanti Pension is in your Pocket with Mobile Branch!

Garanti Pension aims to keep customer satisfaction at the highest level in the digital world as well. The Company utilizes technology to provide the most appropriate solutions that meet customer needs. With the Garanti Pension Mobile Branch launch in November 2016, customers are now able to track their products and transact whenever they want.

All transactions with one click on the Internet Branch

Aiming to deliver easier, more diversified and instantaneous service to its rapidly expanding digital customer base, Garanti Pension shapes its existing digital channels according to industrial and technological developments. Garanti Pension customers are now able to make private pension and life insurance payments via the Internet Branch in addition to other transactions, such as changing the distribution of funds or the amount of contribution.

Garanti Pension is always by your side with its Blog

The Company strives to engage in friendly and effective communications with both its current and potential customers through its social media channels. Garanti Pension continues its warm communication with its customers through its brand new blog on various topics, ranging from personal development to family issues.

Healthy Women Insurance

Garanti Pension continues to be a pioneer in the industry by offering new products and services. With the “Healthy Women Insurance,” which is designed for women and is available online, customers secure both themselves and their loved ones against unexpected events in life.

Garanti Pension customers are now able to make private pension and life insurance payments via the Internet Branch in addition to other transactions, such as changing the distribution of funds or the amount of contribution.

Corporate Social Responsibility and Sustainability

SUSTAINABILITY APPROACH AND POLICIES

Sustainability approach

Garanti Pension takes important steps in sustainability, which can be defined as “providing the needs for today without jeopardizing the needs of future generations.” The Company recognizes the importance of conducting its business activities in a responsible manner with the aim of continuously and significantly increasing the value it adds to its employees, shareholders, the society, and the environment.

Policy and principles

Starting with the core principles of its main shareholder, Garanti Bank, Garanti Pension supports its vision of being “the best private pension and life company in Europe” in a way that advances the society, the economy, and the environment in line with universally accepted values and its corporate responsibility. The Company aims to inspire the industry with pioneering activities. Garanti Pension recognizes the importance of human rights and employee rights within the framework of the international principles it ascribes to, as well as the environment and fighting against corruption together with its customers and all its stakeholders.

With its understanding of full compliance with the Corporate Governance Principles that have been positioned at the center of its business processes since its founding, Garanti Pension has continued its legacy work in light of its “Core Values.” Believing that establishing environmental, economic, and social sustainability means securing the future of our country, Garanti Pension supports all kinds of sustainability initiatives to this end.

Sustainability activities

Garanti Pension is committed to maximizing the use of natural resources with a sense of social and environmental responsibility. The Company continuously improves

business processes to reduce the use of energy and water at all its locations and to dispose of waste without harming the environment.

Aiming to manage its direct and indirect environmental impact in a systematic and effective manner, the Company obtained ISO 14001 certification for its Environmental Management System, which was established in 2015 at the General Directorate buildings; Customer Services and Call Center Unit in Güneşli; and the Regional Offices in Istanbul. The certifications were obtained following inspections conducted by TÜV SÜD in March 2016.

Garanti Pension – not only sensitive about the environment but also a pioneer in the industry with other initiatives – established the OHSAS 18001 Occupational Health and Safety System. Following the inspections carried out by TÜV SÜD in July, Garanti Pension became the first private pension and life insurance company in Turkey with OHSAS 18001 Occupational Health and Safety Management System certification. With this management system, Garanti Pension aims to create and manage a healthy, safe working environment by removing or minimizing the risks in the organization under the guidance of the legal and regulatory framework on occupational health and safety.

In addition to environmental work, Garanti Pension executes its in-house practices in line with the Women's Empowerment Principles (WEPs) that it signed in September 2015. The Company has always continued to be a firm supporter of women with the projects it implements or supports.

Garanti Pension conducts various awareness raising activities within the Company to ensure that employees are continuously informed about sustainability and have the capability to adapt quickly.

Conducting all its operations with an awareness of social responsibility and embracing this as a core component of its management approach, Garanti Pension organized several activities in the area of children’s education and health care in 2016.

Corporate social responsibility projects

In all its business activities, Garanti Pension acts in a socially responsible manner, a key component of the Company’s management approach. In 2015, Garanti Pension carried out numerous efforts targeting the education and healthcare of children.

Back to School

The “Back to School” project celebrated its sixth anniversary in 2016.

Garanti Pension and Life carries out the “Back to School” initiative in collaboration with the Istanbul Provincial Directorate of National Education and Boğaziçi University. Having celebrated its sixth anniversary in 2016, the project seeks to lure elementary school-age children who are forced to work for a living outside school hours back to school on a full time basis. The Company provides children with academic support and social activities throughout the year in order to help them leave their jobs and return to school full time, strengthen their ties with the school and boost their academic success.

With the “Drama Workshops” conducted by professional drama instructors twice a month in every school, this effort is designed for children to express themselves better and thus significantly benefit their social and emotional development. The parents of the students are also brought together with the “Family and Child Communication Seminars” held throughout the year and administered by a specialized psychological consultant.

Garanti Pension executed its “Back to School” project in seven schools located in four different districts in Istanbul. To date, this initiative reached out to a total of 5,500 students and parents, and encouraged 800 of these children to leave work and return to school.

Throughout the year, 450 Garanti Pension volunteers met with these students and continued to support their development through social activities both at school and outside. In addition, the volunteers hosted the students in an event at the Company Headquarters where they provided information about the industry and the profession, and got to know each other better.

About 800 working children have helped to return to school full time over the past six years.

Other projects supported by the Company

In collaboration with the Community Volunteers Foundation, we continue to support children’s education and personal development.

Since 2006, Garanti Pension has provided support to the Community Volunteers Foundation for their projects directed at children’s education and personal development. In 2016, the Company continued to support efforts that assist children who have been denied their right to education due to financial hardship.

Children benefit from free health services with the “Mobile Health Services.”

In 2016, Garanti Pension continued to support the Mobile Healthcare Units initiative spearheaded by Ayhan Şahenk Foundation. This social responsibility project is primarily focused on general medicine and pediatrics.

Awards

A.L.F.A. (Actionable, Leader, Fast, Ambitious) Awards

Garanti Pension received the Best Management of Customer Experience award at the A.L.F.A. (Actionable, Leader, Fast, Ambitious) Awards organized by Marketing Türkiye magazine. The awards are based on real complaints placed on sikayetvar.com and the competition's research methodology is developed by the Method Research Company.

The winners were determined according to the ratings of sikayetvar.com users during the competition, which awards the brands that best manage the customer experience. The complaints management and the subsequent customer perception resulting from this process were measured according to the Customer Experience Index consisting of letters of complaints from sikayetvar.com. The results were determined by measuring customer satisfaction parameters at many levels, ranging from the resolution process of the complaint to the quality of the services and efforts.

ARC (Annual Report Competition)

Garanti Pension's 2015 Digital Annual Report won Gold Award at ARC Awards, widely known as the "Oscars" of annual reports in 2016. ARC is organized by MerComm, an American awards organization dedicated to defining the standards of excellence in communication.

More than 2,000 applications were submitted from over 30 countries for the 30th ARC Awards this year. With its 2015 Digital Annual Report, Garanti Pension received a Gold Award in the "Online Annual Reports-Interactive" category in the area of insurance.

Contact Center World Awards

Garanti Pension Call Center garnered the Best Call Center in the World award at the World Finals of the Contact Center World Awards. Garanti Pension Call Center was also included in the finals following its selection as the "Best Call Center in the Europe, Middle East and Africa (EMEA) Region."

In the first stage, the EMEA, America and Asia-Pacific regional finals were organized by the platform, which determines the best practices in the call center industry around the world. The finalists of the regions were then evaluated globally and the best of the world was determined.

The Garanti Pension Call Center team was presented with the Gold Award as the Best Call Center in the World in its category.

Garanti Pension received two awards – a Gold and a Bronze – in the field of Human Resources at the Stevie Awards, a prestigious international competition that held its 14th ceremony this year.

LACP (League of American Communications Professionals)

Garanti Pension 2015 Annual Report received the Gold Award at this year's LACP Vision Awards. The competition has been organized by the League of American Communications Professionals since 2001 and is widely recognized as the highest level of achievement in the area of annual reports.

Garanti Pension garnered the Gold Award from among all the global reports competing in the insurance category. At the same time, the first digital annual report of Garanti Pension became the 62nd best in all categories in the Europe, Middle East and Africa region and ranked among the top 25 annual reports in Turkey. In addition, Garanti Pension was presented with an award again this year - as it has every year since 2011 - at the LACP Vision Awards. This competition receives applications from hundreds of institutions from over 20 countries and evaluates a total of over 1,000 reports.

Stevie International Business Awards

Garanti Pension received two awards - a Gold and a Bronze - in the field of Human Resources at the Stevie Awards, a prestigious international competition that held its 14th ceremony this year.

The Stevie Awards, to which both organizations and individuals from around the world can compete with their successful projects, received applications from more than 60 countries this year. At the Stevie Awards, over 3,800 candidates were evaluated by a jury comprised of over 200 executives from all corners of the world. Garanti Pension is proud to have received a Gold Award in the "Human Resources Unit of the Year" category and a Bronze Award in the "Most Creative Team of the Year" category at this huge event.

TEGEP Learning and Development Awards

Garanti Pension's human resources application "Employee Experience Standards" and social responsibility project "Back to School" were presented with two awards at the TEGEP Learning and Development Awards. This competition is held to support investments and operations in the areas of corporate learning and development.

Employee Experience Standards

The Company's "Employee Experience Standards" desktop application, which was designed to make learning and discovery processes more enjoyable, received the Most Creative Application award and the Special Jury Prize at the 2016 TEGEP Learning and Development Awards.

Back to School

The "Back to School" social responsibility project, carried out by Garanti Pension in collaboration with Istanbul Provincial Directorate of National Education and Bosphorus University since 2010, garnered the Special Jury Prize in the "Development Project That Makes a Social Contribution" category at the TEGEP Learning and Development Awards.

Board of Directors

Ali Fuat Erbil

Chairman of the Board of Directors

Fuat Erbil graduated from Middle East Technical University, Department of Computer Engineering. He went on to obtain his MBA from Bilkent University and a doctorate degree in Banking and Finance from Istanbul Technical University. Mr. Erbil joined Garanti in 1997 as Distribution Channels Unit Manager. He has served as CEO of Garanti Bank since September 2, 2015. Mr. Erbil is also the Chairman of the Board of Directors of Garanti Pension and Life.

Onur Genç

Vice Chairman of the Board of Directors

Onur Genç graduated from Boğaziçi University, Department of Electrical and Electronics Engineering; subsequently, he received his MBA from Carnegie Mellon University. Having commenced his professional career in 1996, he most recently served as Senior Partner and Country Manager of a global management consulting firm. Mr. Genç joined Garanti Bank on March 20, 2012 as Executive Vice President of Retail and Private Banking. He also assumed the CEO role at Garanti Payment Systems in May 2012. Successfully executing these duties since January 2017, Onur Genç has worked as General Manager at BBVA Compass, a bank of the BBVA Group that operates in the US. Mr. Genç is currently a Board Member at Garanti Asset Management, Garanti Pension and Life, Garanti Technology, Garanti Bank S.A. (Romania), Garanti Payment Systems and the Chairman of Garanti Mortgage.

Didem Başer

Board Member

Didem Başer graduated from Boğaziçi University, Department of Civil Engineering. She went on to obtain her M. Eng. from the University of California Berkeley, College of Engineering. Starting her professional career in 1995, Ms. Başer worked at McKinsey & Company, a global management consulting firm, for seven years prior to joining Garanti Bank; her most recent position at McKinsey was Associate Partner. She joined Garanti Bank in 2005 and worked as Coordinator in Retail Banking for seven years. Ms. Başer was appointed to her current position in 2012. With 19 years of experience in banking and business administration, Ms. Başer is the Vice President of Digital Banking.

Javier Bernal Dionis

Board Member

Javier Bernal Dionis obtained his Law Degree from the University of Barcelona, received an MBA from IESE Business School, University of Navarra, and then completed the Accounting Program of EADA Business School. After working at Barna Consulting Group as Partner and at Promarsa (New York, USA) as General Manager, he joined BBVA in 1996. Until 1999, he served as Segment Manager of Retail Banking (Spain) at BBVA. Mr. Dionis founded an Internet portal outside of BBVA between 2000 and 2003. From 2004 to present, he has assumed various roles within BBVA, including Head of Innovation and Business Development reporting to the CEO (2004-2005); Head of Business Development for Spain & Portugal and Executive Committee Member (2006-2010); Head of Commercial & Retail Banking under Global Retail and Business Banking (2011-2014); and Business Alignment Director for BBVA and Garanti (2014-2015). Mr. Dionis has served as Board Member of Garanti Bank since July 27, 2015. He is also in charge of coordination between BBVA and Garanti.

Maria de la Paloma Piqueras Hernandez

Board Member

Maria de la Paloma Piqueras Hernandez studied law and economics at Pontificias de Comillas University from 1984 until 1990, and she became a Certified Financial Analyst after attending the EFFAS certification program between 1993 and 1994. In 1990, Ms. Hernandez joined BBVA Group, where she served in several roles within Portfolio Management. She served as Fund Manager in Investment Management for 10 years and was later appointed Head of the Innovation and Product Development Department. In September 2009, Ms. Hernandez was appointed CEO of SGIIC, an asset management company of BBVA Group, and was in charge of the management of Private Pension and Investment Funds for Spain and Portugal. Since January 2012, Ms. Hernandez has been heading BBVA Group's Global Portfolio Management.

F. Nafiz Karadere**Board Member**

F. Nafiz Karadere is a graduate of Ankara University, Faculty of Political Sciences, Department of International Relations. After working as a senior executive at various private banks, he was appointed Executive Vice President in charge of SME Banking/Corporate Brand Management and Marketing Communications at Garanti Bank in 1999. Mr. Karadere is also a Board Member at Garanti Pension and Life and the Teachers Academy Foundation.

Johannes Antonius Nijssen**Board Member**

Johannes Antonius Nijssen is a graduate of Erasmus University, Business Econometrics Department in Rotterdam. He began his professional career in 1978 at Nationale Nederlanden, where he held various roles. In 1992, he was appointed General Manager of NN Life Company. After the merger of NMB with Postbank, NN was renamed ING, and Mr. Nijssen was appointed Executive Board Member of ING Netherlands and ING Europe. He served as the Global President of Pension at ING Group and as CEO of Central Europe Insurance. Subsequently, Mr. Nijssen became a partner at Netspar (ThinkTank NETWORK Studies Pensions).

M. Cüneyt Sezgin**Board Member**

A graduate of Middle East Technical University, Department of Business Administration, M. Cüneyt Sezgin obtained an MBA from Western Michigan University and a PhD from Istanbul University Faculty of Economics. He has served in various executive positions at several private banks. Mr. Sezgin is the Country Director of Global Association of Risk Professionals, and he also serves as a Board Member at Garanti Bank SA, Garanti Pension and Life, Garanti Factoring, Garanti Leasing, Eureko Insurance and the Garanti Bank Pension Fund Foundation.

Cemal Onaran**Board Member**

Cemal Onaran graduated from Middle East Technical University, Department of Public Administration in 1990, and began his professional career the same year as Assistant Auditor on the Audit Committee of Garanti Bank. After working as Regional Manager at various regional offices of Garanti Bank between 2000 and 2007, he was appointed CEO of Garanti Mortgage, a subsidiary of Garanti Bank, in October 2007. As of August 2012, he was appointed General Manager at Garanti Emeklilik ve Hayat A.Ş. As of January 1, 2017, he was promoted to Deputy Chief Executive Officer of Kobi Banking at Garanti Bank. Mr. Onaran, who has 26 years of experience in banking and business administration, is a member of the Board of Directors at Garanti Emeklilik ve Hayat A.Ş.

Burak Ali Göçer**Board Member*/General Manager***

See page 42 for biography.

*As of January 1, 2017.

Executive Management

Burak Ali Göçer (1)

Board Member*/General Manager*

Burak Ali Göçer received his BSc in Civil Engineering from Middle East Technical University and his MSc in Finance from the University of San Diego. He began his professional career at Interbank in 1995 and later worked at Bayındırbank. In 1999, Mr. Göçer started working as Director of the Digital Banking Department at Garanti Bank. He was promoted to Online Banking Unit Manager in 2002. Between 2004 and 2007, he gave a break to his professional career and established several online service providers. After the founding of Garanti Mortgage, the mortgage lending subsidiary of Garanti Bank, he became the Vice General Manager for Sales and Marketing in October 2007. Promoted to Director for Private Banking at Garanti Bank in 2010, Mr. Göçer has worked as General Manager for Garanti Pension and Life since January 1, 2017.

K. Çağlayan Bakaçhan (2)

Executive Vice President

K. Çağlayan Bakaçhan graduated from Middle East Technical University, Department of Guidance and Psychological Counseling. Between 1998 and 2006, he assumed various duties in the Human Resources Department at Garanti Bank. In 2006, Mr. Bakaçhan was appointed Human Resources Manager at Garanti Pension and Life. In October 1, 2012, he was promoted to his current position as Executive Vice President in charge of Human Resources, Procurement and Administrative Affairs, Organization, Process and Project Management, Customer Relations and Call Center.

Kaan Günay (3)

Executive Vice President

Kaan Günay is a graduate of Istanbul University, Department of Economics (English). He began his banking career in 1998 as a Direct Sales Specialist at Garanti Bank's Business Development Department for "Açık Card," and held various roles within the Bank until 2004. Mr. Günay joined Garanti Pension in 2004 as Regional Manager, and worked as Department Manager of Individual Sales from 2005 to 2014. Mr. Günay has been serving as Executive Vice President in charge of Individual and Corporate Sales since May 2014.

Ahmet Karaman (4)

Executive Vice President

Ahmet Karaman is a graduate of Middle East Technical University, Department of Economics. He began his professional career in the banking sector and assumed various positions at Garanti Bank headquarters, where he worked until 2005. He was then appointed to the position of Finance and Management Reporting Department Manager at Garanti Pension and Life. Since September 2009, Mr. Karaman has been Executive Vice President in charge of Fund Management, Budget and Reporting, Finance and Operations.



E. Yasemen Köne (5)

Executive Vice President

E. Yasemen Köne holds a BBA (English) from Marmara University. She started her professional career as Assistant Specialist in the Corporate and Commercial Loans Department at Garanti Bank in 1994, and later worked in the Corporate Banking Marketing Department. She was promoted to the position of Corporate Banking Portfolio Executive, and to Corporate Branch Marketing Executive, respectively. In November 2005, Ms. Köne left her Commercial Branch Manager position in Gebze to join Garanti Pension and Life as Executive Vice President in charge of Corporate Communications and Digital Marketing, Customer Relationship Management, Marketing and Strategic Planning and Central Sales Offices.

Cemşit Türker (6)

Executive Vice President

Cemşit Türker graduated from Istanbul Technical University with a BS degree in Industrial Engineering. He began his professional career at Garanti Bank as an Assistant Specialist in 1991 and was appointed Retail Banking Business Development Executive in 1996. Until 2004, Mr. Türker served as Branch Director, Small Enterprises Targeting and Overseeing Executive, Retail Regional Marketing Director, and Retail Regional Sales Director, respectively. He was appointed Director of the Corporate Business and Performance Development Department at Garanti Pension and Life in March 2004. He continues his position as Executive Vice President in charge of Product Development and Actuary, Operation Legislation and Legal Compliance and, Legal Affairs.

Committees and Meeting Attendance

A- Corporate Governance Committee

The Committee was established in 2011, pursuant to the Circular on Corporate Governance Principles of Insurance, Reassurance and Pension Companies published by the Undersecretariat of Treasury. The Corporate Governance Committee held two meetings in 2014 with all members present.

Committee Members

M. Cüneyt Sezgin

Committee Chairman - Board Member

Onur Genç

Committee Member - Vice President of the Board of Directors

Committee Activities

The Committee is responsible for: ensuring that the Company adheres to the Corporate Governance Principles, implementing necessary measures to create a general corporate governance culture, making suggestions to the Board of Directors in these matters, and monitoring the Company's compliance with the Corporate Governance Principles.

The duties and authorities of the Corporate Governance Committee include:

- Making sure that the Company's corporate governance principles comply with the principles of equality, transparency, accountability and responsibility;
- Creating the necessary environment for the Board of Directors and Company management to conduct their activities in a fair, transparent, accountable and responsible way;
- Ensuring that the Company carries out its business activities and processes in a transparent way;
- Protecting stakeholder rights independently from each other;
- Bearing in mind the Company's ethical values, strategic targets and financial situation while deciding on the remuneration policy;
- Taking necessary precautions to enable the exercise of rights resulting from laws, rules and regulations, the Company's Articles of Association and other internal bylaws for the exercise of shareholder rights by the Company;

- Preparing a Corporate Governance Principles Compliance Report^(*) every March pursuant to the Circular on Corporate Governance Principles, presenting the report to the Board of Directors and disclosing it to the Undersecretariat of Treasury.

*The Corporate Governance Principles Compliance Report 2015 is accessible on www.garantiemeklilik.com.tr in the Corporate Governance section.

B- Remuneration Committee

Operating directly under the Board of Directors, the Remuneration Committee was formed in 2013. The Committee held three meetings in 2016.

Committee Members

Onur Genç

Committee Member - Vice Chairman of the Board of Directors

Fuat Erbil

Committee Member - Chairman of the Board of Directors

Committee Activities

The Committee is responsible for:

- Conducting the oversight and supervision process required to ensure that the Company's remuneration policy and practices comply with applicable laws and regulations and risk management principles;
- Determining and approving salary packages for executive and nonexecutive members of the Board of Directors, the CEO and Executive Vice Presidents;
- Working in coordination with Human Resources or other necessary units to carry out tasks and responsibilities mentioned above if needed.

C- Audit Committee

The Committee is currently composed of two non-executive Board Members. The Audit Committee held three meetings in 2016 with all members present.

Committee Members

M. Cüneyt Sezgin

Committee Member - Board Member

Onur Genç

Committee Member - Vice Chairman of the Board of Directors

Committee Activities

The Audit Committee was set up to assist the the Board of Directors in the performance of its audit and oversight functions. The Committee is responsible for:

- Overseeing the functioning and effectiveness of the activities within the scope of internal systems, on behalf of the Board of Directors;
- Conducting necessary preliminary evaluations for the selection of independent audit firms by the Board of Directors and obtaining information about the activities carried out by these firms if necessary.

The duties and authorities of the Audit Committee include:

- Assisting the Board of Directors in carrying out its monitoring task regarding internal control, internal audit and risk management;
- Making sure that internal audit system operates within the scope and target designated in the Circular on Corporate Governance Principles of Insurance, Reassurance and Pension Companies;
- Evaluating the internal annual audit plan and Internal Audit Regulation prepared by the Internal Audit Committee and the Board of Directors;
- Assessing if Company management shares the importance of internal auditing with personnel as required, and determining if a sound internal audit culture has taken root at the Company;
- Obtaining information about the results of the internal audits, which are periodically carried out for the processes by the Internal Audit Committee, for the internal check system and for the application errors and deficiencies.

D- Early Risk Detection Committee

The Committee consists of two members of the Board of Directors who currently do not have any executive or operational duties. Both members participated in the two meetings held by the Early Risk Detection Committee in 2016.

Current Committee Members

Dr. M. Cüneyt Sezgin

Committee Member – Member of the Board of Directors

Onur Genç

Committee Member – Vice Chairman of the Board of Directors

Activities of the Committee

Outlined below are the main responsibilities of the Early Risk Detection Committee, which was established under the Board of Directors for the early identification of risks that may jeopardize the existence, development, and continuation of the Company:

- Identifying at an early state those risks that may jeopardize the existence, development, and continuation of the Company;
- Taking necessary measures related to identified risks, implementation and reporting;
- Developing policies for the execution of risk management processes.

The duties and responsibilities of the Early Risk Detection Committee include the following:

- The Committee works towards the early identification of risks that may jeopardize the existence, development, and continuation of the Company, taking necessary measures related to identified risks, and risk management.
- The Committee submits in writing its recommendations and opinions to the Board of Directors concerning the formation and development of the Company's risk management system, which aims to reduce the effects of risks that may affect shareholders and the rest of the stakeholders.

Board of Directors Meeting Attendance

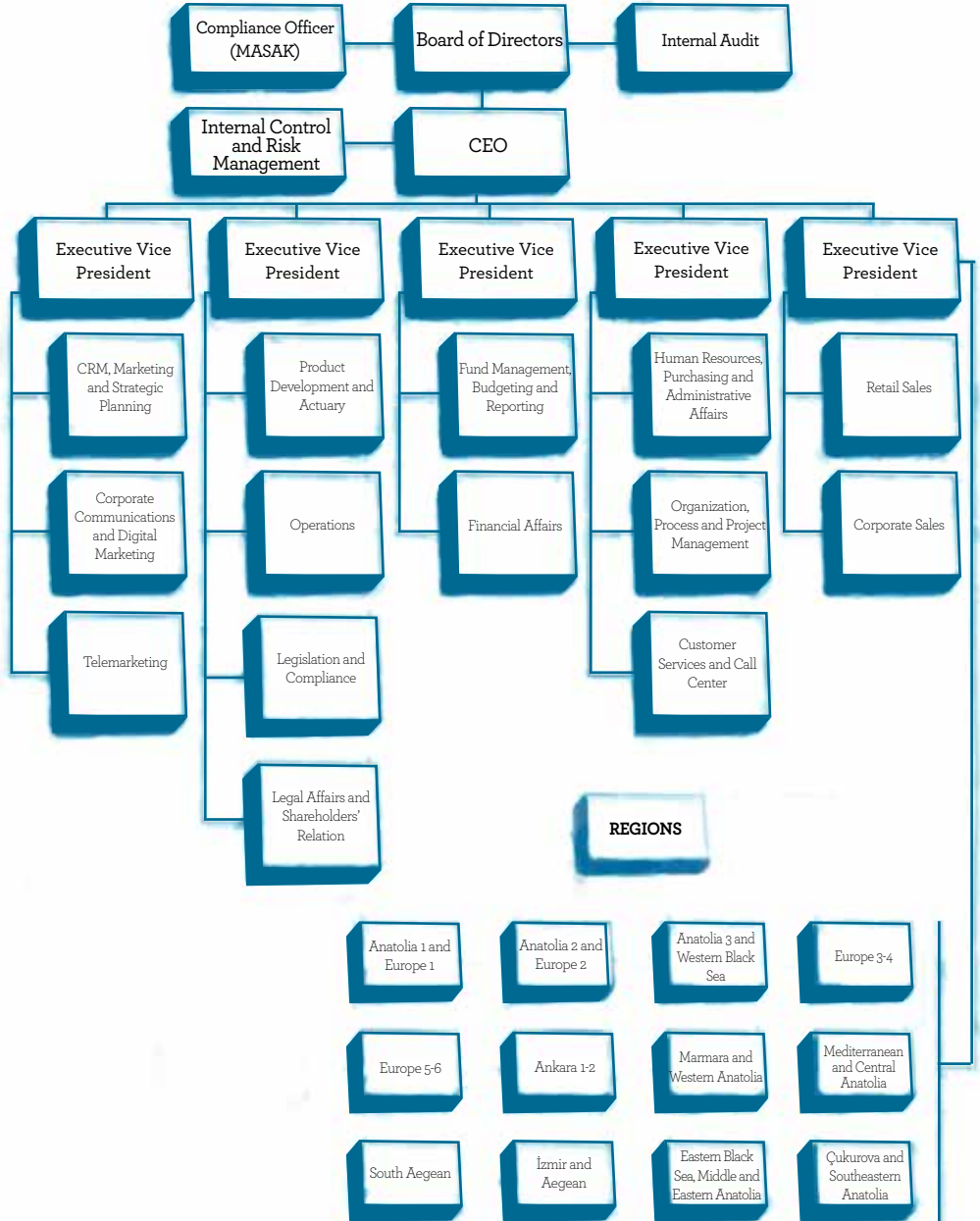
In 2016, the Garanti Pension and Life A.Ş. Board of Directors held 35 meetings. 8 members attended 14 of these meeting, 7 attended 11 meetings and 6 attended 10 meetings.

Board of Directors

TOPLANTI

MEETING DATES	MEETING NO.	MEMBER NO.	NO. PRESENT
02.03.2016	424	9	7
21.03.2016	425	9	8
24.03.2016	426	9	8
24.03.2016	427	9	8
24.03.2016	428	9	8
24.03.2016	429	9	8
24.03.2016	430	9	8
24.03.2016	431	9	8
24.03.2016	432	9	8
24.03.2016	433	9	8
24.03.2016	434	9	8
24.03.2016	435	9	8
24.03.2016	436	9	7
23.06.2016	437	9	7
23.06.2016	438	9	7
23.06.2016	439	9	7
23.06.2016	440	9	7
23.06.2016	441	9	7
22.09.2016	442	9	8
22.09.2016	443	9	8
22.09.2016	444	9	8
05.10.2016	445	9	7
15.10.2016	446	9	7
15.12.2016	447	9	7
15.12.2016	448	9	7
23.12.2016	449	9	6
23.12.2016	450	9	6
23.12.2016	451	9	6
23.12.2016	452	9	6
23.12.2016	453	9	6
23.12.2016	454	9	6
23.12.2016	455	9	6
23.12.2016	456	9	6
23.12.2016	457	9	6
28.12.2016	458	9	6
23.12.2016	453	9	6
23.12.2016	454	9	6
23.12.2016	455	9	6
23.12.2016	456	9	6
23.12.2016	457	9	6
28.12.2016	458	9	6

Organizational Chart



Human Resources



Ayşegül Gürkale
Human Resources

As part of the leadership model that was ingrained to all executives at Garanti Pension in 2016, the “I Am the Leader” Summit was held twice with the participation of 130 executives.

GARANTI PENSION AND LIFE HUMAN RESOURCES

Placing great importance on employee satisfaction, Garanti Pension and Life received the “Gold” certificate from Investors in People (IiP), which aims to recognize companies that implement the best practices in human resource management and development. Using effective human resources practices, the Company establishes one-to-one communication with its employees to understand their needs and problems, and makes improvements as necessary. As being the only company in the industry to have IiP Gold Certification, Garanti Pension and Life aims to achieve its strategic goals with a dynamic workforce; as a result, the Company motivates employees to be innovative and creative. Accordingly, the Company always strives to provide the means for the professional and personal development of its employees as required by their respective duties and responsibilities. Orientation programs aim to help new personnel quickly adapt to the corporate culture, learn the Garanti Pension and Life way of doing business and to create a workforce dedicated to the Company’s values.

Number of Employees at Garanti Pension and Life

Garanti Pension and Life employed 857 personnel at year-end 2016.

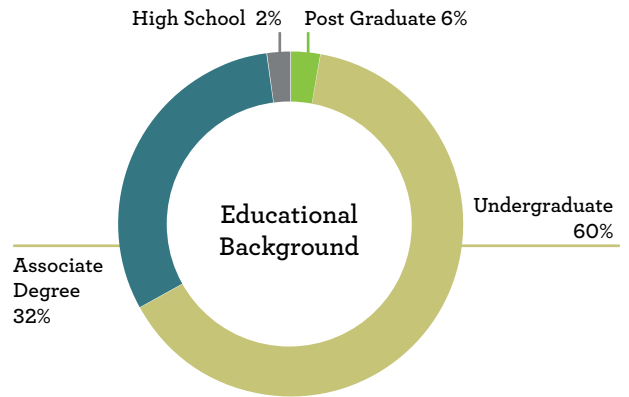
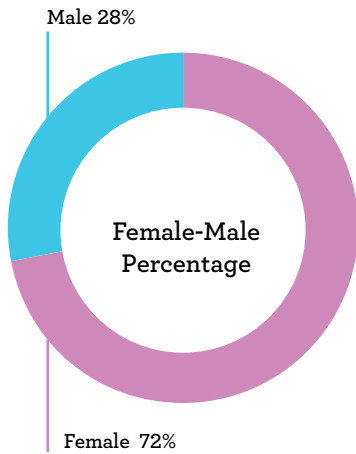
Head Office	197
Telemarketing	229
Sales	348
Customer Services and Call Center	83
Total	857

Garanti Pension and Life has 12 Regional Offices: six in Istanbul, one regional office each in Ankara, İzmir, Bursa, Balıkesir, Adana, Kayseri, Antalya, and Denizli.

Demographic Data for Garanti Pension and Life

Average Age

Female	29
Male	31
Company	30



Human Resources

RECRUITMENT PRACTICES

In identifying the new members of the Garanti Pension family, selection and evaluation tools such as skills tests, profile analyses, personality inventory, group interviews, and competency-based interviews are used during the recruitment process. Candidates are evaluated according to the competencies required by the task with the slogan of “the right person for the right job.”

TRAINING

Training practices

Recognizing that life-long learning is one of the main principles underlying sustainable success, Garanti Pension and Life organizes training programs that enable employees to quickly adapt to changing market conditions with their knowledge base and skills. Training processes are carried out according to annual plans and in line with the Company’s strategic objectives. In 2016, Garanti Pension employees received 4.5 days of training per person, on average.

In the scope of continuous development for sustainable success, the Human Resources Department organizes orientation, Management Trainee (MT) and other training programs customized for the needs of different business units. In addition, the Company administers Private Pension Intermediaries Licensing Training, Garanti Pension Product Training, Sales Compass Training, On-the-Job Training, and Catalogue Training. Furthermore, employees have the opportunity to attend conferences and seminars related to their job descriptions. Company personnel attended the training programs they selected from the training catalogue, which offers 40 different alternatives.

“I Am the Leader” Summit

Garanti Pension and Life places its employees at the heart of the Company with its employee- and customer-oriented approach that is built on its “Core Values.” The Company shapes all its business processes around its employee- and customer-oriented approach. Garanti Pension continues to operate with the belief that happy employees will create happy customers.

Garanti Pension and Life believes that leadership is the most important factor that strengthens employee loyalty in organizations; the Company defines its human resources policy accordingly. For this reason, the conduct in which those employees in leadership positions must abide by and encourage others to maintain was gathered under the title of “I-My Team-My Work”; with this effort, a new leadership model consisting of 12 manners of conduct was established. This model was prepared with the shared wisdom and the participation of human resources, unit and region managers and senior management. As part of the leadership model that was ingrained to all executives at the Company in 2016, the “I Am the Leader” Summit was held twice with the participation of 130 executives.

Officer Development Program

In 2016, the Officer Development Program was implemented to enable “officers” to specialize in their current positions and prepare them in their managerial journey. The program was four months in duration and included the following three modules:

- I Know Myself
- I Know My Team
- I Develop My Work

A six-day in-class training was held for a total of 18 employees with the title of BGU4 and Special Customer Relations Manager.

Guaranteed Steps Internship Program

The Guaranteed Steps Internship Program, organized for the third time in August 2016, is intended to establish a pool of MTs for future positions. It also prepares interns for the professional world, based on the work experience gained during their internship, and contributes to the Garanti Pension corporate brand.

The Program consists of three parts:

1. I'm Learning

Interns undergo technical and personal development training during the first week. They are also given a project assignment, which they must complete by the end of the program.

2. I'm Observing

Interns observe operations at different business units and fulfill duties assigned to them. At this stage, experienced employees provide coaching to the interns.

3. I'm Experiencing

Interns present their project assignments on the program's final day. Senior executives and department managers also attend these presentations. In 2016, 23 interns participated in the Guaranteed Steps Internship Program and received their graduation certificates.

Aiming to achieve its strategic goals with dynamic human resources, Garanti Pension and Life encourages its employees to be innovative and creative. To this end, the Company strives to create professional and personal development opportunities in line with the duties and responsibilities of the staff.

Human Resources

Investors in People (IiP)

Having achieved a great success in October 2013, Garanti Pension received the “Silver” award from Investors in People (IiP), the only internationally recognized quality standard certification in human resources. In November 2015, the Company achieved yet another milestone, winning IiP’s “Gold” award as a result of its successful, employee- and customer-oriented management culture. To date, 1,101 companies worldwide have received the Gold certification; in Turkey, only three companies hold this prestigious certification, one of them being Garanti Bank.

TEGEP

In 2016, Garanti Pension added new awards to those it had previously received for its innovative solutions and applications that make a difference in the industry. The TEGEP Learning and Development Awards are organized by TEGEP Learning and Development Association to support investments and activity in the areas of corporate learning and development, while recognizing the significant contributions and value created. In the second year of the TEGEP Awards, Garanti Pension received awards in two different categories. The “Employee Experience Standards” project, which aims to provide an enjoyable learning and discovery process to the Company’s employees, was presented with the Most Creative Application award.

Stevie Awards

Garanti Pension received two prestigious awards – a Gold and a Bronze – at the Stevie Awards, which is an esteemed international business competition. Garanti Pension added new awards to those it had previously received for its innovative solutions and applications that make a difference in the industry. Garanti Pension was presented with a Gold Award in the “Human Resources Unit of the Year” category and a Bronze Award in the “Most Creative Team of the Year” category at the Stevie Awards, which evaluated around 4,000 candidates from more than 60 countries.

E-Beas Licensing

Training for private pension intermediary licensing continued in 2016 as well. Employees trained for the examination with the help of 43 technical training videos prepared by the Internal Education team and a two-day in-person classroom training. The success rate at the examination, which 62 Garanti Pension staff member took, was 89%.

- Private Pension System
- Private Pension Funds
- Financial Mathematics
- General Economics and Financial Markets
- Insurance
- Social Security
- Tax Legislation

TGB Licensing Process

In 2016, 1,634 TGB employees trained for the examination via training videos and a one-day in-person training. Of these, 919 personnel received a passing score on the examination.

Garanti Pension Intranet – IK.net

Job applications for career advancement, performance evaluation processes, and information provision on employee benefits are carried out on the Company's intranet - IK.net. Employees can update all personal information, follow up their travel expenses, and receive advance payments for their business travel on IK.net. Staff members can also access their past and present payroll data. Employees can plan and manage their travel, including accommodation and transportation, on the IK.net platform thanks to integration with the Company travel agency's system. System upgrades and improvements continued in 2016. As a result, employees are now able to access the training courses they had received in the past and view their total remuneration package, including fringe benefits, via IK.net.

Training for private pension intermediary licensing continued in 2016 as well.

Employees trained for the examination with the help of 43 technical training videos prepared by the Internal Education team and a two-day in-person classroom training.

Human Resources

Total Remuneration Package

Total Remuneration Package is a human resources application that allows employees to easily and clearly view their entire compensation package, including salary and all other fringe benefits.

In addition to base salaries, employees are now able to see other components of their compensation packages such as foreign language proficiency bonus, commuting allowance, bonus payments, health insurance, employer-sponsored pension plans, among others.

Employer-Sponsored Pension Plans

All employees became eligible to benefit from the ESPP. The Company provided flexibility with regard to contribution amount and eliminated distinctions due to job titles.

Bonus Payment for Foreign Languages

Garanti Pension and Life will start awarding a bonus of one month's salary to employees who take the foreign language exams accepted by the Company; or who demonstrate or improve their proficiency level. Employees who are documenting foreign language proficiency for the first time must have at least six months of employment at the Company.

Annual Leave Entitlement

During the year, Garanti Pension made changes to employees' annual leave privileges. The Company now retains seniority and annual leave privileges for male employees for the duration of their military service. Employees with children starting their first year of elementary school are entitled to a half-day's leave on the first day of that academic year and on report card day. In addition, employees are now entitled to one day off on their birthdays, under the new "Birthday Leave" practice, which launched in 2015.

RELATIONS WITH EMPLOYEES

The Employee Relations team is the contact point for all human resources needs of the Company's personnel. The team facilitates the adaptation process of employees by communicating with them at specific and key communication points, such as their first day, first week, and first 90 days. All types of staff needs are determined in a timely manner during these experiences, with fast and robust solutions produced and presented.

The Employee Relations team is at the disposal of staff members every step on their career journey and assists them in their goals and career planning.

The Employee Relations team works to ensure that the Company's human resources practices are planned also in line with the preferences of the staff. The team also informs employees about the processes that are being adopted.

To speed up and standardize the orientation process of newly recruited Sales Team employees, the Company commenced an ongoing development monitoring process. The Employee Relations team holds one-on-one meetings with new personnel and managers on areas of improvement during their first 90 days on the job. This way, they can identify needs in a timely manner, offer employees prompt and appropriate solutions, and guide them effectively on their career path.

Garanti Pension is committed to promoting its executives from within the organization. Employees are encouraged to plan their careers themselves.

Rewarding Employee Success

The Rewards Program serves to incentivize high employee performance, and is critical in setting a good example for the Company in general by showcasing the model actions and attitudes of dedicated personnel in various departments. Under the Rewards Program in 2016, some 113 Company employees received recognition and rewards for their exemplary job performance.

New Career Maps

Garanti Pension and Life embraces an employee-oriented approach. The Company encourages the development of its personnel, supports in-house promotions through transparent and objective selection criteria, and believes that happy customers can only be achieved with happy employees. Throughout the career journey of employees, the following are taken into consideration: fair performance systems, in which both quantitative business results and the competencies required by the tasks are measured, seniority periods, and the needs of the Company in the relevant positions.

In December 2016, Garanti Pension updated its career map in line with evolving needs with innovations that recognize the performance of its staff in terms of both seniority and achievement.

While the previous career map of the Company featured three titles – officer, director and manager – the new career map included the titles of specialist and senior director to better meet current needs. One of the most important innovations is that personnel who fulfill the seniority and performance criteria will be able to be immediately promoted to their new tasks, without looking for norms.

Career Planning

Garanti Pension and Life is committed to promoting its executives from within the organization. Employees are encouraged to plan their careers themselves.

In 2016, 105 personnel stationed at the Headquarters and 84 staff members on the Sales team were promoted to a higher position. In addition, as part of the career opportunities provided, five employees transferred to positions at Garanti Bank.

Summary Report of the Board of Directors to the General Assembly

GARANTİ PENSION AND LIFE ANNUAL REPORT 2016

Dear Shareholders,

We sincerely thank each and every one of you for your attendance at the General Assembly convened to review and vote on the accounts and operations results of the 25th Fiscal Year of Garanti Emeklilik ve Hayat Sigorta Anonim Şirketi.

Our Company's nominal paid-in capital in 2016 stood at TL 50,000,000 while shareholders' equity reached TL 1,313,412,902, corresponding to a 23% increase over the previous year.

Our Company's net life insurance premium production (gross premiums, minus any premiums ceded to reinsurers) increased 28% over the previous year and amounted to TL 363,009,949.

Our Company's Private Pension fund size grew 25,6%, from TL 7,580,284,950 at year-end 2015 to TL 9,523,446,286 at year-end 2016.

Achieving many accomplishments in 2016, our Company sustained its lasting growth and attained its objectives.

Dear Shareholders,

Our Company, whose operations are summarized above, generated pre-tax accounting profit of TL 308,022,332 in 2016, corresponding to net profit of TL 245,772,865 in our Company's financial statements after allowing for Corporate Tax.

We appreciate the interest you have shown in the General Assembly and wish the best for our country and our Company in 2017.

Respectfully yours,,

Burak Ali GÖÇER

Member of the Board of Directors and CEO*



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Ticari Sicil No : 304099

Report on Compliance of the Annual Report

To the General Assembly of Garanti Emeklilik ve Hayat Anonim Şirketi;

Report of the Board of Directors Regarding with Annual Report Auditing within the Framework of Independent Audit Standards

We have audited the Annual Report of Garanti Emeklilik ve Hayat Anonim Şirketi (“the Company”) for the accounting period ending on December 31, 2016.

Responsibility of the Board of Directors Regarding the Annual Activity Report

Pursuant to Article 514 of Turkish Commercial Code (“TCC”) no: 6102 and the provisions set forth in the “Regulation on Financial Structures of Insurance, Reassurance and Pension Companies” (“Regulation”) published in the Official Gazette no: 26606 on August 7, 2007, the management of the Company is responsible for the annual activity report to be prepared in coherence with the financial statements (“financial statements”) that are in turn prepared in accordance with the “Insurance, Accounting and Financial Reporting Legislation,” which contains the regulations on accounting and financial reporting that are in force pursuant to the insurance legislation and the provisions of Turkish Accounting Standards for those matters that are not regulated by these regulations, and for the annual activity report to reflect the truth, and for the internal auditing deemed necessary to ensure the preparation of such an activity report.

Independent Auditor’s Responsibility

Our responsibility is to express an opinion on whether the financial information in the Company’s annual report is a consistent and accurate representation of the financial statements which is subject to the independent auditor’s report dated 30 January 2017, based on the independent audit we have conducted in accordance with TCC Article 397 and the Regulation.

We conducted our audit in accordance with the independent auditing principles set forth in insurance laws and regulations, and Independent Auditing Standards (“IAS”) issued by the Public Oversight Accounting and Auditing Standards Authority. These standards require that we comply with ethical rules, and plan and perform the audit to obtain reasonable assurance whether the financial statements presented in the annual report are free from material misstatement.

An independent audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor’s professional judgment.

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

Opinion

In our opinion, the financial information provided in the Board of Directors’ annual report is an accurate and consistent representation of the audited financial statements.

Responsibilities arising from other regulatory requirements

In accordance with Paragraph 3, Article 402 of the Turkish Commercial Code, and within the framework of IAS 570 “Business Continuity,” we have seen no evidence or cause that may jeopardize the existence and the continuity of the Company in the foreseeable future.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of DELOITTE TOUCHE TOHMATSU LIMITED

Hasan Kılıç, SMMM
Partner

Istanbul, 7 March 2016

Information on Financial Structure



Salih İleri
Financial Affairs

As in previous years, Garanti Pension and Life continued its rapid growth in both assets and profitability in fiscal year 2016.

As in previous years, Garanti Emeklilik ve Hayat A.Ş. (Garanti Pension and Life) continued to achieve rapid growth both in total assets and profitability in 2016.

Pre-tax profit grew 28% over the prior year and amounted to TL 308,022,332. The net profit after tax, which was TL 190,907,777, was realized as TL 245,772,865 in 2016.

During the same period, technical profit from life insurance and pension operations totaled TL 206,902,784. Shareholders' equity increased 23% to TL 1,313,412,902 in the reporting year. As of December 31, 2016, the Company's total assets grew 25,5% compared to a year ago and reached TL 11,387,747,049.

The increase in total assets is largely due to private pension activities as of December 31, 2016. The Company recorded a 25,6% increase in participants' funds compared to previous year. The Company's total pension fund size amounted to TL 9,523,446,286.

The share of cash assets in total assets stood at 14,8% as of December 31, 2016, while financial assets constituted 0,2% of total assets.

As of December 31, 2016, the share of the Company's insurance technical reserves in total liabilities stood at 2,8%. The Company's source of premium income is derived from the life insurance sector; total earned premium in the fiscal year ending on December 31, 2016 was TL 371,607,016.

Assessment of Financial Position, Profitability and Claims Servicing Capacity

In 2016, the amount of life indemnity amounting to TL 69,655,801 increased by 48.52% compared to the previous year. The Company's technical profit was up 22.9% to TL 206,902,784.

The Company's technical reserves consist of unearned premium reserve, reserves for outstanding claims, life insurance mathematical reserve, reserve for life insurance profit share, equalization reserve, and reserve for bonus payments and discounts. In financial statements, the unearned premium reserve is the outstanding part of the premiums which have accrued for the applicable insurance contracts for the next accounting period(s) on a daily basis, remaining after production commissions and after the share of expenses in life insurance as well as the portion allocated to savings, if any.

At the end of the each period and year, a reserve for outstanding claims is apportioned for all liabilities concerning unpaid claim files of which the Company has already been notified and are under review. The reserve for outstanding claims is set according to expert reports or policyholder and expert assessments.

Within this framework, as of December 31, 2016, the change in reserve for outstanding claims stood at TL -1,370,098

The life insurance mathematical reserve comprises the actuarial mathematical reserves and reserve for life insurance profit share, and represents the Company's obligations to policyholders in the life insurance branch. For variable universal life insurance policies, a reserve for profit share is set aside for the income earned from investments made with premiums written on a collection basis.

Board of Directors' Annual Activity Report

Board of Directors' Annual Activity Report

January 1, 2016 - December 31, 2016

(Pursuant to the circular of the Ministry of Customs and Trade, dated August 28, 2012)

1. General Information

Reporting period	:	2016
Trade name	:	Garanti Emeklilik ve Hayat A.Ş.
Registration number	:	288647
Central Registration System Number	:	0008006750900016
Head Office address:		Mete Cad. No: 30 34437 Taksim Istanbul
Contact Information		
Phone	:	+ 90 212 334 70 00
Fax	:	+ 90 212 334 63 00
E-mail	:	GEMusteriHizmetleri@garantiemeklilik.com.tr
Website	:	www.garantiemeklilik.com.tr

A- THE COMPANY'S ORGANIZATIONAL, CAPITAL AND OWNERSHIP STRUCTURE

Capital Structure and Ownership Structure

In 2007, Achmea B.V. acquired 15% of the shares of Garanti Pension and Life for € 100 million. There were no changes in the Company's ownership structure in 2016.

The Company's ownership structure and capital distribution are as follows:

Shareholder's Name-Last Name-Title	Address	Number of Shares	Share (%)	Nominal (TL)
Türkiye Garanti Bankası A.Ş. (Garanti Bank)	Nispetiye Mah. Aytar Cd. No: 2 Levent/Istanbul	4,245,619,000	84.91	42,456,190
Achmea B.V. (Achmea)	Handelseug 2 3707 NH Zeist, the Netherlands	750,000,000	15	7,500,000
Other		4,381,000	0.09	43,810
Total		5,000,000,000	100	50,000,000

The Chairman and the Members of the Board of Directors, and the Company's CEO and Executive Vice Presidents do not hold any Company shares.

There have been no changes in the ownership structure and capital distribution during the accounting period.

B- INFORMATION ON PREFERRED SHARES

The Company does not currently issue preferred shares.

C- INFORMATION ON THE COMPANY'S MANAGEMENT BODY, EXECUTIVE MANAGERS AND SENIOR STAFF

a) Managing body of the Company: Our Board of Directors is comprised of 10 individuals and the formation of the Board of Directors is as follows:

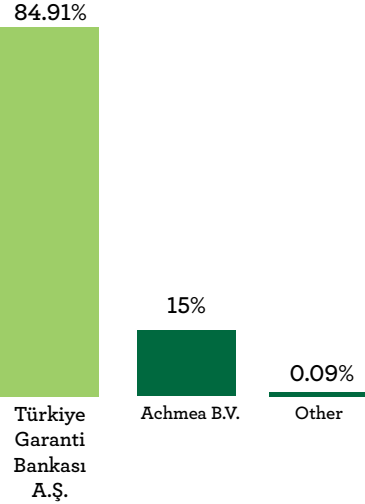
Ali Fuat Erbil	Chairman
Onur Genç	Vice Chairman
Muammer Cüneyt Sezgin	Member
Faruk Nafiz Karadere	Member
Javier Bernal Dionis	Member
Johannes Antonius Nijssen	Member
Maria De La Paloma Piñeras Hernandez	Member
Didem Başer	Member
Cemal Onaran	Member
Burak Ali Göçer	Member - CEO*

*As of January 1, 2017

b) The Company's Executive Managers are as follows:

Name-Last Name	Title
Burak Ali Göçer*	CEO
E. Yasemen Köne	Executive Vice President
Cemşit Türker	Executive Vice President
Ahmet Karaman	Executive Vice President
K. Çağlayan Bakaçhan	Executive Vice President
Kaan Günay	Executive Vice President

*As of January 1, 2017



Board of Directors' Annual Activity Report

c) Number of Employees: 857.

d) Within the framework of the permission granted by the General Assembly, Board Members do not transact with the Company, either directly or on behalf of others.

2) Remuneration of Board Members and Executive Managers

Remuneration and other benefits paid by the Company to Board Members and executive managers totaled TL 6,977,247 in 2016.

3) The Company's Research and Development Activities

The Company did not carry out any research and development activities in 2016.

4) Company Operations and Related Important Developments

a) The Company did not make any investments or major asset purchases/sales during the reporting period.

b) Garanti Pension and Life holds a 0.00003% stake worth 1 (one) Turkish lira in its direct subsidiary Garanti Leasing.

c) The Company has not acquired any of its own shares.

d) The Company has not been subject to private auditing during the activity period.

During 2016, the Company has been subject to ordinary audits carried out by the Insurance Auditing Board of the Undersecretariat of Treasury related to internal system practices.

e) No lawsuits, which might affect the financial position and the activities of the Company, have been filed against the Company during the activity period.

f) There have been no administrative or legal sanctions imposed on the Company or its board members due to illegal practices, during the activity period.

g) During the activity period, the Company has reached all of its targets and fulfilled the requirements of all General Assembly resolutions.

h) Information about donations and aid made by the Company throughout the year, as well as about expenditures related to social responsibility initiatives, is as follows:

Garanti Pension made a total expenditure of TL 69,655 in 2016.

i) Transactions carried out with the parent company and affiliated companies within the Group are ordinary commercial activities. There are neither any transactions made in the interest of the parent company or one of the affiliated companies, with or without the instruction of the parent company, nor any measures taken or refrained from, in this respect.

j) In cases where a legal transaction is made or required, measures are taken or refrained from, based on all facts and conditions known to the Company's Board of Directors at the time, neither due consideration nor taking necessary measures or refraining from taking such measures, that can harm the Company, were required as there have not been any legal transactions.

k) Any potential conflict of interest between the Company and consulting and/or audit firms that provide service to the Company are prevented through agreements.

5. Financial Position

a) The Board of Directors' analysis and assessment of the Company's financial position and activity results, the extent to which planned activities were realized, and the Company's performance against predetermined strategic goals are as follows:

In 2016, Garanti Pension achieved profit of TL 308,022,332. While the Company's total assets were TL 11,387,747,049 shareholders' equity amounted to TL 1,313,412,902. The Company's fixed assets totaled TL 143,955,531, of which TL 22,543,586 has been allocated for depreciation.

b) The Company's annual sales, productivity, income generating capacity, profitability and debt-to-equity ratio, in comparison with previous years, as well as information on other matters which might give an idea about the results of the Company's operations, and also expectations for the future, are presented below:

	2014 (TL)	2015 (TL)	2016 (TL)
Profit / (Loss) for the Period	214,571,789	240,582,747	308,022,332
Corporate Tax Liability Provision	44,655,377	49,674,970	62,249,467
Net Profit / (Loss) for the Period	169,916,412	190,907,777	245,772,865

c) The Board of Directors' assessment on whether the Company suffers from capital loss or insolvency:

The Company shareholders' equity totaled TL 1,313,412,902, and its capital is fully paid.

d) Measures required to improve the Company's financial structure, if any:

The Company has a robust financial structure, therefore there are no measures required to improve its financial structure.

e) Information on the profit distribution policy, the reason for not distributing profit, if that is the case, and the proposal about how to use the undistributed profit:

In regard to the profit distribution policy, the Board of Directors draws up the profit distribution proposal in accordance with the provisions of the Turkish Commercial Code, Tax Regulations, and the Company's Articles of Association, and then submits it for the approval of the General Assembly. The decisions regarding whether to distribute profit, or when and by which means it will be distributed, are made at the General Assembly, and all announcements are made in accordance with the regulations and within legally prescribed time limits. The Company did not distribute profit in 2016, transferring all profit to the reserves.

Board of Directors' Annual Activity Report



Mehmet Emin Alkan
Internal Audit

The Board of Internal Auditors is responsible for providing independent and objective assurance to the Board of Directors that the Company's operations are conducted in compliance with applicable laws, rules and regulations as well as internal strategies and policies.

6. Internal Audit

Internal Audit activities are carried out by the Board of Audit, which reports directly to the Company's Board of Directors, in accordance with the Regulation on Internal Systems of Insurance, Reassurance and Pension Companies.

The Board of Audit is responsible for providing objective and independent assurance to the Board of Directors that the Company's activities are performed in compliance with applicable laws, rules and regulations, and in accordance with Company strategies and policies.

The Board of Audit conducts its activities within the framework of the Internal Audit Plan, which is prepared in accordance with applicable laws and risk assessments, and then approved by the Board of Directors. The Board of Audit then shares the results with the Board of Directors through the Audit Committee.

During the periodic and risk-based audits performed at the Company's head office departments, regional offices and agencies, the factors detailed below are inspected and assessed:

- Compliance of operations with applicable laws and regulations as well as with the Company's strategies, policies, procedures, and other bylaws;
- Effectiveness and adequacy of internal control and risk management practices;
- Accuracy and reliability of the accounting records and financial statements;
- Compliance of operational activities with the designated procedures, and the progress of related internal control practices;
- Reliability of the electronic data system;
- Accuracy and reliability of the reporting presented to the Board of Directors and disclosed to the public.

In 2016, 12 head office departments, 15 regional offices, and Garanti Service Management, MASAK compliance activities, Garanti Asset Management and Deniz Asset Management underwent audits; investigations were conducted in various areas, where necessary.

In addition, the Board of Audit aims to determine any insufficient and defective practices, and offer its opinions and recommendations to prevent the recurrence of such situations. It also provides consulting services in a number of areas to add value to the Company's operations and to increase efficiency and productivity.

Legal and Compliance

Within the framework of legislation and compliance efforts, legal arrangements and measures, especially in insurance and private pension, were followed up regularly and compliance of processes and practices of the Company were ensured. Furthermore, necessary system development needs were identified and projects were carried out in this regard. The Company also exchanged views with the relevant public authorities on legislative changes and draft regulations. In addition, work has continued to maintain the compliance of Company activities with international regulations.

In 2016, the most important development that impacted the industry was the legal regulation that provides automatic participation in the private pension system via the amendment of the Private Pension Savings and Investment System Law. We have started working on a comprehensive project for new products and services to be introduced after the amendment of the law is goes into effect. We expect to complete our work in accordance with the new law that will be enacted on January 1, 2017 and the related secondary regulations.

In order to foster an internal compliance and ethics culture within the Company, training and information activities continued in 2016 to adopt and implement the Ethical and Integrity Principles by all employees. An Ethics Hotline was also implemented for Garanti Pension employees to contact in case they encounter an event or practice that may be in violation of the provisions, values and standards that are laid out in the Principles.

Financial Crimes Investigation Board (MASAK) Compliance

As part of MASAK (Financial Crimes Investigation Board) compliance, activities outlined in our Compliance Program were carried out with utmost care by prioritizing our obligations with regard to the prevention of laundering proceeds of crime and financing terrorism.

Aiming to improve the systems infrastructure used in monitoring and controlling activities, a joint project was carried out with our main shareholder, T. Garanti Bankası A.Ş. With this project, two new applications were put into use by the Legislation and Compliance Unit, through which monitoring and controlling activities started to be managed on a more efficient and systematic platform.

In 2016, the Company followed up on changes in national and international law on the prevention of laundering proceeds of crime and financing terrorism, implemented the necessary changes in applications and processes, informed the staff with regard to its obligations, and continued training activities.



Talat Soysal

Legislation and Legal Compliance

In order to foster an internal compliance and ethics culture in the Company, training and information activities continued in 2016 to adopt and implement the Ethical and Integrity Principles by all employees.

Board of Directors' Annual Activity Report



Ayça Ögel

Legal Affairs and Shareholder Relations

The Legal Affairs and Shareholder Relations Unit is charged with structuring the transactions and products of Garanti Pension in accordance with the law.

Legal Affairs and Shareholder Relations

The Legal Affairs and Shareholder Relations Unit is charged with structuring the transactions and products of the Company in accordance with the law, following up changes in legislation and jurisprudence as well as the judicial processes to which the Company is a party, maintaining relations with official authorities and Company shareholders, and following up the processes of the Board of Directors and the General Assembly.

Internal Control and Risk Management

The Internal Control and Risk Management function aims to monitor and manage risks that the Company is exposed to, and it is designed to adapt to the scope and structure of these activities as well as changing conditions. The Department presents periodic reports to the Company's senior management, Internal Control, the Risk and Compliance Committees and the Audit Committee, which includes two Board Members.

a) Internal Control

The Internal Control function makes sure that a healthy internal control environment and its coordination within the Company is formed, and that the Company's activities are conducted in accordance with current laws, rules and regulations. To that end, efforts are carried out for the functional differentiation of the tasks, sharing of authority and responsibilities, forming of a consensus infrastructure, placing necessary controls on the processes, and for updating processes as necessary. Error concentrations and defects in processes can be identified through periodic and preventive controls determined in proportion to the detected level of risk and departmental self-assessment, and necessary steps are taken accordingly. Internal and external audit reporting is also among the duties of the Department. All activities are carried out through central and on-the-spot control methods. The controls, their results, effects, the actions taken and planned activities are regularly reported to the senior management.

b) Risk Management

The Board of Directors is responsible for establishing and overseeing the risk management structure. The Board of Directors ensures the effectiveness of the Company's risk management system through the Risk Management Department. Risk management efforts are conducted in accordance with the Company's Corporate Risk Management Policy, which are approved by the Board of Directors.

The Company's risk management policies have been formulated to identify and analyze risks encountered by the Company, to define risk limits and controls, and to monitor the risks and compliance with set limits. These policies and systems are periodically reviewed in a way that reflects changes in market conditions as well as product and service offerings. The Company is developing a disciplined and constructive supervision framework with relevant training and management standards and procedures so that all employees understand their own duties and responsibilities.

The Risk Management Department identifies, measures, monitors, and reports operational and financial risks that the Company is exposed to. For the early detection of these risks, the Department participates in the meetings of related committees (Investment Committee, New Product/New Business Committee and Technical Risk Committee), where financial and actuarial activities are evaluated and the studies carried out are periodically presented to the Early Detection of the Risk Committee.

In 2015, the Company began collaborating with the Global Risk Management Department of BBVA, the major shareholder of Garanti Bank, in order to align its risk management efforts with BBVA Group standards and international practices.

Operational Risk Management

The Company's Board of Directors and the Audit Committee oversee efforts to identify, measure, monitor, and manage/reduce operational risks within the Company. Operational risks are defined as risks related to loss stemming from errors, breaches, defects or damages caused by internal processes, personnel or external incidents. The Company undertakes the following efforts to manage operational risks:

- 1) Operational Loss Data,
- 2) Key Risk Indicators, and
- 3) Risk Control Self-Assessment
- 4) Business Continuity Management

Operational loss data is collected from every department, grouped based on cause and effect and according to the risk categories defined in Basel II, and then analyzed. This way, the Company is able to create an internal risk database.

Periodic changes in critical operations and transactions as well as the underlying reasons are examined through monitoring and analysis of Key Risk Indicators, and these are reported to the senior management.

Risk Control Self-Assessment enables the monitoring of the operational risks around the risk matrix formed by grouping the processes and functions that are considered risky in accordance with risks, probabilities and effects.

Business Continuity Management in the event of emergency also falls within the scope of the Risk Management Department. Apart from efforts to keep the current plan updated, periodic tests and drills are carried out to make sure those critical processes, back-up systems, alternative working areas are ready to be utilized when necessary. In addition, all scenarios, teams and trainings related to Business Continuity Management have already been established, transcribed and shared with Company employees.



Defne Üstem

Internal Control and Risk Management

In risk management activities, the Corporate Risk Management Policy approved by the Board of Directors forms the basis of the Company's operations.

Board of Directors' Annual Activity Report

Financial Risk Management

The Company is exposed to the following risks originating from the use of financial instruments:

- Credit risk,
- Liquidity risk,
- Market risk,
- Currency risk,
- Interest rate risk.

Credit Risk

Credit risk is defined as the possibility that counterparties might not be able to fulfill their obligations in accordance with the terms of contract that have been mutually agreed upon. Major balance sheet items where the Company is exposed to credit risk include the following:

- Banks
- Other cash assets and cash equivalents (cash accounts excluded),
- Financial assets held for trading,
- Financial investments owned by risk-based life insurance policyholders,
- Premium receivables from the insured,
- Receivables from agencies,
- Pension mutual funds related to Private Pension operations, and receivables from participants,
- Receivables from reinsurers related to commissions and paid-up claims,
- Reinsurance shares from insurance liabilities,
- Receivables from the parties concerned,
- Other receivables, and
- Prepaid taxes and funds.

The most common method used in insurance risk management is to execute a reinsurance agreement. However, transferring insurance risk via a reinsurance agreement does not relieve the Company, as the first underwriter, of its obligations. If a reinsurer does not fulfill a claim, the Company's obligation to the policyholder continues. The Company considers the reinsurer's creditworthiness by examining the financial status of the company in question before entering into the annual agreement.

The Company cancels insurance premiums when they become overdue or are outstanding for a specified period of time. It then deducts the relevant amount from the written premiums and from premium receivables.

Liquidity Risk

Liquidity risk is the risk that the Company might have difficulty in fulfilling its liabilities resulting from its monetary obligations.

As a method of protection against liquidity risk, maturity match is maintained between assets and liabilities; liquid assets are kept ready for complete fulfillment of potential liquidity requirements if necessary.

Market Risk

Market risk is based on potential variations in market prices such as interest rates and foreign currency exchange rates that might affect the Company's income or the value of financial instruments it holds. Market risk management is intended to optimize risk profitability and control the market risk amount within acceptable parameters.

Currency Risk

The Company is exposed to currency risk due to the foreign currency-denominated insurance operations it conducts.

Foreign exchange gains and losses from foreign currency transactions were entered in the accounting records for the corresponding periods. At the end of each period, balances of foreign currency asset and liability accounts were translated and converted into Turkish lira at the exchange rates prevailing at that time. The resulting foreign exchange differences were reflected in the records as gains or losses from foreign exchange transactions.

Foreign currency-denominated transactions were recognized on the basis of exchange rates prevailing on the date of transaction. As of the balance sheet date, foreign currency-denominated asset and liability items were translated based on the foreign exchange buying rate of the Central Bank of Turkey (CBT), effective on December 31, 2016. Only life insurance mathematical reserves and loans were translated based on the effective selling rates of CBT as stated in the policy guidelines.

Interest Rate Risk Exposure

Risk exposure of the trading securities portfolio is based on fluctuations in market prices of relevant securities resulting from changes in interest rates. The major risk for the non-trading securities portfolio is the loss from fluctuations in future cash flows and the loss stemming from a drop in the fair market value of financial assets as a result of changes in market interest rates. Interest rate risk is managed through monitoring of the interest rate range and setting pre-approved limits for re-pricing ranges.

Interest Rate Sensitivity of Financial Instruments

Interest rate sensitivity on the income statement is the effect of the change in interest rates, under the criteria assumed below, on the fair market value of the financial assets. The difference in fair market value as of December 31, 2016 is reflected in the profit or loss, and the effect on net interest income from the non-trading financial assets and liabilities with a variable interest rate. Interest rate sensitivity on shareholders' equity is calculated on the basis of the variation in the market value of the financial assets which are available for sale in the portfolio as of December 31, 2016 as a result of the presumed variations in interest rates. During this analysis, other variables, particularly foreign exchange rates, are assumed to be fixed.

Fair Market Value Representation

The estimated market value of financial instruments is determined by using available market data and appropriate valuation methods, if applicable. The Company has classified its securities into trading financial assets or financial assets available for sale, and represented the related financial assets with their exchange prices prevailing at the end of the term. The Company's management estimates that the fair value of other financial assets and liabilities does not differ much from their quoted prices.

Capital Management

The principal capital management policies of the Company are as follows:

Complying with the capital adequacy requirements as stipulated by the Undersecretariat of Treasury, Ensuring the Company's continuity and securing sustained gains for shareholders and stakeholders, and Securing a sufficient level of return for shareholders by setting insurance policy prices proportionate to the insurance risk assumed.

Assessment of Insurance Risk and Management Body

Insurance Pricing Policies

Garanti Pension and Life adopts the following pricing principles and policies:

When setting risk premiums, the expected claim amount is taken into consideration and premium limits are determined accordingly.

Board of Directors' Annual Activity Report

The relevant departments of the Company continuously monitor changing competitive conditions and customer needs. The Company uses the regular data flow from these departments and the interdepartmental collaboration in pricing, which is a part of the product development process.

The Company aims to establish pricing policies that ensure product profitability and service continuity.

The Company compares the prices it sets with those of its domestic competitors, as well as those of foreign counterparts. In collaboration with reinsurance companies, Garanti Pension and Life undertakes efforts to develop new products that include additional coverage that policyholders might need during their lifetime.

The breakdown of the Company's premium production by product category in 2014 reveals that the share of universal life insurance policies increased, compared to last year. This was mainly due to the alignment of insurance policies with the terms and periods of loans. Variable universal life insurance policies continue to decline due to the lack of new production. Taking high profitability into consideration in product pricing practices is important in terms of safeguarding the Company's future. Therefore, while developing new products, the Company aims to sign agreements that stipulate transferring risks to reinsurers to a large extent, but at the same time provide high profit sharing.

Risk Assessment Policies

The Company uses the same risk assessment tool that is used by the leading reinsurer. Under this effort, the Company realizes new gains from the risk-assessment framework of treaty reinsurers every year. These gains not only facilitate operational transactions but also positively contribute to the Company in terms of cost. Check-up limits are reviewed and revised each year based on prior experience statistics. In addition, there are three other assessments. A "Medical" risk assessment is carried out by the Company physician. A "Moral" assessment is made by risk-assessment personnel and sales teams. Finally, a "Financial" risk assessment is conducted for both the loan life insurance required by bank loans and individual applications, even though these applications are received in small numbers.

As the first step in risk assessment, the medical risk evaluation aims to collect information on customers' health status and requires that customers undergo check-ups under conditions defined based on the amount of life insurance coverage. The first assessment is made by the Company physician through a medical evaluation. Procedures are applied according to the results mutually agreed upon with the reinsurers and applications that present a medical risk are rejected.

Under the moral risk assessment, information is collected from the customers concerning gender, living conditions, place of residence, occupation, and the like. As part of this process, support from sales teams is requested on issues that appear to be suspicious and dubious cases are referred for further review.

Under the financial risk assessment, which constitutes the third step, a study is conducted to fulfill the requirement of compatibility between the amount of life insurance coverage requested by the customers and their annual income and/or loan amount. Majority amounts of coverage provided are matched to the Bank's risk because 90% of the Company's portfolio is made up of risk originating from the Bank's products. The fact that the initial financial analysis is performed by the Bank for loan insurance products and the Bank extends the loan in the first place facilitates the finalization of an analysis essential to the Company.

Reinsurance Policy

At Garanti Pension and Life, reinsurance processes are performed only on risk benefits (death and additional coverage) of life insurance policies. Due to the high underwriting profitability of risk-based life insurance plans, each year an amount equivalent to the maximum retention level, as set based upon actuarial estimations, is kept with the Company. The excess amount is transferred under surplus reinsurance treaties. Nevertheless, attention is paid to keep the retention level at more limited ratios and amounts over those risk benefits (for example, life-threatening illnesses coverage and the like)

that pose greater uncertainty for the Company. For life-threatening illnesses and unemployment coverage, the Company operates under quota-share reinsurance treaties. Additionally, to conserve retention after extensive natural disasters such as earthquakes, floods, traffic accidents involving mass transportation vehicles or terrorist attacks, each year an excess of loss reinsurance agreements are signed to secure catastrophic claims in a way most suitable for the portfolio.

The major service providers in the Company's supply chain are the reinsurers who offer reinsurance for the Company in life insurance and additional risk coverage. The following factors are decisive in the Company's business relationships with reinsurers:

Performance concerning the procured service is evaluated on a yearly basis for treaties. The evaluation is performed by checking whether the share of the reinsurer in insurance claims and balances remaining after reinsurance transactions in the Company's favor have been paid promptly and in full. Additionally, the capacity extended to the Company in optional businesses, speed in operational reinsurance transactions, and the technical knowledge and market information conveyed to the Company are also taken into consideration as evaluation criteria. In cases of unsatisfactory performance, alternative reinsurers are considered.

As a result of the stable and consistent pricing and risk acceptance policies implemented, the risk assessment terms and procedures agreed upon with treaty reinsurance companies enable automatic insurance coverage of a much greater amount than market averages.

Based on their shares in the reinsurance agreements, Milli Reasürans T.A.Ş. (Milli Re) and the French reinsurance company SCOR Global Life occupy second place with the same number of shares. The next reinsurance company is the Reinsurance Group of America (RGA), whose headquarters are in the US. For life insurance products with unemployment coverage, the Company is also engaged in the reinsurance business with Istanbul-based Cardif Hayat Sigorta A.Ş., a BNP Paribas subsidiary. Garanti Pension and Life works with Genworth Financial for hospitalization and critical illness insurance products. In addition to life reinsurers, the Company cooperates with Bermuda-based Arch Re Accident Death in reinsurance agreements to secure catastrophic claims concerning cumulative damage after natural disasters.

7. Subsequent Events

There have not been any material events, which might affect the rights of shareholders, recipients or other individuals and companies, after the reporting period.

This report was prepared in compliance with the provisions of the "Regulation on Determination of Minimum Content of Companies' Annual Activity Reports," issued by the Ministry of Customs and Trade and published in the Official Gazette Issue: 28395, dated August 28, 2012; the report is approved and signed by the Company's Board Members whose names appear below.

Ali Fuat ERBİL
Chairman

Cemal ONARAN
Member of the Board of Directors

Burak Ali Göçer
Member of the Board of Directors*

* As of January 1, 2017.

Summary of Five-Year Financial Information

Financial Information	2012		2013		2014		2015		2016	
	(TL Thousand)	(USD Thousand)	(TL Thousand)	(USD Thousand)	(TL Thousand)	(USD Thousand)	(TL Thousand)	(USD Thousand)	(TL Thousand)	(USD Thousand)
Individual Pension System	3,324,797	1,865,139	4,249,324	1,990,968	6,092,808	2,627,456	7,580,285	2,607,059	9,523,446	2,706,139
Technical Reserves	226,326	126,964	246,776	115,624	248,618	107,214	263,023	90,461	321,451	91,342
Paid-in Capital	53,084	29,779	53,084	24,872	53,084	22,892	53,084	18,257	53,084	15,084
Shareholders' Equity	571,313	320,494	706,889	331,204	876,578	378,015	1,067,885	367,274	1,313,413	373,211
Total Assets	4,223,858	2,369,493	5,318,601	2,491,965	7,364,522	3,175,869	9,075,123	3,121,173	11,387,747	3,235,891
Life Insurance Premium Production (net)	233,056	130,739	257,075	120,449	269,905	116,394	284,342	97,793	363,010	103,151
Technical Income and Expense Balance	120,049	67,345	136,937	64,160	148,330	63,966	168,244	57,864	206,903	58,793
Non-operating Income and Expense Balance	42,489	23,835	37,379	17,513	66,242	28,566	72,338	24,879	101,120	28,734
Profit/Loss Before Tax	162,539	91,181	174,316	81,674	214,572	92,532	240,583	82,743	308,022	87,526
Net Profit	129,046	72,392	137,981	64,649	169,916	73,274	190,908	65,658	245,773	69,838
Return on Assets	3,85%	3,85%	3,28%	3,28%	2,91%	2,91%	2,65%	2,65%	2,70%	2,70%
Return on Equity	28%	28%	25%	25%	24%	24%	23%	23%	23%	23%

Foreign Exchange Rates	(MBDA)	
31.12.2012	USD 1	TL 1,7826
31.12.2013	USD 1	TL 2,1343
31.12.2014	USD 1	TL 2,3189
31.12.2015	USD 1	TL 2,9076
31.12.2016	USD 1	TL 3,5192

**GARANTİ
EMEKLİLİK VE
HAYAT
ANONİM ŞİRKETİ**

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016

*Convenience Translation of Independent
Auditor's Report Originally Issued in Turkish*



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(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)
GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Garanti Emeklilik ve Hayat A.Ş.
Report on Financial Statements

We have audited the accompanying financial statements of Garanti Emeklilik ve Hayat Anonim Şirketi ("the Company") which comprise the balance sheet as at 31 December 2016, and statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Company's Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable accounting principles and standards issued based on insurance laws and regulations. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued based on insurance laws and regulations and Independent Auditing Standards which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Garanti Emeklilik ve Hayat Anonim Şirketi as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the applicable accounting principles and standards issued (Note 2), based on insurance laws and regulations.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

In accordance with paragraph four of the Article 402 of the Turkish Commercial Code No. 6102 ("TCC"), nothing has come to our attention that may cause us to believe that the Company's set of accounts and financial statements prepared for the period 1 January-31 December 2016 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

Additional paragraph for the English translation:

The effect of the differences between the accounting principles summarized in Note 2 and the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified and reflected in the accompanying financial statements. The accounting principles used in the preparation of the accompanying financial statements differ materially from IFRS. Accordingly, the accompanying financial statements are not intended to present the Company's financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of DELOITTE TOUCHE TOHMATSU LIMITED

Hasan Kılıç, SMMM
Partner

İstanbul, 30 January 2017

GARANTİ EMEKLİK VE HAYAT ANONİM ŞİRKETİ**THE FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016**

We assure you that our financial report and the related disclosures and notes prepared in accordance with the requirements set out by Republic of Turkey Prime Ministry Undersecretariat of the Treasury are in compliance with the provisions of the Decree on "Financial Reporting of Insurance and Reinsurance Companies and Pension Funds" and our Company's accounting records.

İstanbul, 30 January 2017

Didem SAYIM
Actuary

Salih İLERİ
Financial Affairs Unit
Manager

Ahmet KARAMAN
Executive Vice President

Burak Ali GÖÇER
General Manager

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

ASSETS			
	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
I- Current Assets			
A- Cash and Cash Equivalents	14	1.684.432.635	1.303.031.588
1- Cash		-	-
2- Cheques Received		-	-
3- Banks	14	1.540.185.330	1.205.995.538
4- Cheques Given and Payment Orders (ç)		-	-
5- Bank Guaranteed Credit Card Receivables (Less than 3 months)	14, 45	144.247.305	97.036.050
6- Other Cash and Cash Equivalents		-	-
B- Financial Assets and Investments with Risks on Policy Holders	11	22.065.922	33.825.954
1- Financial Assets Available for Sale	11	263.223	14.536.075
2- Financial Assets Held to Maturity		-	-
3- Financial Assets Held for Trading		-	-
4- Loans		-	-
5- Provision for Loans (ç)		-	-
6- Investments with Risks on Policy Holders	11	21.802.699	19.289.879
7- Equity Shares		-	-
8- Diminution in Value of Financial Assets (ç)		-	-
C- Receivables from Main Operations	12	9.600.088.894	7.660.740.985
1- Receivables from Insurance Operations	12	57579.465	59.313.600
2- Provision for Receivables from Insurance Operations (ç)	12	(54.347)	(80.580)
3- Receivables from Reinsurance Operations		-	-
4- Provision for Receivables from Reinsurance Operations (ç)		-	-
5- Cash Deposited for Insurance & Reinsurance Companies		-	-
6- Loans to Policyholders	4, 2, 2, 8, 12	112.222	100.343
7- Provision for Loans to Policyholders (ç)		-	-
8- Receivables from Private Pension Operations	12, 18	9.542.451.554	7.601.407.822
9- Doubtful Receivables from Main Operations		-	-
10- Provisions for Doubtful Receivables from Main Operations (ç)		-	-
D- Due from Related Parties		-	-
1- Due from Shareholders		-	-
2- Due from Affiliates		-	-
3- Due from Subsidiaries		-	-
4- Due from Joint Ventures		-	-
5- Due from Personnel		-	-
6- Due from Other Related Parties		-	-
7- Discount on Receivables Due from Related Parties (ç)		-	-
8- Doubtful Receivables Due from Related Parties		-	-
9- Provisions for Doubtful Receivables Due from Related Parties (ç)		-	-
E- Other Receivables	12	2.806	24.971
1- Lease Receivables		-	-
2- Unearned Lease Interest Income (ç)		-	-
3- Deposits and Guarantees Given		-	-
4- Other Receivables	12	2.806	24.971
5- Discount on Other Receivables (ç)		-	-
6- Other Doubtful Receivables		-	-
7- Provisions for Other Doubtful Receivables (ç)		-	-
F- Prepaid Expenses and Income Accruals		35.482.535	35.423.647
1- Deferred Acquisition Costs	17	33.532.768	35.545.876
2- Accrued Interest and Rent Income		-	-
3- Income Accruals		-	-
4- Other Prepaid Expenses	19	1.949.768	877.771
G- Other Current Assets		30.580	21.271
1- Inventories		-	-
2- Prepaid Taxes and Funds		-	-
3- Deferred Tax Assets		-	-
4- Business Advances		2.500	4.250
5- Advances Given to Personnel		28.080	17.021
6- Stock Count Differences		-	-
7- Other Current Assets		-	-
8- Provision for Other Current Assets (ç)		-	-
I- Total Current Assets		11.342.103.373	9.034.068.416

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
II- Non Current Assets			
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 & Reinsurance Companies		-	-
6- Loans to Policyholders		-	-
7- Provision for Loans to Policyholders (ç)		-	-
8- Receivables from Private Pension Operations		-	-
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 Affiliates		-	-
3- Due from Subsidiaries		-	-
4- Due from Joint Ventures		-	-
5- Due from Personnel		-	-
6- Due from Other Related Parties		-	-
7- Discount on Receivables Due from Related Parties		-	-
8- Doubtful Receivables Due from Related Parties		-	-
9- Provisions for Doubtful Receivables Due from Related Parties		-	-
C- Other Receivables		4.878	4.169
1- Leasing Receivables		-	-
2- Unearned Leasing Interest Income		-	-
3- Guarantees Given	12	4.878	4.169
4- Other Receivables		-	-
5- Discount on Other Receivables		-	-
6- Other Doubtful Receivables		-	-
7- Provisions for Other Doubtful Receivables (ç)		-	-
D- Financial Assets			
1- Investments in Associates		-	-
2- Affiliates		-	-
3- Capital Commitments to Affiliates (ç)		-	-
4- Subsidiaries		-	-
5- Capital Commitments to Subsidiaries (ç)		-	-
6- Joint Ventures		-	-
7- Capital Commitments to Joint Ventures (ç)		-	-
8- Financial Assets and Investments with Risks on Policy Holders		-	-
9- Other Financial Assets		-	-
10- Diminution in Value of Financial Assets (ç)		-	-
E- Tangible Assets	6	7.306.903	6.197.122
1- Investment Properties		-	-
2- Diminution in Value for Investment Properties (ç)		-	-
3- Owner Occupied Properties		-	-
4- Machinery and Equipment		-	-
5- Furnitures and Fixtures	6	16.504.590	13.898.302
6- Vehicles		-	-
7- Other Tangible Assets (Including Leasehold Improvements)	6	2.590.222	2.388.270
8- Leased Tangible Assets	6	1.300.924	168.464
9- Accumulated Depreciation (ç)	6	(13.088.833)	(10.257.914)
10- Advances Paid for Tangible Assets (Including Construction In Progress)		-	-
F- Intangible Assets	8	32.118.853	28.538.306
1- Rights	8	334.371	334.371
2- Goodwill		-	-
3- Establishment Costs		-	-
4- Research and Development Expenses		-	-
5- Other Intangible Assets	8	123.225.424	99.932.210
6- Accumulated Amortization (ç)	8	(91.440.942)	(71.728.276)
7- Advances Regarding Intangible Assets		-	-
G- Prepaid Expenses and Income Accruals			
1- Deferred Acquisition Costs		-	-
2- Income Accruals		-	-
3- Other Prepaid Expenses		-	-
H- Other Non-current Assets	21	6.213.042	6.315.460
1- Effective Foreign Currency Accounts		-	-
2- Foreign Currency Accounts		-	-
3- Inventories		-	-
4- Prepaid Taxes and Funds		-	-
5- Deferred Tax Assets	21	6.213.042	6.315.460
6- Other Non-current Assets		-	-
7- Other Non-current Assets Amortization		-	-
8- Provision for Other Non-current Assets		-	-
II- Total Non-current Assets		45.643.676	41.055.047
TOTAL ASSETS		11.387.747.049	9.075.123.483

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

LIABILITIES			
	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
III-Short Term Liabilities			
A- Borrowings			
1- Borrowings from Financial Institutions		540.387	-
2- Finance Lease Payables	20	609.752	-
3- Deferred Finance Lease Borrowing Costs		(69.385)	-
4- Current Portion of Long Term Borrowings		-	-
5- Principal, Installments and Interests on Issued Bills (Bonds)		-	-
6- Other Issued Financial Assets		-	-
7- Value Differences on Issued Financial Assets (ç)		-	-
8- Other Financial Borrowings (Liabilities)		-	-
B- Payables from Main Operations	19	9.703.886.525	7.703.557.491
1- Payables Due To Insurance Operations	19	29.554.523	24.722.715
2- Payables Due To Reinsurance Operations		-	-
3- Cash Deposited by Insurance & Reinsurance Companies		-	-
4- Payables Due To Private Pension Operations	18, 19	9.674.332.002	7.678.834.776
5- Payables from Other Operations		-	-
6- Discount on Other Payables from Main Operations, Notes Payable (ç)		-	-
C- Due to Related Parties		7.460.176	7.631.239
1- Due to Shareholders	45	312.372	263.259
2- Due to Affiliates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		46.596	16.918
6- Due to Other Related Parties	45	7.101.208	7.351.062
D- Other Payables	19, 47	1.759.407	2.522.785
1- Guarantees and Deposits Received		-	-
2- Payables to Social Security Institution		-	-
3- Other Payables	19, 47	1.759.407	2.522.785
4- Discount on Other Payables (ç)		-	-
E- Insurance Technical Reserves	17	115.711.018	117.031.855
1- Unearned Premiums Reserve - Net	17	80.521.355	89.118.304
2- Unexpired Risk Reserves - Net		-	-
3- Life Mathematical Reserves - Net	17	8.049.937	2.143.923
4- Outstanding Claims Reserve - Net	17	27.139.726	25.769.628
5- Provision for Bonus and Discounts - Net		-	-
6- Other Technical Reserves - Net		-	-
F- Taxes and Other Liabilities and Provisions	19	12.074.509	11.614.646
1- Taxes and Dues Payable		7.759.105	5.260.002
2- Social Security Premiums Payable		2.336.983	1.067.989
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
4- Other Taxes and Liabilities		-	-
5- Corporate Tax Liability Provision on Period Profit	19	62.337.384	49.674.970
6- Prepaid Taxes and Other Liabilities on Period Profit (ç)	19	(60.358.983)	(44.388.295)
7- Provisions for Other Taxes and Liabilities		-	-
G- Provisions for Other Risks	23	1.541.660	1.307.478
1- Provision for Employment Termination Benefits		-	-
2- Pension Fund Deficit Provision		-	-
3- Provisions for Costs	23	1.541.660	1.307.478
H- Deferred Income and Expense Accruals	19	18.171.301	11.105.692
1- Deferred Commission Income	10, 19	7.690.156	6.257.829
2- Expense Accruals	19	10.481.145	4.847.863
3- Other Deferred Income and Expense Accruals		-	-
I- Other Short Term Liabilities		-	-
1- Deferred Tax Liability		-	-
2- Inventory Count Differences		-	-
3- Other Short Term Liabilities		-	-
III - Total Current Liabilities		9.861.144.983	7.854.771.186

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
IV- Long Term Liabilities			
A- Borrowings		197.713	-
1- Borrowings from Financial Institutions		-	-
2- Finance Lease Payables	20	203.581	-
3- Deferred Finance Lease Borrowing Costs		(5.868)	-
4- Bonds Issued		-	-
5- Other Issued Financial Assets		-	-
6- Value Differences on Issued Financial Assets (-)		-	-
7- Other Financial Borrowings (Liabilities)		-	-
B- Payables from Main Operations		-	-
1- Payables Due To Insurance Operations		-	-
2- Payables Due To Reinsurance Operations		-	-
3- Cash Deposited by Insurance & Reinsurance Companies		-	-
4- Payables Due To Private Pension Operations		-	-
5- Payables from Other Operations		-	-
6- Discount on Other Payables from Main Operations		-	-
C- Due to Related Parties		-	-
1- Due to Shareholders		-	-
2- Due to Affiliates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		-	-
6- Due to Other Related Parties		-	-
D- Other Payables		-	-
1- Guarantees and Deposits Received		-	-
2- Payables to Social Security Institution		-	-
3- Other Payables		-	-
4- Discount on Other Payables		-	-
E- Insurance Technical Reserves	17	205.740.308	145.991.402
1- Unearned Premiums Reserve - Net		-	-
2- Unexpired Risk Reserves - Net		-	-
3- Life Mathematical Reserves - Net	17	191.109.662	134.301.338
4- Outstanding Claims Reserve - Net		-	-
5- Provision for Bonus and Discounts - Net		-	-
7- Other Technical Reserves - Net	17	14.630.646	11.690.064
F- Other Liabilities and Provisions	23	1.808.369	1.718.810
1- Other Liabilities		-	-
2- Overdue, Deferred or By Installment Other Liabilities		-	-
3- Other Liabilities and Expense Accruals	23	1.808.369	1.718.810
G- Provisions for Other Risks	23	5.442.774	4.756.978
1- Provision for Employment Termination Benefits	23	5.442.774	4.756.978
2- Provisions for Pension Fund Deficits		-	-
H- Deferred Income and Expense Accruals		-	-
1- Deferred Commission Income		-	-
2- Expense Accruals		-	-
3- Other Deferred Income and Expense Accruals		-	-
I- Other Long Term Liabilities		-	-
1- Deferred Tax Liability		-	-
2- Other Long Term Liabilities		-	-
IV- Total Non Current Liabilities		213.189.164	152.467.190

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

BALANCE SHEET AS OF 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

SHAREHOLDERS' EQUITY

V- Shareholders' Equity	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
A- Paid in Capital		53.084.445	53.084.445
1- (Nominal) Capital	2,13, 15	50.000.000	50.000.000
2- Unpaid Capital (-)		-	-
3- Positive Inflation Adjustment on Capital		3.084.445	3.084.445
4- Negative Inflation Adjustment on Capital (-)		-	-
5- Capital to Be Registered		-	-
B- Capital Reserves		-	-
1- Equity Share Premiums		-	-
2- Cancellation Profits of Equity Shares		-	-
3- Profit on Sale to be Transferred to Capital		-	-
4- Translation Reserves		-	-
5- Other Capital Reserves		-	-
C- Profit Reserves		1.014.555.592	823.892.865
1- Legal Reserves	15	10.000.000	10.000.000
2- Statutory Reserves		-	-
3- Extraordinary Reserves	15	1.004.414.526	813.506.749
4- Special Funds (Reserves)		-	-
5- Valuation of Financial Assets	11, 15	237.598	430.510
6- Other Profit Reserves		(96.532)	(44.394)
D- Previous Years' Profits		-	-
1- Previous Years' Profits		-	-
E- Previous Years' Losses (-)		-	-
1- Previous Years' Losses		-	-
F- Net Profit of the Period		245.772.865	190.907.777
1- Net Profit of the Period		245.772.865	190.907.777
2- Net Loss of the Period		-	-
3- Nondistributed Net Profit of the Period		-	-
Total Shareholders' Equity		1.313.412.902	1.067.885.087
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		11.387.747.049	9.075.123.463

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

	Note	Audited Current Period (01/01/2016 - 31/12/2016)	Audited Prior Period (01/01/2015 - 31/12/2015)
I-TECHNICAL PART			
A- Non-Life Technical Income		2.990	5.833
1- Earned Premiums (Net of Reinsurer Share)	17	2.990	5.833
1.1 - Premiums (Net of Reinsurer Share)	17	3.471	2.597
1.1.1 - Gross Premiums	17	3.471	2.597
1.1.2 - Ceded Premiums to Reinsurers		-	-
1.1.3- Premiums Transferred to SSI(-)		-	-
1.2- Change in Unearned Premiums Reserve (Net of Reinsurers Shares and Reserves Carried Forward)	17	(481)	3.236
1.2.1 - Unearned Premiums Reserve	17	(481)	3.236
1.2.2 - Reinsurance Share of Unearned Premiums Reserve		-	-
1.2.3- SSI Share of Gross Unearned Premiums Reserve (Net of Reserves Carried Forward)(+/-)		-	-
1.3- Changes in Unexpired Risks Reserve (Net of Reinsurer Share and Reserves Carried Forward)		-	-
1.3.1 - Unexpired Risks Reserve		-	-
1.3.2 - Reinsurance Share of Unexpired Risks Reserve		-	-
2- Investment Income Transferred from Non-Technical Part		-	-
3- Other Technical Income (Net of Reinsurer Share)		-	-
3.1 - Gross Other Technical Income		-	-
3.2 - Reinsurance Share of Other Technical Income		-	-
4- Accrued Subrogation and Sovtage Income (+)		-	-
B- Non-Life Technical Expense (-)		(7.076)	(8.408)
1- Total Claims (Net of Reinsurer Share)		-	-
1.1- Claims Paid (Net of Reinsurer Share)		-	-
1.1.1 - Gross Claims Paid		-	-
1.1.2 - Reinsurance Share of Claims Paid		-	-
1.2- Changes in Outstanding Claims Reserve (Net of Reinsurer Share and Reserves Carried Forward)		-	-
1.2.1 - Outstanding Claims Reserve		-	-
1.2.2 - Reinsurance Share of Outstanding Claims Reserve		-	-
2- Changes in Bonus and Discount Reserve (Net of Reinsurer Share and Reserves Carried Forward)		-	-
2.1 - Bonus and Discount Reserve		-	-
2.2 - Reinsurance Share of Bonus and Discount Reserve		-	-
3- Changes in Other Technical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (+/-)		-	-
4- Operating Expenses (-)	32	(7.076)	(8.408)
5- Changes in Mathematical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (+/-)		-	-
5.1- Mathematical Reserves		-	-
5.2- Reinsurance Share in Mathematical Reserves (+)		-	-
6- Other Technical Expenses (-)		-	-
6.1- Gross Other Technical Expenses(-)		-	-
6.2- Reinsurance Share in Gross Other Technical Expenses (+)		-	-

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

I-TECHNICAL PART	Note	Audited Current Period (01/01/2016 - 31/12/2016)	Audited Prior Period (01/01/2015 - 31/12/2015)
C- Non Life Technical Net Profit (A-B)		(4.086)	(8.575)
D- Life Technical Income		399.666.142	317.482.732
1- Earned Premiums (Net of Reinsurer Share)	17	371.607.016	295.231.686
1.1- Premiums (Net of Reinsurer Share)	17	353.009.586	284.342.268
1.1.1- Gross Premiums (ç)	17	409.804.476	328.796.683
1.1.2- Ceded Premiums to Reinsurers (ç)	10, 17	(46.794.890)	(44.454.315)
1.2- Change in Unearned Premiums Reserve (Net of Reinsurers Shares and Reserves Carried Forward) (ç/ç)	17	8.597.430	10.889.418
1.2.1- Unearned Premiums Reserve (ç)	17	6.618.156	11.827.372
1.2.2- Reinsurance Share of Unearned Premiums Reserve (ç)	10, 17	1.979.274	(937.954)
1.3- Changes in Unexpired Risks Reserve (Net of Reinsurer Share and Reserves Carried Forward)(ç/ç)		-	-
1.3.1- Unexpired Risks Reserve (ç)		-	-
1.3.2- Reinsurance Share of Unexpired Risks Reserve (ç)		-	-
2- Life Branch Investment Income		27.913.684	22.107.651
3- Accrued (Unrealized) Income from Investments		-	-
4- Other Technical Income (Net of Reinsurer Share)		145.442	143.395
4.1- Gross Other Technical Income (ç/ç)		145.442	143.395
4.2- Reinsurance Share in Gross Other Technical Income (ç)		-	-
5- Accrued Subrogation Income (ç)		-	-
E- Life Technical Expense		(257.393.523)	(180.708.379)
1- Total Claims (Net of Reinsurer Share)	17	(69.655.801)	(46.897.687)
1.1- Claims Paid (Net of Reinsurer Share)	17	(68.285.703)	(54.251.496)
1.1.1- Gross Claims Paid (ç)	17	(69.017.263)	(77.662.871)
1.1.2- Reinsurance Share of Claims Paid (ç)	10, 17	20.731.560	23.411.375
1.2- Changes in Outstanding Claims Reserve (Net of Reinsurer Share and Reserves Carried Forward) (ç/ç)	17	(1.370.098)	7.353.809
1.2.1- Outstanding Claims Reserve (ç)	17	(2.222.476)	9.334.407
1.2.2- Reinsurance Share of Outstanding Claims Reserve (ç)	10, 17	852.378	(1.980.598)
2- Changes in Bonus and Discount Reserve (Net of Reinsurer Share and Reserves Carried Forward) (ç/ç)		-	-
2.1- Bonus and Discount Reserve (ç)		-	-
2.2- Reinsurance Share of Bonus and Discount Reserve (ç)		-	-
3- Changes in Life Mathematical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (ç/ç)		(63.120.444)	(30.727.329)
3.1- Life Mathematical Reserves		(63.120.444)	(30.727.329)
3.1.1- Actuarial Mathematical Reserve (ç/ç)		(63.120.444)	(30.727.329)
3.1.2- Profit share reserve (Technical Reserves for Investments with Risks on Policyholders)		-	-
3.2- Reinsurance Share of Life Mathematical Reserves		-	-
4- Changes in Technical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (ç/ç)		(2.940.582)	(2.264.439)
5- Operating Expenses	32	(121.676.696)	(100.818.924)
6- Investment Expenses		-	-
7- Unrealized Losses from Investments (ç)		-	-
8- Investment Income Transferred to Non Technical Divisions (ç)		-	-
F- Life Technical Profit/ (Loss) (D - E)		142.272.619	136.774.353
G- Private Retirement Technical Income	25	202.896.557	172.812.136
1- Fund Management Fee		133.065.266	108.323.237
2- Management Fee Deduction		36.492.383	19.865.917
3- Entrance Fee Income		27.775.579	36.683.515
4- Management Fee In Case of Temporary Suspension		5.563.330	7.929.273
5- Withholding Tax		-	-
6- Increase in Market Value of Capital Commitment Advances		-	-
7- Other Technical Income		-	10.194
H- Private Retirement Technical Expenses		(138.262.306)	(141.339.444)
1- Fund Management Expenses (ç)		(20.683.865)	(19.725.020)
2- Decrease in Market Value of Capital Commitment Advances (ç)		-	-
3- Operating Expenses (ç)	32	(107.582.880)	(110.865.257)
4- Other Technical Expenses (ç)		(9.995.571)	(10.749.167)
I- Private Retirement Technical Profit/(Loss) (G - H)		64.634.251	31.472.692

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

II-NON-TECHNICAL	Note	Audited Current Period (01/01/2016 - 31/12/2016)	Audited Prior Period (01/01/2015 - 31/12/2015)
C- Non Life Technical Net Profit (A-B)		(4.086)	(2.575)
F- Life Technical Profit/ (Loss) (D - E)		142.272.619	136.774.353
I- Private Pension Technical Profit/(Loss) (G - H)		64.634.251	31.472.692
J- General Technical Net Profit (C+F+I)		206.902.784	168.244.470
K- Investment Income		136.649.420	104.968.811
1- Income from Financial Investments		114.442.688	86.682.808
2- Income from Sale of Financial Investments		-	427.319
3- Valuation of Financial Investments		14.777.864	16.853.065
4- Foreign Exchange Gains		7.428.868	1.005.619
5- Dividend Income from Participations		-	-
6- Income from Affiliated Companies		-	-
7- Income Received from Land and Building		-	-
8- Income from Derivatives		-	-
9- Other Investments		-	-
10- Investment Income transferred from Life Technical Part		-	-
L- Investment Expenses (-)		(30.389.650)	(28.956.037)
1- Investment Management Expenses (Including Interest)	4,2	(20.499)	(39.935)
2- Valuation Allowance of Investments		-	-
3- Losses On Sales of Investments		(178.812)	(4.665.669)
4- Investment Income Transferred to Life Technical Part		-	-
5- Losses from Derivatives		-	-
6- Foreign Exchange Losses		-	-
7- Depreciation and Amortization Expenses	6, 8	(22.543.586)	(18.272.752)
8- Other Investment Expenses	4,2	(7.646.753)	(5.977.681)
M- Other Income and Expenses (+/-)		(5.140.222)	(3.674.497)
1- Provisions Account	47	(5.690.965)	(3.383.100)
2- Discount Account		634.746	(2.242.682)
3- Specialty Insurances Account		-	-
4- Inflation Adjustment Account		-	-
5- Deferred Tax Asset Accounts	21, 35	-	1.537.620
6- Deferred Tax Liability Accounts	21, 35	(163.672)	-
7- Other Income and Revenues		251.509	523.121
8- Other Expense and Losses	47	(171.840)	(109.456)
9- Prior Period Income		-	-
10- Prior Period Losses		-	-
N- Net Profit / (Loss)		245.772.865	190.907.777
1- Profit /(Loss) Before Tax		308.022.332	240.582.747
2- Corporate Tax Charge (-)	35	(62.249.467)	(49.674.970)
3- Net Profit/(Loss) for the Period		245.772.865	190.907.777
4- Inflation Adjustment Account		-	-

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

CHANGE IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ CHANGE IN SHAREHOLDERS' EQUITY TL												
Audited	Note	Capital	Treasury Shares	Valuation of Financial Assets	Adjustment on Shareholders' Equity	Translation Reserves	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit (Loss) for the Period	Previous Years' Profits / Losses	Total
PRIOR PERIOD												
	15	50.000.000	-	393.604	3.084.445	-	10.000.000	-	643.193.985	169.916.412	-	876.579.446
A- Capital increase		-	-	-	-	-	-	-	-	-	-	-
B- Change in treasury shares		-	-	-	-	-	-	-	-	-	-	-
C- Income / (expense) recognized directly in the equity		-	-	-	-	-	-	-	351.958	-	-	351.958
D- Value increase/(decrease) in financial assets		-	-	46.906	-	-	-	-	-	-	-	46.906
E- Translation reserves		-	-	-	-	-	-	-	-	-	-	-
F- Other income / (expense)		-	-	-	-	-	-	-	-	-	-	-
G- Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-
H- Net profit for the period		-	-	-	-	-	-	-	-	190.907.777	-	190.907.777
I- Dividends distributed		-	-	-	-	-	-	-	-	-	-	-
J- Transfer		-	-	-	-	-	-	-	169.916.412	(169.916.412)	-	-
II - Closing Balance at 31/12/2015 (I: A+B+C+D+E+F+G+H+I+J)		50.000.000	-	490.510	3.084.445	-	10.000.000	-	813.462.355	190.907.777	-	1.067.985.087
CURRENT PERIOD												
	15	50.000.000	-	430.510	3.084.445	-	10.000.000	-	813.462.355	190.907.777	-	1.067.985.087
A- Capital increase		-	-	-	-	-	-	-	-	-	-	-
B- Change in treasury shares		-	-	-	-	-	-	-	-	-	-	-
C- Income / (expense) recognized directly in the equity		-	-	-	-	-	-	-	(52.139)	-	-	(52.139)
D- Value increase/(decrease) in financial assets		-	-	(9.932)	-	-	-	-	-	-	-	(9.932)
E- Translation reserves		-	-	-	-	-	-	-	-	-	-	-
F- Other income / (expense)		-	-	-	-	-	-	-	-	-	-	-
G- Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-
H- Net profit for the period		-	-	-	-	-	-	-	-	245.779.865	-	245.779.865
I- Dividends distributed		-	-	-	-	-	-	-	-	-	-	-
J- Transfer		-	-	-	-	-	-	-	190.907.777	(190.907.777)	-	-
II - Closing Balance at 31/12/2016 (I: A+B+C+D+E+F+G+H+I+J)		50.000.000	-	387.598	3.084.445	-	10.000.000	-	1.004.317.564	245.779.865	-	1.313.412.902

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

Note	Audited Current Period (01/01/2016- 31/12/2016)	Audited Prior Period (01/01/2015- 31/12/2015)
A. CASH FLOWS FROM THE OPERATING ACTIVITIES		
1. Cash inflows from the insurance operations	474.108.824	319.737.507
2. Cash inflows from the reinsurance operations	-	-
3. Cash inflows from the private pension operations	632.905.085	484.802.249
4. Cash outflows due to the insurance operations (-)	(263.400.844)	(171.928.551)
5. Cash outflows due to the reinsurance operations (-)	-	-
6. Cash outflows due to the private pension operations (-)	(513.817.540)	(435.834.472)
7. Cash generated from the operating activities (A1+A2+A3-A4-A5-A6)	329.795.525	196.776.733
8. Interest payments	-	-
9. Income tax payments	(65.645.638)	(49.870.805)
10. Other cash inflows	17.482.818	7.565.344
11. Other cash outflows	(13.992.918)	(14.476.999)
12. Net cash generated from the operating activities	267.639.787	139.994.273
B. CASH FLOWS FROM THE INVESTING ACTIVITIES		
1. Sale of tangible assets	-	-
2. Purchase of tangible assets	6 (2.808.240)	(2.853.426)
3. Acquisition of financial assets	(2.875.875)	(50.300.562)
4. Sale of financial assets	14.635.907	122.828.348
5. Interest received	129.709.213	105.028.599
6. Dividends received	-	-
7. Other cash inflows	3.426.904	15.570.887
8. Other cash outflows (-)	(35.086.304)	(42.060.590)
9. Net cash generated from the investing activities	107.001.605	148.213.256
C. CASH FLOWS FROM THE FINANCING ACTIVITIES		
1. Issue of equity shares	-	-
2. Cash inflows from borrowings	-	-
3. Payments of financial leases	414.859	-
4. Dividends paid	-	-
5. Other cash inflows	-	-
6. Other cash outflows	-	-
7. Cash generated from the financing activities	414.859	-
D. EFFECTS OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS		
	6.833.457	5.084.474
E. Net increase/(decrease) in cash and cash equivalents (A12+B9+C7+D)	381.889.708	293.292.003
F. Cash and cash equivalents at the beginning of the period	14 1.283.831.178	990.539.175
G. Cash and cash equivalents at the end of the period (E+F)	14 1.665.720.886	1.283.831.178

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

STATEMENT OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
LDISTRIBUTION OF PROFIT FOR THE PERIOD ⁽¹⁾		
1.1. PROFIT FOR THE PERIOD	308,022,332	240,582,747
1.2. TAXES PAYABLE AND LEGAL LIABILITIES	(62,249,487)	(49,674,970)
1.2.1. Corporate Tax (Income Tax)	(62,249,487)	(49,674,970)
1.2.2. Income Tax Deduction	-	-
1.2.3. Other Taxes And Legal Liabilities	-	-
A NET PROFIT FOR THE PERIOD (1.1 - 1.2)	245,772,865	190,907,777
1.3. PREVIOUS YEARS' LOSSES (-)	-	-
1.4. FIRST LEGAL RESERVE	-	-
1.5. COMPULSORY LEGAL FUNDS TO BE RETAINED IN THE COMPANY (-)	-	-
B NET PROFIT FOR THE PERIOD AVAILABLE FOR DISTRIBUTION [(A - (1.3 + 1.4 + 1.5))]	245,772,865	190,907,777
1.6. FIRST DIVIDENDS TO SHAREHOLDERS (-)	-	-
1.6.1. To Holders of Ordinary Shares	-	-
1.6.2. To Holders of Preferred Shares	-	-
1.6.3. To Holders Of Participating Redeemed Shares	-	-
1.6.4. To Holders of Bonds Participating to Profit	-	-
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 DIVIDENDS TO SHAREHOLDERS (-)	-	-
1.10.1. To Holders of Ordinary Shares	-	-
1.10.2. To Holders of Preferred Shares	-	-
1.10.3. To Holders Of Participating Redeemed Shares	-	-
1.10.4. To Holders of Bonds Participating to Profit	-	-
1.10.5. To Holders of Profit and Loss Sharing Certificates	-	-
1.11. SECOND LEGAL RESERVE (-)	-	-
1.12. STATUTORY RESERVES (-)	-	-
1.13. EXTRAORDINARY RESERVES	-	190,907,777
1.14. OTHER RESERVES	-	-
1.15. SPECIAL FUNDS	-	-
II. DISTRIBUTION FROM RESERVES	-	-
2.1. DISTRIBUTED RESERVES	-	-
2.2. SECOND LEGAL RESERVE (-)	-	-
2.3. DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1. To Holders of Ordinary Shares	-	-
2.3.2. To Holders of Preferred Shares	-	-
2.3.3. To Holders Of Participating Redeemed Shares	-	-
2.3.4. To Holders of Bonds Participating to Profit	-	-
2.3.5. To Holders of Profit and Loss Sharing Certificates	-	-
2.4. DIVIDENDS TO EMPLOYEES (-)	-	-
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
III. PROFIT PER SHARE	-	-
3.1. TO OWNERS OF ORDINARY SHARES	-	-
3.2. TO OWNERS OF ORDINARY SHARES (%)	-	-
3.3. TO OWNERS OF PREFERRED SHARES	-	-
3.4. TO OWNERS OF PREFERRED SHARES (%)	-	-
IV. DIVIDENDS PER SHARE	-	-
4.1. OWNERS OF ORDINARY SHARES	-	-
4.2. TO OWNERS OF ORDINARY SHARES (%)	-	-
4.3. TO OWNERS OF PREFERRED SHARES	-	-
4.4. TO OWNERS OF PREFERRED SHARES (%)	-	-

⁽¹⁾ As the statement of profit distribution to be authorized by the General Assembly is not determined by the Board of Directors, only the net profit available for distribution is presented in the statement of profit distribution for the year 2016.

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

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

1. General information

1.1 Parent Company and the Ultimate Owner of the Company

As at 31 December 2016, the shareholder having direct or indirect control over the shares of Garanti Emeklilik ve Hayat Anonim Şirketi ("the Company") is Türkiye Garanti Bankası AŞ ("Garantibank") by 84,91% of the outstanding shares of the Company. Other shareholder having significant influence over the Company management is Achmea BV, Netherlands based Company, by 15,00% participation ratio.

1.2 The Company's address and legal structure and address of its registered country and registered office (or, if the Company's address is different from its registered office, the original location where the Company's actual operations are performed)

The Company, an 'Incorporated Company' in accordance with the regulations of Turkish Commercial Code ("TTK"), was registered in Turkey in 1992. As at balance sheet date, the registered address of the Company is Mete Cad. No:30 Taksim/İstanbul.

1.3 Main Operations of the Company

The Company was established on 24 July 1992 with an initial share capital of TL 10.000. The initial name of the Company was "AGF Garanti Hayat Sigorta Anonim Şirketi", first changed on 18 May 1999 as "Garanti Hayat Sigorta Anonim Şirketi". On 14 November 2002, the Company applied for conversion from life insurance company to private pension company in accordance with the 2nd clause of 1st Temporary Article of Law No.4632 on Private Pension Savings and Investment System issued in 7 April 2001 dated 4632 numbered Official Gazette. The conversion was approved by T.C. Başbakanlık Hazine Müsteşarlığı ("the Turkish Treasury") on 18 December 2002 and the title of the Company was first changed as "Garanti Emeklilik Anonim Şirketi" as published in 15 January 2003 dated Official Gazette then changed as "Garanti Emeklilik ve Hayat Anonim Şirketi" as published in 25 March 2003 dated Official Gazette.

The commercial operations of the Company were defined as issuing private pension contracts and life insurance policies. The Company has also started to issue policies under personal accident branch in accordance with its Articles of Association since 1 July 2006.

Company has twenty-three pension mutual funds as of 31 December 2016 (31 December 2015: twenty-one pension mutual funds).

Within the framework of the Fund Portfolio Management Service Agreement signed between the parties, 22 pension mutual funds are managed by Garanti Portföy Yönetimi A.Ş., 1 pension investment fund is managed by Deniz Portföy Yönetimi A.Ş.. Two funds among these funds (Garanti Emeklilik ve Hayat A.Ş. Beginning Pension Mutual Fund and Garanti Emeklilik ve Hayat A.Ş. Beginning Contribution Pension Mutual Fund) have not yet been sold to the participants as of 31 December 2016.

1.4 Details of the Company's operations and nature of field activities

The Company maintains its business activities in accordance with accounting principles, statements and guidance as promulgated by the Turkish Treasury in compliance with the Insurance Law No.5684 (the "Insurance Law") issued on 14 June 2007 in Official Gazette No.26552 and with the Law of Private Pension Saving and Investment System No.4632 (the "Private Pension Law") issued on 7 April 2001 in Official Gazette No.4366 and issues policies/contracts in life, personal accident, and pension branches.

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NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

1 General information (continued)

1.5 Average number of the Company's personnel based on their categories

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

	31 December 2016	31 December 2015
Key management personnel	7	7
Other personnel	872	857
Total	879	864

1.6 Remuneration and fringe benefits provided to top management

As of 31 December 2016, remuneration and fringe benefits provided to top management such as; chairman and members of the board of directors, managing director and assistant managing director in total amount to TL 6,977,247 (31 December 2015: TL 6,069,694).

1.7 Distribution keys used in the distribution of investment income and operating expenses in the financial statements (personnel expenses, administration expenses, research and development expenses, marketing and selling expenses and other operating expenses)

Known and exactly distinguishable operating expenses are directly recorded under life, non-life or private pension segments in accordance with the 4 January 2008 dated and 2008/1 numbered "Communiqué Related to the Procedures and Principles for the Keys Used in the Financial Statements Being Prepared In Accordance With Insurance Chart of Account" issued by the Republic of Turkey Prime Ministry Undersecretariat of the Treasury. The allocation of non-distinguishable technical operating expenses are determined in accordance with the 9 August 2010 dated and 2010/9 numbered "Communiqué Related to Changes in the Communiqué Related to the Procedures and Principles for the Keys Used in the Financial Statements Being Prepared In Accordance With Insurance Chart of Account" valid since 1 January 2011 and issued by the Undersecretariat of the Treasury. Accordingly, other non-distinguishable expenses, which are not exactly distinguished, are distributed between insurance segments and private pension segment in accordance with the average number of pension contracts and policies issued within last 3 years. The portion of insurance segments is distributed between life and non-life branches in accordance with the average of 3 ratios calculated by dividing "number of the policies produced within the last three years", "gross premiums written within the last three years", and "number of the claims reported within the last three years" to the "total number of the policies", "total gross written premiums", and the "total number of the claims reported", respectively.

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

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

1.8 Stand-alone or consolidated financial statements

The accompanying financial statements comprise only the financial information of the Company. As further detailed in Note 2.2, the Company did not prepare consolidated financial statements as at and for the year ended 31 December 2016.

1.9 Name and other information of the reporting company and subsequent changes to the prior balance sheet date

Trade name of the Company	:	Garanti Emeklilik ve Hayat Anonim Şirketi
Registered address of the head office	:	Mete Cad. No:30 Taksim/İstanbul
The web page of the Company	:	www.garantiemeklilik.com.tr

There is no change in the aforementioned information subsequent to the balance sheet date.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

1 General Information (continued)

1.10 Subsequent events

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

2 Summary of Significant Accounting Policies

2.1 Basis of Preparation

2.1.1 Basis of Preparation of Financial Statements and Specific Accounting Policies Used

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

In Article 4 of the related communiqué; it is stated that procedures and principles related to accounting of insurance contracts, subsidiaries, associates and joint ventures and presentation of unconsolidated and consolidated financial statements together with their explanatory notes which will be announced to the public will be determined by the further communiqués of the Turkish Treasury.

Although the 4th standard of the Turkish Accounting Standards Board (“TASB”) for the ‘Insurance contracts’ became effective on 25 March 2006 for the accounting periods that begin on or after 31 December 2005, it is stated that IFRS 4 will not be implemented at this stage since the second phase of the Turkish Accounting Standards Board project about the insurance contracts has not been completed yet. In this context, “Communiqué on Technical Reserves for Insurance, Reinsurance and Private Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves” (“Communiqué on Technical Reserves”) is published in the 7 August 2007 dated Official Gazette, numbered 26606 and became effective on 1 January 2008. Subsequent to the publication of the Communiqué on Technical Reserves, some other circulars and sector announcements which contain explanations and regulations related to application of the Communiqué on Technical Reserves are published. Accounting policies applied for the insurance contracts based on these communiqués, circulars and other sector announcements are summarized on its own caption in the following sections.

The accompanying financial statements are based on Turkish Accounting Standards / Turkish Financial Reporting Standards and the related statements and reviews of (“IAS / IFRS”) which was imposed by Public Oversight, Auditing and Accounting Standards Authority.

“Circular Related to the Presentation of Financial Statements”, issued by the Turkish Treasury in the 18 April 2008 dated and 26851 numbered Official Gazette, regulates the content of the financial statements to make them comparable with the financial statements of previous periods and the other companies.

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

Preparation of Financial Statements in Hyperinflationary Periods

With respect to the 4 April 2005 dated and 19387 numbered declaration of the Turkish Treasury, the Company restated its financial statements as at 31 December 2004 and prepared opening balances of the financial statements of 2005 in accordance with the “Restatement of Financial Statements in Hyperinflationary Periods” of the Capital Markets Board (“CMB”) Communiqué No: 25 of Series XI, “Communiqué on Accounting Standards in Capital Market” published in the Official Gazette dated 15 January 2003 and numbered 25290. Inflation accounting is no longer applied starting from 1 January 2005, in accordance with the same declaration of the Turkish Treasury.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

2 Summary of Significant Accounting Policies (continued)

2.1 Basis of Preparation (continued)

2.1.2 Other accounting policies appropriate for the understanding of the financial statements (continued)

Other accounting policies

Information regarding to other accounting polices is explained above in the section of “Note 2.1.1 - Information about the principles and the special accounting policies used in the preparation of the financial statements” and each one has its own caption in following sections of this report.

2.1.3 Functional and presentation currency

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

2.1.4 Rounding level of the amounts presented in the financial statements

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

2.1.5 Valuation method(s) used in the presentation of financial statements

The accompanying financial statements are prepared on the historical cost basis, except for the financial assets at fair value through profit or loss, available-for-sale financial assets and financial investments with risks on saving life policyholders classified as available-for-sale financial assets which are measured at their fair values unless reliable measures are available.

2.1.6 Accounting policies, changes in accounting estimates and errors

(a) Amendments to TAs affecting amounts reported in the financial statements

None.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

2 Summary of Significant Accounting Policies (continued)

2.1 Basis of Preparation (continued)

2.1.6 Accounting policies, changes in accounting estimates and errors (continued)

(b) New and revised TAS applied with no material effect on the financial statements, effective from 2016

Amendments to TAS 16 and TAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation¹</i>
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	<i>Agriculture: Bearer Plants¹</i>
Amendments to TFRS 11 and TFRS 1	<i>Accounting for Acquisition of Interests in Joint operations¹</i>
Annual Improvements to 2011-2013 Cycle	<i>TFRS 1²</i>
Amendments to TAS 1	<i>Disclosure Initiative²</i>
Annual Improvements to 2012-2014 Cycle	<i>TFRS 5, TFRS 7, TAS 34, TAS 19²</i>
Amendments to TAS 27	<i>Equity Method in Separate Financial Statements²</i>
Amendments to TFRS 10 and TAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture²</i>
Amendments to TFRS 10, TFRS 12 and TAS 28	<i>Investment Entities: Applying the Consolidation Exception²</i>
TFRS 14	<i>Regulatory Deferral Accounts²</i>

¹ Effective for annual periods beginning on or after 31 December 2015.

² Effective for annual periods beginning on or after 1 January 2016.

Amendments to TAS 16 and TAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

This amendment clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Amendments to TAS 16 and TAS 41 and Amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 *Agriculture: Bearer Plants*

This amendment include 'bearer plants' within the scope of TAS 16 rather than TAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with TAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of TAS 41.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

2 Summary of Significant Accounting Policies (continued)

2.1 Basis of Preparation (continued)

2.1.6 Accounting policies, changes in accounting estimates and errors (continued)

(b) New and revised TAS applied with no material effect on the financial statements, effective from 2016 (continued)

Amendments to TAS 16 and TAS 41 also led to amendments in related provisions of TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40, respectively.

Amendments to TFRS 11 and TFRS 1 *Accounting for Acquisition of Interests in Joint operations*

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in TFRS 3 and other TAS, except for those principles that conflict with the guidance in TFRS 11,
- disclose the information required by TFRS 3 and other TAS for business combinations.

Amendments to TFRS 11 also led to amendments in related provisions of TFRS 1.

Annual Improvements 2011-2013 Cycle

TFRS 1: Clarify which versions of TAS can be used on initial adoption (amends basis for conclusions only).

Amendments to TAS 1 *Disclosure Initiative*

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

Annual Improvements 2012-2014 Cycle

TFRS 5: Adds specific guidance in TFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

TFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

TAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Annual Improvements to 2012-2014 Cycle also led to amendments in related provisions of TAS 19.

Amendments to TAS 27 *Equity Method in Separate Financial Statements*

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS

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2 Summary of Significant Accounting Policies (continued)

2.1 Basis of Preparation (continued)

2.1.6 Accounting policies, changes in accounting estimates and errors (continued)

(b) New and revised TAS applied with no material effect on the financial statements, effective from 2016 (continued)

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

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Amendments to TFRS 10, TFRS 12 and TAS 28 Investment Entities: Applying the Consolidation Exception

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by TFRS 12.

TFRS 14 Regulatory Deferral Accounts

TFRS 14 Regulatory Deferral Accounts permits an entity, which is a first-time adopter of Turkish Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of TFRS and in subsequent financial statements.

TFRS 14 also led to amendments in related provisions of TFRS 1.

e) New and revised TAS in issue but not yet effective

The Company has not applied the following new and revised TAS that have been issued but are not yet effective:

TFRS 9	<i>Financial Instruments</i> ¹
TFRS 15	<i>Revenue from Contracts with Customers</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2018.

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NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

TFRS 9 *Financial Instruments*

TFRS 9, issued by Public Oversight Authority ("POA") in 2010, introduces new requirements for the classification and measurement of financial assets. TFRS 9 is amended in 2011 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Revised version of IFRS 9 is issued by POA in January 2017 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income ("FVTOCI") measurement category for certain simple debt instruments.

TFRS 9 is effective for the annual periods beginning on or after 1 January 2018. Early adoption is permitted unless before 1 February 2015.

TFRS 15 *Revenue from Contracts with Customers*

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

The Company evaluates the effects of these standards, amendments and improvements on the financial statements.

2.2 Consolidation

The Company has no subsidiaries and affiliates as of balance sheet date.

2.3 Segment reporting

One section is a distinguishable part related to Company's main operations or an economic environment where the Company's risks and benefits arising from its main operations can be distinguished (geographical segment). Since Turkey is the main geographical area that Company operates, segment reporting presented in Note 5 is related to the operations of Company not to the geographical areas.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2016

(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

2 Summary of Significant Accounting Policies (continued)

2.4 Reserves in Foreign Currencies

For the purpose of the financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Company. In preparing the financial statements of the Company, transactions in foreign currencies are recognized at exchange rates prevailing at the transaction date. At each balance sheet date, monetary items denominated in foreign currencies are retranslated to Turkish Lira at the rates prevailing on the balance sheet date. Gains and losses arising from exchange rate transactions are recognized in the foreign exchange gain/loss accounts according to their positive or negative position.

2.5 Property, Plant and Equipment

Property, plant and equipment are carried at cost, less any accumulated depreciation and impairment loss.

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

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

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

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

Depreciation for the tangible assets purchased before 1 January 2004 is calculated in accordance with double declining depreciation method at their historical cost.

Depreciation for the tangible fixed assets purchased after 1 January 2004 is calculated in accordance with straight-line depreciation method at their historical costs.

Depreciation rates and estimated useful lives are as follows:

Tangible Assets	Estimated Useful Lives (years)	Depreciation (%)
Furniture and fixture	3-10	10-33
Other tangible assets (including leasehold improvements)	5-20	5-20
Tangible assets acquired through finance leasing	4	25

2.6 Investment Properties

As at balance sheet date, the Company does not have any investment property.

2.7 Intangible assets

The Company's intangible assets consist of software. Intangible assets are recorded at cost in compliance with the TAS 38 – Intangible Assets.

The intangible assets are amortized at historical cost based on straight line amortization method by a range of 10% to 50%.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS

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(Amounts expressed in Turkish Lira (TL) unless otherwise stated).

2 Summary of Significant Accounting Policies (continued)

2.8 Financial assets

Classification and measurement

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 favorable to the entity.

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

Effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets held for trading purpose are measured at their fair values and gain/losses arising due to changes in the fair values of related financial assets are recorded in the statement of income. Interest income earned on trading purpose financial assets and the difference between their fair values and acquisition costs are recorded as interest income in the statement of income. In case of disposal of such financial assets before their maturities, the gains/losses on such disposal are recorded under trading income/losses.

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.

Held to maturity investments are the financial assets with fixed maturities and fixed or pre-determined payment schedules that the Company has the intent and ability to hold until maturity, excluding loans and receivables.

Held-to-maturity investments are measured at amortized cost using effective interest method less impairment losses, if any.

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

Some equity instruments quoted in active markets and some debt instruments held by the Company are classified as available-for-sale, and are measured at fair value. The Company has some available-for-sale investments that do not have quoted prices in active markets and whose fair values cannot be reliably measured are stated at cost. Gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period.

Securities are recognized at the date of settlement.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS

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2 Summary of Significant Accounting Policies (continued)

2.8 Financial assets (continued)

Specific instruments

Loans to the policyholders are the securitized loans that are used by the policyholders with the security of their saving life insurance policies that have made premium payments throughout the period that is determined by the technical bases related to certified tariffs of saving life policies (this period is 3 years according to general conditions of life insurance). As at 31 December 2016, total amount of loans to the policyholders amounts to TL 112.222 (31 December 2015: TL 100.343).

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

When such investments are classified as available-for-sale financial assets, 5% of the difference between the fair values and amortized costs, calculated by using effective interest method, of the financial assets is recorded under equity and the remaining 95% belonging to policyholders is recorded as 'insurance technical provisions - life mathematical provisions'. As at 31 December 2016, 95% of the difference between fair values and amortized costs of those assets backing liabilities amounted to TL 2.579.369 (31 December 2015: TL 2.985.476) is recorded in life mathematical provisions.

Receivables from private pension operations consist of 'capital advances given to pension investment funds', 'receivable from pension investment funds for fund management fees', 'entrance fee receivable from participants' and 'receivables from clearing house on behalf of the participants'. 'Receivable from pension investment funds for fund management fee' are the fees charged to the pension investment funds against the administration of related pension investment funds which consist of fees which are not collected in the same day. Capital advances given to pension investments funds during their establishment are recorded under 'capital advances given to pension investment funds'. 'Receivables from the clearing house on behalf of the participants' is the receivable from clearing house on fund basis against the collections of the participants. Same amount is also recorded as payables to participants for the funds sold against their collections under the 'payables arising from private pension business'.

Derecognition

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

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.

Receivables from main operations 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.

GARANTİ EMEKLİLİK VE HAYAT ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS

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2 Summary of Significant Accounting Policies (continued)

2.9 Impairment on assets (continued)

Impairment on financial assets (continued)

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.

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 IAS 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.

Impairment of Assets

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) in accordance with TAS 36 - Impairment of Assets .

2.10 Derivative financial instruments

As at balance sheet date, the Company does not hold any derivative financial instruments.

2.11 Offsetting of financial assets

Financial assets and liabilities are set off and the net amount is presented in the balance sheet when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to 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 equivalent, which is a base 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 original maturity less than 3 months which are ready to be used by the Company or not blocked for any other purpose.

2.13 Capital

As at 31 December 2016, the shareholder having direct or indirect control over the shares of Garanti Emeklilik ve Hayat Anonim Şirketi ("the Company") is Türkiye Garanti Bankası AŞ ("Garantibank") by 84,91% of the outstanding shares of the Company. Other shareholder having significant influence over the Company management is Achmea BV, Netherlands based company, by 15,00% participation ratio.

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2 Summary of Significant Accounting Policies (continued)

2.13 Capital (continued)

As at 31 December 2016 and 2015, the share capital and ownership structure of the Company are as follows:

	31 December 2016		31 December 2015	
	Nominal Value of the Shares (TL)	Percentage (%)	Nominal Value of the Shares (TL)	Percentage (%)
Türkiye Garanti Bankası A.Ş.	42.456.190	84,91	42.456.190	84,91
Achmea BV	7.500.000	15,00	7.500.000	15,00
Other	43.810	0,09	43.810	0,09
Paid-in Capital	50.000.000	100.00	50.000.000	100.00

Sources of the capital increases during the year: None.

Privileges on common shares representing share capital: None.

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

Saving life products and private pension contracts of the Company are classified as investments contracts in accordance with the above definition. In saving life products, all the premiums received from policyholders are recognized as revenue within the framework of current regulations, portion of the premiums that is transferred to savings on behalf of the policyholders are charged to the profit or loss by recognizing a liability under life mathematical provisions. In private pension contracts, collected contributions of participants are recognized as a liability under “payables to participants”, the same amount is recorded as a receivable under “receivables from clearing house on behalf of the participants” account.

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

As at balance sheet date, the Company does not have any insurance or investment contracts with DPF.

2.16 Investment contracts without DPF

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

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

2.17 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.

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

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2 Summary of Significant Accounting Policies (continued)

2.18 Income taxes

Corporate tax

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

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

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

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. As at of balance sheet date, the Company does not have any deductible tax losses.

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

Deferred taxes

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.

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2 Summary of Significant Accounting Policies (continued)

2.18 Income taxes (continued)

Transfer pricing

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

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

2.19 Employee benefits

Employee termination benefits

In accordance with existing Turkish Labour Law, the Company is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at 31 December 2016 is TL 4,297,21 (31 December 2015: TL 3,828,37).

The Company reserved for employee severance indemnities using actuarial method in compliance with the TAS 19 – Employee Benefits. The major actuarial assumptions used in the calculation of the total liability as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Interest Rate	%7,80	%7,10
Expected Rate of Salary/Limit Increase	%7,80	%7,10
Discount Rate	%11,20	%10,30

Other benefits

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

2.20 Provisions, contingent assets and liabilities

A provision is made for an existing obligation resulted 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 balance sheet date and, if material, such expenses are discounted to their present values. If the amount is not reliably estimated and there is no probability of cash outflow from the Company to settle the liability, the related liability is considered as “contingent” and disclosed in the footnotes to the financial statements.

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2 Summary of Significant Accounting Policies (continued)

2.20 Provisions, contingent assets and liabilities (continued)

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.

2.21 Revenue recognition

Written premiums

Written premiums represent premiums on policies written during the year net of taxes, premiums of the cancelled policies which were produced in prior years and premium ceded to reinsurance companies.

Commission income and expense

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 deferred commission income and deferred commission expense in the financial statements.

Commissions to intermediaries accrued during period for the production of private pension contracts are expensed in the related accounting period and are recognized under the pension business technical expense as operational expense.

Furthermore, in life and unemployment branches, income accrual for the profit commissions is calculated over the earnings of reinsurers. Profit commissions should be related to the rates determined by the existing contracts. Profit commissions depend on the Company's past performance and are not directly relevant to the production of the policies. Therefore, they are calculated as at period ends and recognized in the statement of income without subjecting to any deferral.

Interest income and expense

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

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

Trading income/expense

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

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2 Summary of Significant Accounting Policies (continued)

2.21 Revenue recognition (continued)

Dividends

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

Income from private pension operations

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

According to the "Regulation on the Amendment of the Regulation on the Private Pension System" which entered into force on 1 January 2016, amendments were made in the deduction amounts and collection processes. For contracts entered into force prior to 1 January 2016,

-No deductions will be made even if it is defined in contracts that have completed 5 years from the effective date.

-For contracts that have not completed 5 years from the effective date, no further deductions shall be made until the end of the year if there is a deduction on the annual upper limit, and no further deductions shall be made if there is a deduction over the 5-years period upper limit.

For contracts entered into force after 1 January 2016, there is no deduction available under the name of entrance fee from the participants' contributions or savings of their private pension accounts.

Participants' contributions or savings of their private pension accounts are subject to fund management expense fee. Management expense fee deduction is only made beginning from the effective date of related contract through 5 years and not exceed the eight percent of the monthly minimum gross wage which is valid for the first six month of each year. Company books deductions under the fund management expense fee account. If the contract is released from the system or transferred to another company before completed 5 years, the amount of uncollected management fees corresponding to the period until the end of the 5th year is deducted once from the accumulated contribution of the participant.

Under the Regulation on Governmental Contributions which entered into force after having promulgated on 29 December 2012, with effect from 1 January 2013, all participants of Turkish nationality, and being holder of a blue card, paying contributions for a personal or group-based personal retirement agreement (excluding participants whose contributions are paid by their employers), are entitled to governmental contributions within the specified limit. 25% of the contribution paid in the participant's name is calculated as governmental contribution, provided that this would be limited to the total amount of gross minimum wages pertaining to the relevant year.

2.22 Leasing transactions

The maximum period of the lease contracts is 4 years. Tangible assets acquired by way of finance leasing are recognized 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 realizable value. Depreciation for assets obtained through financial lease is calculated in the same manner as tangible assets.

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

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2 Summary of Significant Accounting Policies (continued)

2.23 Dividend distribution

In the Ordinary General Meeting held on 5 April 2016, it has been resolved to transfer the net profit for the year 2015 to reserves instead of distributing as dividend.

2.24 Technical Reserves

Reserve for unearned premiums

According to the Communiqué on Technical Reserves 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 balance sheet date for all short- term insurance policies.

In the case of personal accident insurance, annual life insurance and life insurance which of the renewal date exceeds one year, reserve for unearned premiums is calculated for the portion of the remaining part which is left after deducting savings from gross premium written for the period.

Unearned premium reserves; The commencement date and expiry date of insurance is considered as a half day in the calculation of unearned Premium reserves under the Undersecretariat of Treasury's Communiqué No: 28356 "Adaptation of Technical Reserves Requirements" issued on 17 July 2012.

Reserve for unexpired risks

In accordance with the Communiqué on Technical Reserves, in each accounting period, the companies while providing reserve for unearned premiums should perform adequacy test covering the preceding 12 months in regard with the probability of future claims and compensations of the outstanding policies will arise in excess of the reserve for unearned premiums already provided. In performing this test, it is required to multiply the reserve for unearned premiums, net with the expected claim/premium ratio. Expected claim/premium ratio is calculated by dividing incurred losses (reserve for outstanding claims, net + claims paid, net - reserve for outstanding claims carried forward, net) to earned premiums (written premiums, net + reserve for unearned premiums, net - reserve for unearned premiums carried forward, net). 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.

If the estimated claim premium ratio exceeds 95% in future periods for the estimated claim premium ratio of insurance branches, the amount calculated multiplying ratio exceeding 95% by net unearned premiums reserve is called net provision for unexpired risk reserve, and the amount calculated multiplying ratio exceeding 95% by gross unearned premiums reserve is called gross provision for unexpired risk reserve. As at 31 December 2016 and 31 December 2015, related test have not resulted any deficiency in the premiums of the Company.

For the purpose of eliminating the misleading effect of the modified outstanding claims provision calculation on the ongoing risks calculated according to the sectoral announcement numbered 2016/1 and the circular numbered 2015/30, the amount of the opening provision for outstanding claims which is determined unexpired risk reserve redefined in a manner consistent with the current period and it has been stated that the rates determined by the company within the scope of the circular no 2014/16 should be used in the calculation of outstanding claims in the previous period.

Besides, according to the circular on discounting net cash flows arising from outstanding claims provision, which was published by the Undersecretariat of Treasury on 10 June 2016 and whose effective date was 30 June 2016, insurance companies will be able to discount the net cash flows that will stem from the outstanding claims provision that they have calculated and set aside in accordance with insurance legislation in line with the terms and conditions set out in the circular.

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2 Summary of Significant Accounting Policies (continued)

2.24 Technical Reserves (continued)

Company does not apply the gradual transition and discount on the incurred but not reported claim provision (IBNR) account and therefore does not make any further adjustments in the provision for unexpired risks reserve.

Outstanding claims reserve

Outstanding claims reserve is provided for outstanding claims incurred and calculated but not actually paid in prior or current period, or outstanding claims for which the related amount is not calculated, carried at estimated value incurred but not reported. All expenses associated with the completion of claim files, including expertise, advisory, litigation and communication expenses, are considered in the calculation of provision for accrued outstanding claims.

As of the balance sheet date, the Company is required to make additional provision for IBNR and outstanding claims determined in the framework of implementation principles of life branch which is based on the "Circular for Provision for Outstanding Claims" ("Circular") 5 December 2014 dated and 2014/16 numbered and effective from 1 January 2015 and related regulations. Upon issuance the Circular on outstanding claims reserve numbered 2014/16 issued by the Turkish Treasury, the Circulars numbered 2010/12, 2010/14 and 2010/16 are replaced.

In the circular, selection of the data to be used, corrective actions, selection of the most appropriate method and development factors, and intervention in developmental factors will be carried out by the company actuary on the basis of each branch using actuarial methods and information regarding the calculation details should be included in the actuarial report. In accordance with the Circular, Company has carried out major damage elimination in the incurred but not reported claims (IBNR) calculation as of 31 December 2016. Damages subject to elimination are opened files as a result of Company's 2012 and 2013 collective identity sharing system (KPS) interrogation in which are still unattainable claims.

The circular numbered 2016/22 issued at 10 June 2016 and effective at 30 June 2016 is related with discounting of net cash flows arise from provisions from outstanding claims. The Company has not been involved in the application of discounts for outstanding claims reserve.

According to circular that explains ACML measurement method, insurance and reinsurance companies calculate ACML with six different methods as "Standard Chain, Damage/Premium, Cape Cod, Frequency/Intense, Munich Chain and Bornhuetter-Ferguson in non-life branches. The calculation is based on actual claims and calculation can also be made on the claims paid. Incurred but not reported damage (IBNR) account can be calculated with other methods to be determined by the companies, provided that it is more than the amount calculated by using the above actuarial chain ladder methods. If an excess provision is set aside, the related disclosures must be included in the footnotes of the financial statements and the actuarial report. AZMM calculations are made on a gross basis and net amounts are determined depending on the Company's current or related reinsurance agreements. In the "Circular on Amending the Circular relating to Provision for Outstanding Claims (2014/16)" which entered in force on April 1, 2015 and numbered 2015/28, "Article 1 - the Article 5.A of the Circular relating to Provision for Outstanding Claims has been amended as follows: 5. A. (1) If the amount found as a result of the IBNR calculation (a) is more than the previous three-month amount (b), the IBNR calculation can be made by adding the amount of the difference (a-b) in three-month periods to (b), starting from the second three-month period of 2015: 2.5%, 5%, 10%".

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2 Summary of Significant Accounting Policies (continued)

2.24 Technical Reserves (continued)

All expenses associated with the completion of claim files, including expertise, advisory, litigation and communication expenses, are considered in the calculation of provision for accrued outstanding claims.

Weighted average amount of which is calculated by dividing incurred but not reported life claims related to prior periods into annual average coverage related to prior period is taken into account in the calculation of incurred but not reported life claims for life branch and incurred but not reported claims for the current period. The nature and requirements of incurred but not reported claims are calculated by using the actuarial chain ladder method or any other method prescribed by the Undersecretariat.

Incurred but not reported claims are calculated by using the actuarial chain ladder method determined by the Undersecretariat or other calculation methods to be determined by the Undersecretariat. The calculation must be made at gross amounts, net figures are reached depending on the Company's in force or related reinsurance agreements.

Accordingly, as of 31 December 2016, the Company has provided TL 5,181,582 of net outstanding claims provision in relation to incurred but not reported claims in its financial statements (31 December 2015: TL 5,865,808).

Under Technical Reserves regulations, difference of outstanding claims provision adequacy is calculated for newly established branches for five years from the beginning of branch operations.

Mathematical provisions

In accordance with the Communiqué on Technical Reserves, companies performing in life and non-life insurance branches are obliged to allocate adequate mathematical reserves based on actuarial basis to meet liabilities against policyholders and beneficiaries for long-term life, health and personal accident insurance contracts. Mathematical provisions are composed of actuarial mathematical provisions and profit sharing provisions.

Actuarial mathematical provisions, according to formulas and basis in approved technical basis of tariffs for over one year-length life insurance, are calculated by determining the difference between present value of liabilities that the Company meets in future and current value of premiums paid by policyholder in future (prospective method). In life insurance where saving plan premiums are also generated, actuarial mathematical provisions consist of total saving plan portions of premiums.

Equalization reserves

Provision for profit sharing consist of profit sharing calculated in previous years and a certain percentage of current period's income, determined in the approved profit sharing tariffs, obtained from the financial assets backing liabilities of the Company against the policyholders and other beneficiaries for the contracts which the Company is liable to give profit sharing.

The valuation method used in calculation of the profit to be shared for saving life contracts is the same with the valuation basis of portfolio on which assets on which the Company invests the provisions allocated due to liabilities against the beneficiaries are included in the framework of basis defined in the Note 2.8 above.

In accordance with the 9th article of the "Communiqué Related to Changes in the Communiqué on Technical Reserves for Insurance, Reinsurance and Private Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" issued in 28 July 2010 dated 27655 numbered Official Gazette, the companies have to reserve equalization provision for loans and earthquake guarantees provided in all branches to equalize the possible fluctuations and to cover catastrophic risks including additional guarantees.

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2 Summary of Significant Accounting Policies (continued)

2.24 Technical Reserves (continued)

Equalization reserves (continued)

Also, in accordance with the related article, equalization reserves should be calculated as 12% of the earthquake and loan net premiums of each year. Amounts paid for non-proportional reinsurance contracts should be considered as premiums ceded in the calculation of net premium. In the non-proportional reinsurance agreements including more than one branch, the amount of premium carried forward per each credit and earthquake branches is calculated with respect to its portion in the total premium amount unless another calculation method is determined by the Company. Allocation of provisions should be continued until it is reached the 150% of the highest amount of net premium written in the last five years. If reserve amount is less than the reserve amount reflected in the prior year's balance as a result of the premium production following the related 5 year-period, the difference is recognized under the other reserve account in equity. The amount transferred to the equity can be taken as reserve, used for capital increase or payment of indemnities. In life insurance providing death benefit, the Company will be using its own statistical data in the calculation of balancing provision. The Companies which do not have data to make the necessary calculations will take the 11% of the death net premium as the earthquake premium and reserve the 12% of this amount. In the case of an earthquake or a loss in the loan branch and related financial year, provisions reserved for loan or earthquake guarantees can be used in the payment of indemnities. If claim is incurred, reinsurers share and the amount(s) less than the exemption limit set out in the agreement will not be deducted against equalization reserves.

According to Circular No:2010/1, "The Circular on the Use of Equalization Reserve and Additional Information about some other Circulars", it is possible to use the equalization reserve provided for catastrophic claims on the reimbursement of catastrophic claims. Additionally, it is possible to net off the outstanding claims provided, based on expertise report or the documents provided from legal authorities in case of catastrophe, from the equalization reserve. However, the related net off should not be done from current year equalization reserve. Besides, incurred catastrophic claims should be recorded to related technical accounts that incurred catastrophic claims covered from the equalization reserve should be debited from balance sheet account of equalization reserve and credited to the changes in other technical reserves account. On the other hand, it is possible to not to include paid catastrophic claims provided from the equalization reserve to the calculation of IBNR.

Equalization provisions are presented under "other technical reserves" within long-term liabilities in the accompanying financial statements.

2.25 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.

2.26 Earnings per share

In respect of IAS 33, "Earnings Per Share" standard, companies whose stocks are not traded in the stock market, do not have to disclose earnings per share. Since the Company's shares are not traded in the stock market, earnings per share are not disclosed in the accompanying financial statements.

2.27 Subsequent events

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

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2.28 Comparative Information and Restatement of Prior Period Financial Statements

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

The Company prepares its financial statements comparatively with the prior period so as to allow financial position and performance trends determination. In order to be comparative with current year financial statements the prior year information may be reclassified and significant differences are explained.

As of 31 December 2015, the Company has classified " Investment Income Transferred to Non Technical Divisions " amounting to TL (6,564,859) to " Investment Income transferred from Life Technical Part " amounting to TL 6,564,859.

The Company has classified "Foreign Exchange Losses" amounting to TL (12,681,411) as "Foreign Exchange Gains" amounting to TL 13,687,030 as of 31 December 2015.

Classification has no effect on the profit or loss.

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 6 - Tangible assets
- Note 8 - Intangible assets
- Note 10 - Reinsurance assets/liabilities
- Note 11 - Financial assets
- Note 12 - Loans and receivables
- Note 14 - Cash and cash equivalents
- Note 17 - Insurance liabilities and reinsurance assets
- Note 17 - Deferred acquisition costs
- Note 18 - Investment contract liabilities
- Note 18 - Receivables from private pension operations
- Note 21 - Deferred income taxes
- Note 23 - Provisions for other liabilities and charges

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4 Management of insurance and financial risk

4.1 Management of insurance risk

Pricing policies

The pricing policies and principles of the Company are as follows:

- i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.
- ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Company is maintained by considering the needs of the customers and competition in the market.
- iii) It is aimed to achieve profitability in product basis and providing continuity.
- iv) Results of the pricing studies are compared with the prices of the competitors and international pricing cases. When the distribution of the products in accordance with the premiums written for each product within last one year is analysed it is observed that premiums written for long term life and saving products have decreased, on the other hand, premiums written for one year term life products have increased. The Company management is in the opinion that this development in the production structure of the Company results positive effect on the profitability ratios. Pricing of the products by considering high profitability has protective effect on the future performance of the Company.

CSO-58, SM-53, CSO-80 and CSO-2001 mortality tables are used in the determination of the prices of life insurance products.

Insurance risk accepted by the Company in accordance with their total amounts and the quantity of the policies are presented in the below table. The Company management believes that the distribution of the insurance risk in terms of their total amounts and quantities are satisfactory.

	31 December 2016		31 December 2015	
	Insurance risk (TL)	Unit	Insurance risk (TL)	Unit
Death	39.279.476.075	2.269.561	34.607.131.963	2.331.848
Disability due to accident	25.384.565.755	1.973.437	22.858.301.499	2.067.510
Disability due to illness	10.397.754.690	970.540	6.222.668.124	781.656
Critical illness	1.195.130.305	44.268	1.317.885.113	52.177
Treatment costs due to accident	260.910.603	2.669	311.414.165	5.607
Involuntary unemployment	230.076.555	137.401	452.950.152	272.965
Death due to accident	164.482.448	95.458	199.795.642	122.676
Unemployment/Daily hospital benefit	87.860.321	240.224	83.719.445	279.254
Permanent disability benefit	9.609.320	382	11.247.515	490
Unemployment/ Temporary disability benefit	100.500	400	141.500	562

The Company gives importance to the diversification of the insurance risk.

Risk evaluation policies

The Company uses leader reinsurer's medical risk evaluation tools in its risk assessment processes. Each year check-up limits are reviewed and revised in accordance with the historical statistics. Besides, the Company also performs 'Medical' risk evaluation through the Company's medical doctor, 'Moral' risk evaluation through its risk evaluation and selling staff, and 'Financial' risk assessment for private applications and the credit life insurances developed against bank loans.

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4 Management of insurance and financial risk (continued)

4.1 Management of insurance risk (continued)

Risk evaluation policies (continued)

Medical risk assessment

Medical risk assessment is the first step of risk assessment process. In order to learn and evaluate the health positions of the customers, they are requested to do check-up test in accordance with the conditions determined based on the amount of insured risk. Within this context, first evaluation is performed by the Company's medical doctor through medical assessment. Applicants carrying medical risk factors are rejected in accordance with the terms of agreement with reinsurers.

Moral risk assessment

In the second step of the risk assessment process, information about the customers' gender, living conditions, residence and the occupational information is obtained. During this process, sales force of the Company is expected to support related units of the Company for suspicious circumstances of the customers which are re-assessed.

Financial risk assessment

In the third step of the risk assessment process, requirement for customers' request for the amount of life insurance limits and their annual income or the amount of the loans requested from the banks being equal to each other is analysed. A big amount of the Company's portfolio consists of bank products, total amount of insured risk is expected to match with the total amount of banks' credit risks. Evaluation of the credit risks of the customers by the banks as a part of their credit facilities is an important step for the Company's financial risk assessment process.

Operational risk management

The network between the Company's information system and T. Garanti Bankası A.Ş.'s information system, main distribution channel of the Company, has been established which provides all applications and all policy processes to be followed by the Company through its system. Within the claim payment process of the Company, all documents are followed by the electronic archiving system by keeping the original ones.

Reinsurance policies

The Company cedes risk based life insurance policies (death and other additional insured risks) through the reinsurance of the risks. Since technical profitability of risk based life insurance policies is high, maximum retention amount determined based on actuarial calculations is held by the Company in its conservation and the amount exceeding maximum retention amount is ceded to reinsurance companies through surplus treaties. On the other hand, the Company keeps less risk in its conservation for uncertain risks (such as critical illness).

In the case of life loss, disability resulted by accident, for employees to remain unemployed in private sector, hospitalization of self employed; quota share reinsurance treaty with reinsurance share ratio of 100% is contracted for the unemployment insurance which provides income guarantee in each insurance year.

Moreover, each year the Company signs excess of loss reinsurance contracts to protect its conservation for catastrophic damages such as earthquake, flood, major public transportation accidents, major natural disasters or terrorist attacks.

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4 Management of insurance and financial risk (continued)

4.1 Management of insurance risk (continued)

Reinsurance companies

The Company works with reinsurance companies in order to afford reinsurance assurance related to other collateral guarantee given under the life insurance and non life insurance branches for preservation of financial structure and allocation of professional risk considering the existing and varying product structure. In this context, Company's job acceptance capacity and elasticity are increased with the reinsurance agreements and it is provided that the risk is spreaded to different reinsurers by working with different reinsurance companies. Serving to customers with different product structures is intended by working with varying reinsurers.

The decisive criteria for the relationship with reinsurers are as follows:

- i) Financial strength,
- ii) Long-term business relationship approach,
- iii) Competitive prices
- iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.
- v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the Company. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the Company, speed in operational reinsurance transactions, and technical and market information provided to the Company. In case where the performance of the reinsurer is not assessed as adequate, the Company decides on to engage with alternative reinsurance companies.

As a result of stable and consistent pricing and risk acceptance policies, risk assessment policies and conditions agreed with the treaty reinsurers enable the Company to insure the risk in higher amounts than the market averages.

Münchener Rückversicherungs AG ("Munich Re"), located in Munich, is the leader reinsurance firm of the Company for life insurance policies. Milli Reasürans TAŞ ("Milli Re") is the second reinsurance firm in terms of its reinsurance share. The third big reinsurance firm is Scor Global Company. Fourth reinsurance firm is RGA and fifth reinsurance firm is Genworth.

In unemployment insurance, the Company has engaged quota share reinsurance treaties with 100% reinsurance share ratio with BNP Paribas Cardif Hayat Sigorta AŞ ("Cardif") starting from 2015. Recent ratings of these companies given by international institutions are as follows:

Reinsurer	Standard & Poors			AM Best		
	Rating	Outlook	Date	Rating	Outlook	Date
Munich-Re	AA-	Stable	22.12.2006	A+	Stable	07.09.2007
Scor Global Life	AA-	Stable	07.09.2015	A	Positive	11.09.2015
RGA	AA-	Very Strong	01.06.2016	A+	Very Strong	27.02.2014
Milli-Re	trAA	-	09.11.2016	B+	Negative	24.06.2016
Bnp Paribas Cardif	A	Stable	11.03.2016	A+*	Stable*	13/12/2016*
Genworth	A	Positive	15.03.2016	-	-	-
Arch Re	A+	Negative	2016	A+	Stable	2016

* The Fitch rating is written since, there is not A.M. Best rating for BNP Paribas Cardif.

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4 Management of insurance and financial risk (continued)

4.1 Management of insurance risk (continued)

Reinsurance companies (continued)

The Company's ratings, provide information about the tracking the financial structure of companies, allow monitoring the sustainability of long term business relationship, and the minimum capital determination is done related to the communiques on financial structure and capital adequacy of insurance, reinsurance and pension fund companies.

4.2 Financial risk management

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 Board of Directors monitors the effectiveness of the risk management system through the internal audit department.

The Company's risk management policies are established to identify and analyze 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 basically defined as the possibility that a counterparty will fail to meet its obligations in accordance under agreed terms of a contract. The main financial statement balances that the Company has credit risk exposure is as follows:

- cash at banks
- other cash and cash equivalents
- available for sale financial assets
- financial assets held for trading
- investments with risks on policyholders
- premium receivables from policyholders
- receivables from intermediaries (agencies)
- receivables from private pension operations; receivables from pension investment funds and participants
- receivables from reinsurance companies related to claims paid and commissions accrued
- reinsurance shares of insurance liabilities
- due from related parties
- other receivables

Financial assets subject to credit risk of the company mainly consist of Eurobonds issued by the Republic of Turkey Government and private sector bills; time and demand deposits held in banks and financial institutions of Turkey. These receivables are not to be considered as having high credit risk.

Reinsurance contracts are the most common method to manage insurance risk. This does not, however, discharge the Company's liability as the primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholders. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of the reinsurance contract.

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

	31 December 2016	31 December 2015
Receivables from main operations (Note 12)	9.600.088.894	7.660.740.985
Cash and cash equivalents (Note 14)	1.684.432.635	1.303.031.588
Financial assets and financial investments with risks on policyholders (Note 11)	22.065.922	33.825.954
Reinsurer share in outstanding claims reserve (Note 10), (Note 17)	10.109.837	9.257.459
Other receivables (Note 12)	7.684	29.140
Total	11.316.704.972	9.006.885.126

As at 31 December 2016 and 31 December 2015, the aging of the receivables from main operations is as follows:

	31 December 2016		31 December 2015	
	Gross amount	Provision ^(*)	Gross amount	Provision ^(*)
Not past due	9.577.414.836	-	7.639.110.743	-
Past due 0-30 days	7.066.190	-	9.419.353	-
Past due 31-60 days	555.605	-	781.974	-
Past due 61-180 days	3.531.258	-	1.266.568	-
Past due 181-365 days	2.245.924	-	1.380.473	-
More than one year	14.678.072	-	13.925.160	-
Total	9.605.491.885	(5.402.991)	7.665.884.271	(5.143.286)

^(*) Provision for the impairment of entrance fees which could not be collected yet and other receivables related to the pension operations amounted to TL 5348644 (31 December 2015: TL 5,062,705), presented as netted off from receivables from private pension operations in the accompanying financial statements

The Company books provision for the portion of entry fee receivables which is accrued during the entry and will be collected in maximum 9 installments.

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Credit risk (continued)

The movement of the provision for receivables from private pension operations and insurance operations are is as follows:

	1 January – 31 December 2016	1 January – 31 December 2015
Provision for receivables from insurance and private pension operations at the beginning of the year	(5,143,286)	(3,861,768)
Provision (provided) / released during the year	(259,705)	(1,281,518)
Provision for receivables from insurance and private pension operations at the end of the year	(5,402,991)	(5,143,286)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments.

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.

The following table provides an analysis of assets and liabilities of the Company into relevant maturity groupings based on the remaining periods to repayments:

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management(continued)

Liquidity risk (continued)

31 December 2016	Carrying value	Unallocated	No Maturity	Up to 1 month	1 to 3 month	3 to 6 month	6 to 12 month	More than 1 year
Cash and cash equivalents	168,432,635	-	14,120,620	542,839,408	130,691,825	68,981,282	927,799,500	-
Financial assets and financial investments with risks on policyholders	22,065,922	263,223	-	-	3,072,514	-	-	18,730,185
Receivables from main operations	9,600,088,894	9,599,264,400	-	33,955,414	16,810,116	14,688,723	5,370,241	-
Due from related parties	-	-	-	-	-	-	-	-
Other receivables	2,806	-	-	2,806	-	-	-	-
Prepaid expenses and income accruals	35,482,536	-	-	4,765,183	8,855,761	10,477,682	11,383,910	-
Other current assets	30,690	-	-	-	30,690	-	-	-
Deposits and guarantees given	4,878	-	-	-	-	-	-	4,878
Tangible assets	73,069,903	73,069,903	-	-	-	-	-	-
Intangible assets	32,118,853	32,118,853	-	-	-	-	-	-
Deferred tax asset	6,213,042	6,213,042	-	-	-	-	-	-
Total assets	11,387,747,049	9,575,166,421	14,120,620	581,562,811	159,460,796	94,147,687	944,453,651	18,735,063
Financial liabilities	738,100	-	-	42,073	86,908	132,030	279,376	1,977,13
Payables arising from main operations	9,703,886,525	9,523,957,136	-	161,857,381	11,345,909	4,580,126	21,653,973	-
Due to related parties	74,600,176	-	-	74,600,176	-	-	-	-
Other liabilities	1,759,407	-	-	1,759,407	-	-	-	-
Insurance technical provisions (*)	293,408,811	212,887,466	-	11,592,557	21,359,421	25,041,133	22,518,234	-
Investment contract liabilities (*)	28,042,515	-	-	-	-	-	-	28,042,515
Provisions for taxes and other similar obligations	12,074,509	-	-	12,074,509	-	-	-	-
Provisions for other risks	8,792,803	-	-	-	-	-	-	-
Other Deferred Income and Expense Accruals	18,711,301	3,000,000	-	8,484,775	1,940,786	241,6957	15,416,60	7,251,143
Equity	1,313,412,902	1,313,412,902	-	-	-	-	-	-
Total liabilities	11,387,747,049	11,053,357,494	-	203,270,888	34,743,024	39,150,246	28,834,026	35,491,371

(*) Outstanding claims reserve, short term and long term life mathematical reserve and equalization reserve are presented within unallocated column in the table above.

(*) Investment contracts including savings and profit sharing provisions for saving life products are presented in more than 1 year column in the table above.

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management(continued)

Liquidity risk (continued)

31 December 2015	Carrying Value	Unallocated	No Maturity	Up to 1 month	1 to 3 month	3 to 6 month	6 to 12 month	More than 1 year
Cash and cash equivalents	1,303,031,588	-	6,597,214	191,194,224	229,936,590	37,403,838	837,929,752	-
Financial assets and financial investments with risks on policyholders	33,826,954	263,223	-	-	1113,410	10,108,027	3,051,414	19,289,880
Receivables from main operations	7,660,740,965	7,584,242,933	-	36,267,835	21,966,513	14,886,349	3,359,235	-
Due from related parties	-	-	-	-	-	-	-	-
Other receivables	24,971	-	-	24,971	-	-	-	-
Prepaid expenses and income accruals	36,423,67	-	-	5,710,137	9,738,171	11,126,435	9,848,884	-
Other current assets	21,271	-	-	-	21,271	-	-	-
Deposits and guarantees given	4,169	-	-	-	-	-	-	4,169
Tangible assets	6,197,122	6,197,122	-	-	-	-	-	-
Intangible assets	28,538,306	28,538,306	-	-	-	-	-	-
Deferred tax asset	6,315,450	6,315,450	-	-	-	-	-	-
Total assets	9,075,123,463	7,635,556,154	6,567,214	233,197,167	262,795,955	73,526,669	854,186,285	19,294,049
Payables arising from main operations	7703,557,491	7,582,143,950	-	106,576,330	7,226,403	5,835,821	1,772,987	-
Due to related parties	7,631,239	-	-	7,631,239	-	-	-	-
Other liabilities	2,522,785	-	-	2,522,785	-	-	-	-
Insurance technical provisions (*)	237,140,929	148,022,625	-	14,501,097	24,628,588	27,840,784	22,147,835	-
Investment contract liabilities (*)	25,882,328	-	-	-	-	-	-	25,882,328
Provisions for taxes and other similar obligations	11,614,646	-	-	11,614,646	-	-	-	-
Provisions for other risks	7,783,266	-	-	-	-	-	-	-
Other Deferred Income and Expense Accruals	11,056,892	-	-	5,789,731	1,634,417	1,955,666	3,026,288	4,756,978
Equity	1,067,895,087	1,067,895,087	-	-	-	-	-	-
Total liabilities	9,075,123,463	8,798,051,668	-	148,631,828	33,489,498	35,632,271	28,678,988	30,639,306

(*) Outstanding claims reserve, short term and long term life mathematical reserve and equalization reserve are presented within unallocated column in the table above.

(**) Investment contracts including savings and profit sharing provisions for saving life products are presented in more than 1 year column in the table above.

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Market risk

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

Currency risk

The Company is exposed to currency risk through its transactions denominated in foreign currencies.

Foreign exchange gains and losses due to foreign currency denominated transactions are recognized in the period of the transaction. Monetary assets and liabilities denominated in foreign currencies are measured at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the statement of income as foreign exchange gains or losses.

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

31 December 2016	US Dollar	Euro	Other Currencies	Total
Cash and cash equivalents	32.054.611	25.991	185.556	32.266.158
Financial assets and financial investments with risks on policyholders	18.730.185	3.072.514	-	21.802.699
Receivables from main operations	11.647.131	90.768	-	11.737.899
Total foreign currency denominated assets	62.431.927	3.189.273	185.556	65.806.756
Payables arising from main operations	(1.532.978)	(63.940)	(1)	(1.596.919)
Insurance technical provisions	(6.052.127)	(981.269)	(747)	(7.034.143)
Investment contract liabilities	(25.517.979)	(2.524.536)	-	(28.042.515)
Total foreign currency denominated liabilities	(33.103.084)	(3.569.745)	(748)	(36.673.577)
Balance sheet position	29.328.843	(380.472)	184.808	29.133.179

31 December 2015	US Dollar	Euro	Other Currencies	Total
Cash and cash equivalents	38.489.855	207.503	21.504	38.718.862
Financial assets and financial investments with risks on policyholders	16.543.391	2.746.488	-	19.289.879
Receivables from main operations	6.950.172	96.191	-	7.046.363
Total foreign currency denominated assets	61.983.418	3.050.182	21.504	65.055.104
Payables arising from main operations	(652.803)	(29.488)	(95)	(682.386)
Insurance technical provisions	(6.044.620)	(839.600)	(1.276)	(6.885.496)
Investment contract liabilities	(23,508,316)	(2,374,011)	-	(25,882,327)
Total foreign currency denominated liabilities	(30.205.739)	(3.243.099)	(1.371)	(33.450.209)
Balance sheet position	31.777.679	(192.917)	20.133	31.604.895

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

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Market risk (continued)

Currency risk (continued)

Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are measured as TL at the purchasing exchange rates announced by the Central Bank of Turkey ruling at 31 December 2016. Only life mathematical provisions and loans to the policyholders are measured at effective selling rates announced by the Central Bank of Turkey as disclosed on the face of policies.

Foreign exchange rates used for the translation of foreign currency denominated monetary assets and liabilities as at balance sheet date are as follows:

31 December 2016	US Dollar	Euro
Foreign currency rate used in translation of balance sheet items	3,5192	3,7099
Foreign currency rates used in calculation of life mathematical provision and loans to the policyholders	3,5308	3,7222
31 December 2015	USD Dollar	Euro
Foreign currency rate used in translation of balance sheet items	2,9076	3,1776
Foreign currency rates used in calculation of life mathematical provision and loans to the policyholders	2,9172	3,1881

Exposure to currency risk

A 10 percent devaluation of the TL against the following currencies as at 31 December 2016 and 31 December 2015 would have increased or decreased 12 month period of 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 revaluation of the TL against the following currencies, the effect will be in opposite direction.

	31 December 2016		31 December 2015	
	Profit or loss	Equity^(*)	Profit or loss	Equity^(*)
US Dollar	2.908.419	2.932.884	3.128.406	3.177.768
Euro	(43.282)	(38.047)	(24.339)	(19.292)
Others	18.481	18.481	2.013	2.013
Total, net	2.883.618	2.913.318	3.106.080	3.160.489

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

Exposure to interest rate risk

The principle risk to trading portfolios are exposed is the risk of fluctuations in the fair values of financial instruments because of a change in market interest rate. 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 reprising bands.

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Market risk (continued)

Exposure to interest rate risk (continued)

As at balance sheet date, the interest rate profile of the Company's interest earning financial assets and interest bearing financial liabilities are detailed below:

	31 December 2016	31 December 2015
Banks (time deposit) (Not 14)	1,526,064,710	1,200,703,085
Financial investments with risks on policyholders - Available for sale financial assets - Eurobonds (Note 11)	21,802,699	19,289,879
Available for sale financial assets - private sector bills (Note 11)	-	14,272,852
Loans to the policyholders (Note 12)	112,222	100,343
Financial liabilities:	None	None

Interest rate sensitivity of financial instruments

Interest rate sensitivity of the statement of income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss and on the net interest income as at and for the year ended 31 December 2016 and 31 December 2015 of the floating rate non-trading financial assets and financial liabilities held at 31 December 2016 and 31 December 2015. Interest rate sensitivity of equity is calculated by revaluing available-for-sale financial assets at 31 December 2016 and 31 December 2015 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The table below demonstrating the effect of changes in interest rates on statement of income and equity excludes tax effects on related loss or income.

31 December 2016	Statement of income		Equity ^(*)	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial investments with risks on policyholders (Available for sale financial assets)	-	-	(48,225)	52,956
Total, net	-	-	(48,225)	52,956

31 December 2015	Statement of income		Equity ^(*)	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Available for sale financial assets	-	-	(58,719)	59,541
Financial investments with risks on policyholders (Available for sale financial assets)	-	-	(49,555)	54,667
Total, net	-	-	(108,274)	114,208

^(*) Equity effect also includes 100 base point (bp) effect of increase and decrease in interest rates on profit or loss.

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4 Management of insurance and financial risk (continued)

4.2 Financial risk management (continued)

Market risk (continued)

Fair value information

The estimated fair values of financial instruments have been determined using available market information, and where it exists, appropriate valuation methodologies. The Company has classified its financial assets as whether held for trading purpose or available for sale and measured its financial assets at their fair values at the end of the year.

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

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 using observable market data if possible. Fair value of financial assets and liabilities shown in the financial statements at fair value are presented below:

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments with risks on policyholders classified as available for sale (Note 11)	21,802,699	-	-	21,802,699
Total financial assets	21,802,699	-	-	21,802,699

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Available for sale financial assets (Note 11)	14,272,852	-	-	14,272,852
Financial investments with risks on policyholders classified as available for sale (Note 11)	19,289,879	-	-	19,289,879
Total financial assets	33,562,731	-	-	33,562,731

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4 Management of insurance and finance risk (continued)

4.2 Financial risk management (continued)

Market risk (continued)

Capital Management

The Company's capital management policies include the following:

- To comply with the insurance capital requirements required by the Undersecretariat of Treasury;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To provide an adequate return to shareholders by pricing insurance contracts in line with the level of risk assumed.

In accordance with the "Circular Regarding the Measurement and Assessment of Capital Adequacy of Insurance, Reinsurance and Private Pension Companies" issued by the Undersecretariat of Treasury on 19 January 2008 dated and 28761 numbered Official Gazette, the Company measured its minimum capital requirement as at 30 June 2016 as TL 134.579.197. As at 30 June 2016, the Company's total equity in its statutory financial statements amounted to TL 1.202.132.648 which is above the minimum capital requirement amount.

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4 Management of insurance and finance risk (continued)

4.2 Financial risk management (continued)

Gains and losses from financial instruments

Financial gains and losses recognized in the statement of income	1 January – 31 December 2016	1 January – 31 December 2015
Interest income from bank deposits	151.012.420	110.909.757
Income accrual and valuation differences of financial assets	2.208.049	8.600.279
Gains from trading of debt securities	-	702.801
Income from Turkish Derivatives Exchange transactions	-	168.536
Foreign exchange gains ^(*)	11.342.635	6.695.091
Financial gains ^(*)	164.563.104	127.076.464
Losses from trading of debt securities	(178.812)	(4.596.519)
Losses from Turkish Derivatives Exchange transactions	-	(71.796)
Others	(7.667.252)	(6.014.970)
Financial losses ^(**)	(7.846.064)	(10.683.285)
Financial gains and losses recognized in the statement of income. net	156.717.040	116.393.179

^(*) Total financial gains also include life investment income.

^(**) Total financial losses do not include depreciation and amortisation expenses.

^(***) Includes the foreign exchange income and losses shown under life branch investment income.

Financial gains and losses recognized in equity	31 December 2016	31 December 2015
Valuation difference from financial assets	296.998	538.138
Deferred tax effect	(59.400)	(107.628)
Interest income end of the period	237.598	430.510

5 Segment reporting

Segment reporting is presented based on the Company's operations and geographical segments. The Company's main segment reporting is based on the Company's operations.

The related assets and liabilities by branches and operation results are prepared according to the accounting interpretations explained under "Summary of Significant Accounting Policies".

Geographical segment reporting

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

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5 Segment reporting (continued)

Operating segments

1 January - 31 December 2016	Life	Non-Life	Private Pension	Other/ Unallocated	Total
Continuing operations					
Technical income	399.666.142	2.990	202.896.557	-	602.565.689
Technical expense	(257.393.523)	(7.076)	(138.262.306)	-	(395.662.905)
Other gains and losses, total	-	-	-	101.119.548	101.119.548
Technical net profit from ongoing operations	142.272.619	(4.086)	64.634.251	101.119.548	308.022.332
Profit before taxes	142.272.619	(4.086)	64.634.251	101.119.548	308.022.332
Income tax expense	-	-	-	(62.249.467)	(62.249.467)
Profit for the period (loss)	142.272.619	(4.086)	64.634.251	38.870.081	245.772.865
Other segment information					
Depreciation expense (Note 6)	-	-	-	-	2.830.919
Amortisation expense (Note 8)	-	-	-	-	19.712.667
31 December 2016					
Associates	-	-	263.223	-	263.223
Receivables from main operations	57.637.340	-	9.542.451.554	-	9.600.088.894
Tangible and intangible assets	-	-	-	39.425.756	39.425.756
Deferred acquisition costs	33.532.768	-	-	-	33.532.768
Other assets	21.802.699	-	-	1.692.633.709	1.714.436.408
Total assets	112.972.807	-	9.542.714.777	1.732.059.465	11.387.747.049
Insurance contract technical provisions	321.453.261	(1.935)	-	-	321.451.326
Other liabilities	37.244.679	-	9.674.332.002	41.306.140	9.752.882.821
Shareholders equity	-	-	-	1.313.412.902	1.313.412.902
Total liabilities	358.697.940	(1.935)	9.674.332.002	1.354.719.042	11.387.747.049

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5 Segment reporting (continued)

Operating segments (continued)

1 January - 31 December 2015	Life	Non-Life	Private Pension	Other/ Unallocated	Total
Continuing operations					
Technical income	317,482,732	5,833	172,812,136	-	490,300,701
Technical expense	(180,708,379)	(8,408)	(141,339,444)	-	(322,056,231)
Other gains and losses, total	-	-	-	72,338,277	72,338,277
Technical net profit from ongoing operations	136,774,353	(2,575)	31,472,692	72,338,277	240,582,747
Profit before taxes	136,774,353	(2,575)	31,472,692	72,338,277	240,582,747
Income tax expense	-	-	-	(49,674,970)	(49,674,970)
Profit for the period (loss)	136,774,353	(2,575)	31,472,692	22,663,307	190,907,777
Other segment information					
Depreciation expense (Note 6)	-	-	-	-	2,213,324
Amortisation expense (Note 8)	-	-	-	-	16,059,428

31 December 2015	Life	Non-Life	Private Pension	Other/ Unallocated	Total
Associates	-	-	263,223	-	263,223
Receivables from main operations	59,333,363	-	7,601,407,622	-	7,660,740,985
Tangible and intangible assets	-	-	-	34,735,428	34,735,428
Deferred acquisition costs	35,545,876	-	-	-	35,545,876
Other assets	19,289,879	-	-	1,324,548,072	1,343,837,951
Total assets	114,169,118	-	7,601,670,845	1,359,283,500	9,075,123,463
Insurance contract technical provisions	263,024,711	(1,454)	-	-	263,023,257
Other liabilities	30,980,544	-	7,678,834,776	34,399,799	7,744,215,119
Shareholders equity	-	-	-	1,067,885,087	1,067,885,087
Total liabilities	294,005,255	(1,454)	7,678,834,776	1,102,284,886	9,075,123,463

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6 Tangible assets

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

	1 January 2016	Additions	Disposals	31 December 2016
Cost:				
Furniture and fixtures	13,898,302	2,606,288	-	16,504,590
Other tangible assets (including leasehold improvements)	2,388,270	201,952	-	2,590,222
Tangible assets acquired through finance leasing	168,464	1,132,460	-	1,300,924
	16,455,036	3,940,700	-	20,395,736
Accumulated depreciation:				
Furniture and fixtures	(8,211,791)	(2,427,458)	-	(10,639,249)
Other tangible assets (including leasehold improvements)	(1,877,659)	(238,308)	-	(2,115,967)
Tangible assets acquired through finance leasing	(168,464)	(165,153)	-	(333,617)
	(10,257,914)	(2,830,919)	-	(13,088,833)
Net book value	6,197,122			7,306,903

Movement in tangible assets in the period from 1 January to 31 December 2015 is presented below:

	1 January 2015	Additions	Disposals	31 December 2015
Cost:				
Furniture and fixtures	12,713,746	2,497,857	(1,313,301)	13,898,302
Other tangible assets (including leasehold improvements)	2,136,319	355,569	(103,618)	2,388,270
Tangible assets acquired through finance leasing	168,464	-	-	168,464
	15,018,529	2,853,426	(1,416,919)	16,455,036
Accumulated depreciation:				
Furniture and fixtures	(7,446,096)	(2,074,388)	1,308,693	(8,211,791)
Other tangible assets (including leasehold improvements)	(1,842,341)	(138,936)	103,618	(1,877,659)
Tangible assets acquired through finance leasing	(168,464)	-	-	(168,464)
	(9,456,901)	(2,213,324)	1,412,311	(10,257,914)
Net book value	5,561,628			6,197,122

There is no change in depreciation method in the current period.

During the current period Company made TL 414,859 financial leasing payment (31 December 2015: None).

7 Investment properties

None.

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8 Intangible assets

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

	1 January 2016	Additions	Disposals	31 December 2016
Cost:				
Rights	334.371	-	-	334.371
Other intangible assets ⁽¹⁾	99.932.210	23.293.214	-	123.225.424
	100.266.581	23.293.214	-	123.559.795
Accumulated amortisation:				
Rights	(334.371)	-	-	(334.371)
Other intangible assets ⁽¹⁾	(71.393.904)	(19.712.667)	-	(91.106.571)
	(71.728.275)	(19.712.667)	-	(91.440.942)
Net book value	28.538.306			32.118.853

Movement in intangible assets in the period from 1 January to 31 December 2015 is presented below:

	1 January 2015	Additions	Disposals	31 December 2015
Cost:				
Rights	334.371	-	-	334.371
Other intangible assets ⁽¹⁾	79.892.602	20.039.608	-	99.932.210
	80.226.973	20.039.608	-	100.266.581
Accumulated amortisation:				
Rights	(334.371)	-	-	(334.371)
Other intangible assets ⁽¹⁾	(55.334.476)	(16.059.428)	-	(71.393.904)
	(55.668.847)	(16.059.428)	-	(71.728.275)
Net book value	24.558.126			28.538.306

⁽¹⁾ Other intangible assets consist of computer softwares.

9 Investments in associates

None.

10 Reinsurance assets/(liabilities)

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

Reinsurance assets	31 December 2016	31 December 2015
Reinsurance share of unearned premiums reserve (Note 17)	25.408.788	23.429.514
Reinsurance share of outstanding claims reserve (Note 17, Note 4.2)	10.109.837	9.257.459
Receivables from reinsurers (Note 12)	3.328.118	6.453.362
Total	38.846.743	39.140.335

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10 Reinsurance assets/(liabilities) (continued)

There are no impairment losses recognized for reinsurance assets.

Reinsurance liabilities	31 December 2016	31 December 2015
Deferred commission income (Deferred income) (Note 19)	7.690.156	6.257.829
Payables to the reinsurers related to premiums ceded (Note 19)	13.208.777	9.851.616
Total	20.898.933	16.109.445

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

	1 January– 31 December 2016	1 January– 31 December 2015
Ceded premiums to reinsurers during the period (Note 17)	(46.794.890)	(44.454.315)
Reinsurance share of unearned premiums reserve, at the beginning of the period (Note 17)	(23.429.514)	(24.367.468)
Reinsurance share of unearned premiums reserve, at the end of the period (Note 17)	25.408.788	23.429.514
Ceded premiums to reinsurers (Note 17)	(44.815.616)	(45.392.269)
Reinsurance share of claims paid, during the period (Note 17)	20.731.560	23.411.375
Reinsurance share of outstanding claims reserve, at the beginning of the period (Note 17)	(9.257.459)	(11.238.057)
Reinsurance share of outstanding claims reserve, at the end of the period (Note 17)	10.109.837	9.257.459
Reinsurance share of claims incurred (Note 17)	21.583.938	21.430.777
Commission income accrued from reinsurers during period (Note 32)	16.960.889	16.720.061
Deferred commission income, at the beginning of the period (Note 19)	6.257.829	5.231.481
Deferred commission income, at the end of the period (Note 19)	(7.690.156)	(6.257.829)
Commission income earned from reinsurers	15.528.562	15.693.713
Total	(7.703.116)	(8.267.779)

11 Financial assets

As at 31 December 2016 and 2015, the Company's financial asset portfolio are detailed as follows:

Financial assets and financial investments with risk on policyholders	31 December 2016	31 December 2015
Available for sale financial assets ⁽¹⁾	263.223	14.536.075
Financial investments with risks on saving life policyholders classified as available for sale	21.802.699	19.289.879
Total	22.065.922	33.825.954

⁽¹⁾ Available-for-sale financial assets with no reliable market value measurement, consist of the Emeklilik Gözetim Merkezi (EGM) shares that are measured at cost.

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11 Financial assets (continued)

As at 31 December 2016 and 31 December 2015, the Company's available for sale financial assets in its own portfolio are detailed as follows:

	31 December 2016		
	Cost	Fair value	Carrying value
Equity shares and other non-fixed income financial assets:			
Equity shares ^(*)	263.223	263.223	263.223
Total financial assets available for sale	263.223	263.223	263.223

^(*) Available-for-sale financial assets with no reliable market value measurement, consist of the Emeklilik Gözetim Merkezi (EGM) shares that are measured at cost.

	31 December 2015		
	Cost	Fair value	Carrying value
Debt instruments:			
Private sector bills	14.100.000	14.272.852	14.272.852
Equity shares and other non-fixed income financial assets:			
Equity shares ^(*)	263.223	263.223	263.223
Total financial assets available for sale	14.363.223	14.536.075	14.536.075

^(*) Available-for-sale financial assets with no reliable market value measurement, consist of the Emeklilik Gözetim Merkezi (EGM) shares that are measured at cost.

As at 31 December 2016, the Company's has no financial assets held for trading (and 31 December 2015: None).

As at 31 December 2016 and 31 December 2015, the Company's financial investments with risks on saving life policyholders ("FIRSLP") are detailed as follows:

	31 December 2016		
	Cost	Fair value	Carrying value
Debt instruments:			
Eurobonds issued by The Republic of Turkey Government	18.926.824	21.802.699	21.802.699
Total available for sale financial assets	18.926.824	21.802.699	21.802.699

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11 Financial assets (continued)

	31 December 2015		
	Cost	Fair value	Carrying value
Debt instruments:			
Eurobonds issued by The Republic of Turkey Government	15,726,560	19,289,879	19,289,879
Total available for sale financial assets	15,726,560	19,289,879	19,289,879

All debt instruments presented above are traded in active markets.

There is no debt security issued during the period or issued before and paid during the period by the Company.

Value increases in financial assets for the last three years:

Year	Change in value increase/(decrease)	Total increase/ (decrease) in value
2016	(192,912)	237,598
2015	46,906	430,510
2014	169,629	383,604

Value increases represent the differences between the financial assets' carrying value and the cost value at the end of the period.

Financial assets issued by related parties of the Company: None (31 December 2015: None).

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

	31 December 2016		
	Cost	Fair value	Carrying value
Financial investments with risks on saving life policyholders - Eurobonds	18,926,824	21,802,699	21,802,699
Total	18,926,824	21,802,699	21,802,699

	31 December 2015		
	Cost	Fair value	Carrying value
Financial investments with risks on saving life policyholders - Eurobonds	15,726,560	19,289,879	19,289,879
Total	15,726,560	19,289,879	19,289,879

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12 Loan and receivables

	31 December 2016	31 December 2015
Receivables from main operations (Note 4.2)	9.600.088.894	7.660.740.985
Other receivables (Note 4.2)	2.806	24.971
Non-current receivables (Note 4.2)	4.878	4.169
Total	9.600.096.578	7.660.770.125
Short-term receivables	9.600.091.700	7.660.765.956
Mid-term and long-term receivables	4.878	4.169
Total	9.600.096.578	7.660.770.125

As at 31 December 2016 and 31 December 2015, receivables from main operations are detailed as follows:

	31 December 2016	31 December 2015
Receivables from policyholders	54.251.347	52.860.238
Receivables from reinsurance companies (Note 10)	3.328.118	6.453.362
Provisions for doubtful receivables from policyholders (Note 4.2)	(54.347)	(80.580)
Total receivables from insurance operations, net	57.525.118	59.233.020
Loans to the policyholders (Note 4.2)	112.222	100.343
Receivables from private pension operations (Note 18)	9.547.800.198	7.606.470.327
Provision for receivables from private pension operations (Note 4.2), (Note 18)	(5.348.644)	(5.062.705)
Receivables from main operations	9.600.088.894	7.660.740.985

Provision for both overdue receivables and receivables not due yet

- Receivables under legal or administrative follow up (due): None (31 December 2015: None).
- Provision for premium receivables (due): TL 54,347 (31 December 2015: TL 80,580).
- Provision for impairment of receivables from entrance fees: TL 5,348,644 (31 December 2015: TL 5,062,705)

The related party transactions of the Company are presented in Note 45 in detail.

The receivables and payables denominated in foreign currencies and detailed analyses of foreign currency balances are presented in Note 4.2.

13 Derivative financial instruments

The Company does not have any derivative financial instruments as of 31 December 2016 and 31 December 2015.

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14 Cash and cash equivalents

As at 31 December 2016 and 31 December 2015, cash and cash equivalents are as follows:

	31 December 2016		31 December 2015	
	At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
Bank deposits	1.540.185.330	1.205.995.538	1.205.995.538	929.250.473
Receivables from credit card collections (less than 3 months)	144.247.305	97.036.050	97.036.050	79.860.132
Other cash and cash equivalents ^(*)	-	-	-	1.694.387
Cash and cash equivalents in the balance sheet	1.684.432.635	1.303.031.588	1.303.031.588	1.010.804.992
Interest accruals on bank deposits	(18.711.749)	(19.200.410)	(19.200.410)	(20.265.817)
Total	1.665.720.886	1.283.831.178	1.283.831.178	990.539.175
Time deposit more than 3 months	1.019.582.404	862.319.274	862.319.274	654.394.725
Blocked amount	(254.130.023)	(153.035.064)	(153.035.064)	(123.681.234)

^(*) Other cash and cash equivalents consist of derivative exchange collaterals.

As at 31 December 2016 and 31 December 2015, the details of bank deposits are as follows:

	31 December 2016	31 December 2015
Foreign currency denominated bank deposits		
- time deposits	32.240.166	38.697.358
- demand deposits	25.992	21.504
Bank deposits in Turkish Lira		
- time deposits	1.493.824.544	1.162.005.726
- demand deposits	14.094.628	5.270.950
Cash at banks	1.540.185.330	1.205.995.538

As at 31 December 2016, cash collateral kept at banks in favour of the Undersecretariat of Treasury against insurance operations amounted to TL 254.130.023 (31 December 2015: TL 153.035.064).

Company's time deposits in T. Garanti Bankası A.Ş. is stated in note 45.

As at 31 December 2016 and 2015, the interest rate interval as follows:

	31 December 2016	31 December 2015
	Interest rate(%)	Interest rate(%)
TL	%8,75-%12,00	9,00%-13,95%
Foreign Currency	%0,15-%3,10	0,25%-2,75%

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15 Equity

Paid in capital

As at 31 December 2016 and 2015, the authorized nominal share capital of the Company is TL 50.000.000 and the share capital of the Company consists of 5,000.000.000 issued shares with TL 0.01 nominal value each.

There are not any treasury shares held by the Company itself or by its subsidiaries or associates.

There are not any equity shares issued which will be subject to sale in accordance with forward transactions and contracts.

The shareholder having direct or indirect control over the shares of the Company is Garanti Bankası Group, having 84,91% of the outstanding shares. Another party which have significant influence over the operations of the Company is Netherland based company Achmea BV having 15,00% of outstanding shares.

Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

	1 January - 31 December 2016	1 January - 31 December 2015
Legal reserves at the beginning of the period	10.000.000	10.000.000
Distribution of profit for the year		-
Legal reserves at the end of the period	10.000.000	10.000.000

Extraordinary Reserves

	1 January - 31 December 2016	1 January - 31 December 2015
Extraordinary reserves at the beginning of the period	813.506.749	643.590.337
Distribution of profit for the year	190.907.777	169.916.412
Extraordinary reserves at the end of the period	1.004.414.526	813.506.749

Revaluation of financial assets

The period income and expenses accrued directly under equity as of balance sheet date is presented below:

	31 December 2016	31 December 2015
Valuation differences from financial assets	296.998	538.138
Deferred tax effect	(59.400)	(107.628)
Fair value reserves at the end of the period	237.598	430.510

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16 Other reserves and equity component of DPF

As at 31 December 2016, there is not any other reserves presented under equity except for the fair value reserves of available-for-sale financial assets which is presented as "revaluation of financial assets" in the accompanying financial statements. Movement of fair value reserves of available-for-sale financial assets and their related tax effects are presented in Note 15.

The Company recognizes its liability to the policyholders due to the saving life products, classified as investment contracts, under life mathematical provisions. The Company recognizes its own portion for the unrealized gains and losses, recognized due to change in the fair values of available for sale financial assets backing long term investment contracts under equity within 'revaluation of financial assets'.

17 Insurance contract liabilities and reinsurance assets

As at 31 December 2016 and 31 December 2015, provisions for technical reserves of the Company are disclosed as follows:

	31 December 2016	31 December 2015
Unearned premiums reserve, gross	105.930.143	112.547.818
Unearned premiums reserve, ceded (Note 10)	(25.408.788)	(23.429.514)
Unearned premiums reserve, net	80.521.355	89.118.304
Outstanding claims reserve, gross	37.249.563	35.027.087
Outstanding claims reserve, ceded (Note 10, Note 4.2)	(10.109.837)	(9.257.459)
Outstanding claims reserve, net	27.139.726	25.769.628
Life mathematical reserve (short term and long term)	199.159.599	136.445.261
Equalization reserve, net	14.630.646	11.690.064
Total insurance technical reserves, net	321.451.326	263.023.257
Short-term	115.711.018	117.031.855
Medium and long-term	205.740.308	145.991.402
Total insurance technical provisions, net	321.451.326	263.023.257

As at 31 December 2016 and 2015, movements of the insurance liabilities and related reinsurance assets are presented below:

	1 January – 31 December 2016		
Unearned premiums reserve	Gross	Reinsurer share	Net
Unearned premiums reserve at the beginning of the period	112.547.818	(23.429.514)	89.118.304
Premiums written during the period	409.807.947	(46.794.890)	363.013.057
Premiums earned during the period	(416.425.622)	44.815.616	(371.610.006)
Unearned premiums reserve at the end of the period	105.930.143	(25.408.788)	80.521.355

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17 Insurance contract liabilities and reinsurance assets (continued)

Unearned premiums reserve	1 January – 31 December 2015		
	Gross	Reinsurer share	Net
Unearned premiums reserve at the beginning of the period	124,378,426	(24,367,468)	100,010,958
Premiums written during the period	328,799,180	(44,454,315)	284,344,865
Premiums earned during the period	(340,629,788)	45,392,269	(295,237,519)
Unearned premiums reserve at the end of the period	112,547,818	(23,429,514)	89,118,304

Equalization reserve at the beginning of the period	1 January -	1 January -
	31 December 2016	31 December 2015
Equalization reserve at the beginning of the period	11,690,064	9,425,625
Increases during the period	2,940,582	2,264,439
Equalization reserve at the end of the period	14,630,646	11,690,064

Outstanding claims reserve	1 January – 31 December 2016		
	Gross	Reinsurer share	Net
Outstanding claims reserve at the beginning of the period	35,027,087	(9,257,459)	25,769,628
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	91,239,739	(21,583,938)	69,655,801
Claims paid during the period	(89,017,263)	20,731,560	(68,285,703)
Outstanding claims reserve at the end of the period	37,249,563	(10,109,837)	27,139,726

Outstanding claims reserve	1 January – 31 December 2015		
	Gross	Reinsurer share	Net
Outstanding claims reserve at the beginning of the period	44,361,494	(11,238,057)	33,123,437
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	68,328,464	(21,430,777)	46,897,687
Claims paid during the period	(77,662,871)	23,411,375	(54,251,496)
Outstanding claims reserve at the end of the period	35,027,087	(9,257,459)	25,769,628

Claim development tables

The basic assumption used in the estimation of provisions for outstanding claims is the Company's past experience on claim developments. The Company's management uses the judgment to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. The sensitivity of certain assumptions like legislative change, uncertainty in the estimation process, etc, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claims reserve is not known with certainty at the balance sheet date. Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognized in subsequent period financial statements.

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17 Insurance contract liabilities and reinsurance assets (continued)

Claim development tables (continued)

Development of insurance liabilities enables to measure the performance of the Company in estimation of its ultimate claim losses. The numbers presented on the top of the below tables show the changes in estimations of the Company for the claims in subsequent years after accident years. The numbers presented on the below of the below tables give the reconciliation of total liabilities with outstanding claims reserve presented in the accompanying financial statements.

31 December 2016

Accident year	2011	2012	2013	2014	2015	2016	Total
Accident year	44.370.132	88.457.043	98.752.008	86.156.919	81.677.793	95.132.970	494.546.865
1 year later	41.964.897	64.914.834	88.880.162	78.253.153	79.018.060	-	353.031.106
2 years later	40.461.421	60.957.165	84.421.714	76.501.800	-	-	262.342.100
3 years later	38.514.161	60.382.047	84.502.659	-	-	-	183.398.867
4 years later	37.811.376	60.558.370	-	-	-	-	98.369.746
5 years later	39.399.308	-	-	-	-	-	39.399.308
Current estimate of cumulative claims	39.399.308	60.558.370	84.502.659	76.501.800	79.018.060	95.132.970	435.113.167
Cumulative payments up to date	(37.525.919)	(59.777.244)	(82.071.397)	(71.418.340)	(72.914.296)	(74.156.408)	(397.863.604)
Liability recognized in balance sheet	1.873.389	781.126	2.431.262	5.083.460	6.103.764	20.976.562	37.249.563
Total outstanding claims reserve, gross in the financial statements							37.249.563

31 December 2016

Accident year	2011	2012	2013	2014	2015	2016	Total
Accident year	32.899.049	43.365.883	60.859.042	59.352.208	58.640.250	73.584.053	328.700.485
1 year later	35.850.760	34.700.322	51.629.197	52.232.031	55.512.051	-	229.924.361
2 years later	34.658.339	31.103.144	47.988.522	51.075.574	-	-	164.825.579
3 years later	32.972.944	30.498.756	48.033.858	-	-	-	111.505.558
4 years later	32.584.433	30.611.312	-	-	-	-	63.195.745
5 years later	34.012.283	-	-	-	-	-	34.012.283
Current estimate of cumulative claims	34.012.283	30.611.312	48.033.858	51.075.574	55.512.051	73.584.053	292.829.131
Cumulative payments up to date	(32.328.709)	(29.953.096)	(45.863.747)	(47.164.184)	(50.788.308)	(59.591.361)	(265.689.405)
Liability recognized in balance sheet	1.683.574	658.216	2.170.111	3.911.390	4.723.743	13.992.692	27.139.726
Total outstanding claims reserve, net in the financial statements							27.139.726

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17 Insurance contract liabilities and reinsurance assets (continued)

Claim development tables (continued)

31 December 2015

Accident year	2010	2011	2012	2013	2014	2015	Total
Accident year	33.985.735	44.370.132	88.457.043	98.752.008	86.156.919	81.677.793	433.399.630
1 year later	33.288.475	41.964.897	64.914.834	88.880.162	78.253.153	-	307.301.521
2 years later	35.559.821	40.461.421	60.957.165	84.421.714	-	-	221.400.121
3 years later	40.284.581	38.514.161	60.382.047	-	-	-	139.180.789
4 years later	38.232.491	37.811.376	-	-	-	-	76.043.867
5 years later	39.738.403	-	-	-	-	-	39.738.403
Current estimate of cumulative claims	39.738.403	37.811.376	60.382.047	84.421.714	78.253.153	81.677.793	382.284.486
Cumulative payments up to date	(37.937.016)	(37.346.474)	(59.419.142)	(81.155.009)	(70.732.261)	(60.667.497)	(347.257.399)
Liability recognized in balance sheet	1.801.387	464.902	962.905	3.266.705	7.520.892	21.010.296	35.027.087
Total outstanding claims reserve, gross in the financial statements							35.027.087

31 December 2015

Accident year	2010	2011	2012	2013	2013	2015	Total
Accident year	17.205.786	32.899.049	43.365.883	60.859.042	59.352.208	58.640.250	272.322.218
1 year later	19.543.791	35.850.760	34.700.322	51.629.197	52.232.031	-	193.956.101
2 years later	21.943.357	34.658.339	31.103.144	47.988.522	-	-	135.693.362
3 years later	21.923.279	32.972.944	30.498.756	-	-	-	85.394.979
4 years later	20.118.465	32.584.433	-	-	-	-	52.702.898
5 years later	21.242.999	-	-	-	-	-	21.242.999
Current estimate of cumulative claims	21.242.999	32.584.433	30.498.756	47.988.522	52.232.031	58.640.250	243.186.991
Cumulative payments up to date	(19.574.497)	(32.175.037)	(29.714.867)	(45.116.221)	(46.678.697)	(44.158.044)	(217.417.363)
Liability recognized in balance sheet	1.668.502	409.396	783.889	2.872.301	5.553.334	14.482.206	25.769.628
Total outstanding claims reserve, net in the financial statements							25.769.628

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17 Insurance liabilities and reinsurance assets (continued)

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

	31 December 2016		31 December 2015	
	Should be placed (**)	Placed (*)	Should be placed (**)	Placed (*)
Life:				
Bank deposits		253.698.088		152.644.464
Financial assets (†)		23.025.473		19.285.348
Total	229.064.859	276.723.561	162.527.970	171.929.812
Non-life:				
Bank deposits	166.681	431.935	166.680	390.600
Total	229.231.540	277.155.496	162.694.650	172.320.412

(†) As at 31 December 2016 and 31 December 2015, government bonds and treasury bills are measured at daily official prices announced by the Central Bank of Turkey; if these prices are not available, they are measured with stock exchange values; investment fund participation certificates are measured using the daily prices in accordance with the 6th Article of "Circular Related to the Financial Structure of Insurance, Reinsurance, and Private Pension Companies".

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

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

	1 January - 31 December 2016		1 January - 31 December 2015	
	Number of policyholders	Life mathematical reserve	Number of policyholders	Life mathematical reserve
Beginning of the year	2.331.848	136.445.261	2.431.699	106.058.091
Additions during the year	2.524.387	108.663.137	2.726.058	65.430.245
Disposals during the year	(2.586.674)	(25.667.833)	(2.825.909)	(20.014.157)
Movements during the year (†)	-	(20.280.966)	-	(15.028.918)
Current	2.269.561	199.159.599	2.331.848	136.445.261

(†) Increase/Decrease of the reserves are related with currency rates during the year.

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

	31 December 2016			31 December 2015		
	Number of contracts	Gross premium	Net premium	Number of contracts	Gross premium	Net premium
Individual	1.994	1.678.406	1.678.406	1.405	6.410.624	6.410.624
Group	2.522.393	500.117.105	500.117.105	2.724.653	415.478.429	415.478.429
Total	2.524.387	501.795.511	501.795.511	2.726.058	421.889.053	421.889.053

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17 Insurance liabilities and reinsurance assets (continued)

Distribution of number of contracts, gross and net premiums and mathematical reserves for life insurance policyholders who left the Company's portfolio as individual or group during the period

	31 December 2016				31 December 2015			
	Number of contracts	Gross premium	Net premium	Mathematical reserve	Number of contracts	Gross premium	Net premium	Mathematical reserve
Individual	2.561	350.845	350.845	(2.976.311)	1.977	2.384.145	2.384.145	(4.865.960)
Group	2.584.113	91.640.190	91.640.190	(22.691.522)	2.823.932	90.708.325	90.708.325	(15.148.197)
Total	2.586.674	91.991.035	91.991.035	(25.667.833)	2.825.909	93.092.470	93.092.470	(20.014.157)

Deferred commission expenses

The Company defers commissions paid to the intermediaries for the production of the policies and other expenses for the one year term life products and for annually renewed long term life products under prepaid expenses. As at 31 December 2016, deferred commission and other expenses amount to TL 23,437,481 and TL 10,095,287 (31 December 2015: TL 22,555,794 and TL 12,990,082).

The movement of deferred commission expenses as of 31 December 2016 and 31 December 2015 is as follows.

	1 January - 31 December 2016	1 January - 31 December 2015
Deferred commission expenses at the beginning of the period	22.555.794	25.156.306
Commissions accrued during the period	89.477.911	65.021.648
Paid commissions during the period	(88.596.224)	(67.622.160)
Deferred commission expenses at the end of the period	23.437.481	22.555.794

18 Investment contract liabilities

The movements of life mathematical reserve for saving life policies as at 31 December 2016 and 31 December 2015 are as follows:

Life mathematical provision for saving life policies	1 January - 31 December 2016	1 January - 31 December 2015
Investment contract liabilities at the beginning of the period (Life-mathematical reserve)	25.882.328	25.756.607
Effect of foreign exchange differences	4.175.590	5.151.771
Written premiums during the period (saving life policies)	485.023	443.332
Disposals during the period (leaving policyholders)	(3.622.636)	(6.542.311)
Profit shares	1.528.316	1.413.088
Changes in the fair values of investments (Note 30)	(406.106)	(340.159)
Investment contract liabilities at the end of the period	28.042.515	25.882.328

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18 Investment contract liabilities (continued)

Profit share distribution rates to life policyholders during the period 31 December 2016 and 31 December 2015:

	31 December 2016	31 December 2015
USD:	5.92%	5.12%
EURO:	5.83%	5.82%

Pension operations

The details of receivables and liabilities from pension operations as at 31 December 2016 and 31 December 2015 are presented below:

	31 December 2016	31 December 2015
Receivables from clearing house on behalf of the participants	9.534.613.045	7.589.304.758
Receivables from participants (entrance fee)	13.187.153	17.165.569
Receivables from pension operations (Note 12)	9.547.800.198	7.606.470.327
Provision for the impairment of receivables from participants (Note 4.2), (Note 12)	(5.348.644)	(5.062.705)
Receivables from pension operations (Note 12)	9.542.451.554	7.601.407.622
	31 December 2016	31 December 2015
Payables to participants	9.523.957.136	7.581.869.417
Participants temporary account	145.907.500	95.328.835
Payables to clearing house	1.579.734	66.029
Payables to Emeklilik Gözetim Merkezi	1.377.853	74.317
Other liabilities	1.509.779	1.496.178
Payables due to pension operations (Note 19)	9.674.332.002	7.678.834.776

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18 Investment contract liabilities (continued)

Pension operations (continued)

As at 31 December 2016 and 31 December 2015 pension investment funds founded by the Company and their unit prices are as follows:

	31 December 2016 Unit prices	31 December 2015 Unit prices
Alternatif Katkı EYF	0,012689	0,011746
Alternatif Standart EYF	0,012450	0,011725
Altın EYF	0,015625	0,012083
Büyüme Amaçlı Hisse Senedi EYF	0,071342	0,063135
Esnek (TL) EYF	0,014170	0,012723
Esnek Alternatif EYF	0,016740	0,015477
Esnek EYF	0,049798	0,044296
Gelir Amaçlı Esnek EYF	0,025869	0,023511
Gelir Amaçlı Kamu Borçlanma Araçları EYF	0,052784	0,048442
Gelir Amaçlı Kamu Dış Borçlanma Araçları EYF	0,054704	0,046876
Gruplara Yönelik Esnek EYF	0,038674	0,033959
Gruplara Yönelik Gelir Amaçlı Kamu Borçlanma Araçları EYF	0,033007	0,029977
Gruplara Yönelik Gelir Amaçlı Kamu Dış Borçlanma Araçları EYF	0,037247	0,031765
Gruplara Yönelik Hisse Senedi EYF	0,016049	0,013910
Hisse Senedi EYF	0,014034	0,012399
İkinci Gelir Amaçlı Esnek EYF	0,035907	0,030065
Kamu Borçlanma Araçları EYF	0,027079	0,025097
Özel Sektör Borçlanma Araçları EYF	0,012422	0,011210
Katkı EYF	0,042840	0,039264
Likit-Esnek EYF	0,014503	0,013183
Standart EYF	0,013890	0,012757

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18 Investment contract liabilities (continued)

Pension operations (continued)

Number and amount of participation certificate in the portfolio and in circulation is such as follows as of 31 December 2016 and 31 December 2015:

	31 December 2016			
	Participation certificate in the circulation		Participation certificate in the portfolio	
	Number	Amount	Number	Amount
Alternatif Katkı EYF	5.238.191.288	66.465.710	1.494.761.808.712	18.967.032.591
Alternatif Standart EYF	3.153.618.835	39.264.118	1.496.846.381.165	18.635.737.446
Altın EYF	11.531.837.698	180.182.128	1.488.468.162.302	23.257.315.036
Büyüme Amaçlı Hisse Senedi EYF	2.743.128.151	195.700.634	1.497.256.871.849	106.817.299.751
Esnek (TL) EYF	68.935.375.568	976.825.551	1.431.064.624.432	20.278.185.728
Esnek Alternatif EYF	13.148.217.932	220.098.671	1.486.851.782.068	24.889.898.832
Esnek EYF	13.041.924.653	649.463.392	1.486.958.075.347	74.047.538.236
Gelir Amaçlı Esnek EYF	15.375.387.521	397.747.044	1.484.624.612.479	38.405.754.100
Gelir Amaçlı Kamu Borçlanma Araçları EYF	37.623.234.977	1.985.893.848	1.462.376.765.023	77.190.095.165
Gelir Amaçlı Kamu Dış Borçlanma Araçları EYF	5.469.179.801	299.186.681	1.494.530.820.199	81.756.813.988
Gruplara Yönelik Esnek EYF	4.762.471.189	184.184.700	1.495.237.528.811	57.826.816.189
Gruplara Yönelik Gelir Amaçlı Kamu Borçlanma Araçları EYF	11.978.956.792	395.389.560	1.488.021.043.208	49.115.110.573
Gruplara Yönelik Gelir Amaçlı Kamu Dış Borçlanma Araçları EYF	2.831.746.069	105.473.998	1.497.168.253.931	55.765.025.954
Gruplara Yönelik Hisse Senedi EYF	3.921.646.943	62.937.823	1.496.078.353.057	24.010.561.488
Hisse Senedi EYF	8.552.206.891	120.023.373	1.491.447.793.109	20.930.978.328
İkinci Gelir Amaçlı Esnek EYF	9.345.363.218	335.562.165	1.490.654.636.782	53.524.936.043
Kamu Borçlanma Araçları EYF	1.088.439.295	29.473.548	1.498.911.560.705	40.589.026.152
Katkı EYF	88.872.595.172	1.103.934.259	1.411.127.404.828	17.529.024.623
Likit Esnek EYF	24.445.480.328	1.047.248.349	1.475.554.519.672	63.212.755.623
Özel Sektör Borçlanma Araçları EYF	6.229.517.695	90.346.179	1.493.770.482.305	21.664.153.305
Standart EYF	74.730.999.732	1.038.044.555	1.425.269.000.268	19.796.986.414
Total	413.019.519.748	9.523.446.286	31.086.980.480.252	908.211.045.565

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18 Investment contract liabilities (continued)

Pension operations (continued)

	31 December 2015			
	Participation certificate in the circulation		Participation certificate in the portfolio	
	Number	Amount	Number	Amount
Alternatif Katkı EYF	3.129.511.849	36.758.803	1.496.870.488.151	17.582.240.754
Alternatif Standart EYF	1.043.551.369	12.235.963	1.498.956.448.631	17.575.264.360
Altın EYF	5.010.422.106	60.541.183	1.494.989.577.894	18.063.959.070
Büyüme Amaçlı Hisse Senedi EYF	2.981.284.147	188.223.954	1.497.018.715.853	94.514.276.625
Esnek (TL) EYF	52.400.731.831	666.683.733	1.447.599.268.169	18.417.805.489
Esnek Alternatif EYF	10.748.596.673	166.352.258	1.489.251.403.327	23.049.143.969
Esnek EYF	13.556.041.787	600.472.535	1.486.443.958.213	65.843.521.573
Gelir Amaçlı Esnek EYF	10.753.263.826	252.815.180	1.489.246.736.174	35.013.680.014
Gelir Amaçlı Kamu Borçlanma Araçları EYF	38.610.444.993	1.870.354.687	1.461.389.555.007	70.792.632.824
Gelir Amaçlı Kamu Dış Borçlanma Araçları EYF	4.295.465.708	201.354.986	1.495.704.534.292	70.112.645.749
Gruplara Yönelik Esnek EYF	5.151.431.804	174.937.228	1.494.848.568.196	50.763.562.527
Gruplara Yönelik Gelir Amaçlı Kamu Borçlanma Araçları EYF	12.477.018.438	374.018.868	1.487.522.981.562	44.591.476.418
Gruplara Yönelik Gelir Amaçlı Kamu Dış Borçlanma Araçları EYF	1.802.841.045	57.267.817	1.498.197.158.955	47.590.232.754
Gruplara Yönelik Hisse Senedi EYF	4.626.775.800	64.359.016	1.495.373.224.200	20.800.641.549
Hisse Senedi EYF	8.728.473.475	108.220.248	1.491.271.526.525	18.490.275.657
İkinci Gelir Amaçlı Esnek EYF	6.625.369.221	199.194.709	1.493.374.630.779	44.898.308.274
Kamu Borçlanma Araçları EYF	1.115.453.804	27.994.362	1.498.884.546.196	37.617.505.456
Özel Sektör Borçlanma Araçları EYF	67.413.356.927	755.682.590	1.432.586.643.073	16.059.296.269
Katkı EYF	21.572.492.388	847.030.279	1.478.427.507.612	58.048.977.659
Likit-Esnek EYF	5.974.617.989	78.765.133	1.494.025.382.011	19.695.736.611
Standart EYF	65.614.114.605	837.021.417	1.434.385.885.395	18.298.460.740
Total	343.631.259.785	7.580.284.949	31.156.368.740.215	807.819.644.341

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18 Investment contract liabilities (continued)

Pension operations (continued)

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

1 January – 31 December 2016				
	Additions during the period	Left/cancellations during the period	Outstanding	Total amount
Individual	232.666	112.084	960.018	5.359.190.002
Group	50.710	33.204	250.445	1.477.612.890
Total	283.376	145.288	1.210.463	6.836.802.892

1 January – 25 December 2015				
	Additions during the period	Left/cancellations during the period	Outstanding	Total amount
Individual	186.068	71.979	837.363	4.340.405.189
Group	51.337	31.431	231.791	1.343.596.126
Total	237.405	103.410	1.069.154	5.684.001.315

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

	31 December 2016			31 December 2015		
	Number of contracts	Gross contributions	Net contributions	Number of contracts	Gross contributions	Net contributions
Individual	232.666	483.899.376	483.756.797	186.068	365.035.995	362.251.440
Group	50.710	128.619.602	128.579.622	51.337	479.396.206	479.284.612
Total	283.376	612.518.978	612.336.419	237.405	844.432.201	841.536.052

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

	31 December 2016			31 December 2015		
	Number of contracts	Gross contributions	Net contributions	Number of contracts	Gross contributions	Net contributions
Individual	7.951	71.931.336	71.931.336	2.101	59.050.129	59.021.579
Group	3.479	39.614.009	39.594.674	651	13.196.032	13.194.854
Total	11.430	111.545.345	111.526.010	2.752	72.246.161	72.216.433

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

None.

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18 Investment contract liabilities (continued)

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

	31 December 2016			31 December 2015		
	Number of contracts	Gross contributions	Net contributions	Number of contracts	Gross contributions	Net contributions
Individual	112.084	965.351.059	884.544.140	71.979	539.858.364	538.972.166
Group	33.204	367.438.395	360.640.835	31.431	497.071.696	496.913.678
Total	145.288	1.332.789.454	1.245.184.975	103.410	1.036.930.060	1.035.885.844

19 Trade and other payables and deferred income

As of 31 December 2016, there are prepaid other expenses for next months of TL 1,949,768 (31 December 2015: TL 877,771). Prepaid other expenses for next months generally consist of rent, insurance, maintenance, subscription expenses.

	31 December 2016	31 December 2015
Payables due to main operations	9.703.886.525	7.703.557.491
Taxes and other liabilities and provisions	12.074.509	11.614.647
Due to related parties	7.460.176	7.631.238
Deferred commission income	7.690.156	6.257.829
Expense accruals	10.481.145	4.847.863
Other various payables (Note 47) ⁽¹⁾	1.759.407	2.522.785
Total	9.743.351.918	7.736.431.853
Short term liabilities	9.743.351.918	7.736.431.853
Total	9.743.351.918	7.736.431.853

⁽¹⁾ Other payables are comprised of payables to third party service providers as at 31 December 2016.

Payables from main operations of the Company as at 31 December 2016 and 31 December 2015 are detailed below:

	31 December 2016	31 December 2015
Payables to reinsurers (Note 10)	13.208.777	9.851.615
Payables to agencies	16.284.131	14.844.713
Payables to policyholders	61.615	26.387
Total payables due to insurance operations	29.554.523	24.722.715
Payables due to pension operations (Note 18)	9.674.332.002	7.678.834.776
Payables from main operations	9.703.886.525	7.703.557.491

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19 Trade and other payables and deferred income (continued)

Corporate tax provision and prepaid taxes are disclosed below:

	31 December 2016	31 December 2015
Corporate tax provision	62,337,384	49,674,970
Prepaid taxes during the period	(60,358,963)	(44,388,295)
Corporate tax payable, net	1,978,421	5,286,675

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

None.

20 Financial liabilities

As of 31 December 2016, Company has TL 813,333 financial leasing payables (31 December 2015: None).

21 Deferred taxes

As at 31 December 2016 and 31 December 2015, the detailed analysis of the items resulting deferred tax assets and liabilities are as follows:

	31 December 2016	31 December 2015
	Deferred tax assets / (liabilities)	Deferred tax assets / (liabilities)
Differences in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards	(2,274,406)	(2,008,705)
Equalization provision	2,926,129	2,338,013
Provision for employment termination benefits and unused vacation pay liability	1,583,633	1,453,776
Provision for personnel bonus	1,174,326	594,415
Discount on receivables and payables	313,464	395,901
Provisions for lawsuits	161,892	102,878
Provision for impairment in receivables from insurance operations	10,869	16,116
Provision for impairment in receivables from participants	1,252,290	1,329,434
Other expense accruals	1,064,845	388,614
Other insurance technical provisions	-	1,705,009
Deferred tax asset/(liability), net	6,213,042	6,315,451

Movement of the deferred tax assets / (liabilities) during the periods ending 31 December 2016 and 31 December 2015 is presented below:

	1 January- 31 December 2016	1 January- 31 December 2015
Beginning balance, January 1	6,315,451	4,877,547
Recognized in the income statement	(163,672)	1,537,620
Recognized in the equity	61,263	(99,716)
Closing balance as of end of the period	6,213,042	6,315,451

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22 Retirement benefit obligations

None.

23 Provisions for other liabilities and charges

As at 31 December 2016 and 2015; the details of the provisions for other risks are as follows:

	31 December 2016	31 December 2015
Provision for unused vacation pay liability (long term)	1.808.369	1.718.810
Provision for unused vacation pay liability (short term)	732.198	793.090
Provisions for lawsuits	809.462	514.388
Provisions for costs	3.350.029	3.026.288
Provision for employment termination benefits	5.442.774	4.756.978
Total provisions for other risks	8.792.803	7.783.266

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

	1 January - 31 December 2016	1 January - 31 December 2015
Provision for employment termination benefits at the beginning of the period	4.756.978	4.468.626
Interest cost	508.578	387.535
Service cost	1.598.941	993.725
Payments during the period	(1.486.896)	(1.148.401)
Actuarial loss	65.173	55.493
Provision for employment termination benefits at the end of the period	5.442.774	4.756.978

24 Net insurance premium revenue

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

25 Fee revenues

Fee revenues consist of fees received from pension investment funds, pension participants and expenses charged to the life policyholders.

	1 January - 31 December 2016	1 January - 31 December 2015
Fund management fee	133.065.265	108.323.237
Management fee deduction	36.492.383	19.865.917
Entrance fee	27.775.579	36.683.515
Management fee deduction in case of interruption	5.563.330	7.929.273
Other technical income	-	10.194
Total pension technical income	202.896.557	172.812.136

The details of fees from pension investment funds and pension participants are presented in the accompanying statement of income. As at and for the year ended 31 December 2016, fees charged to saving life policyholders amounts to TL 28.732 (31 December 2015: TL 26.965)

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26 Investment income

Presented in Note 4.2 – Financial risk management.

27 Net realized gains on financial assets

Presented in Note 4.2 – Financial risk management.

28 Net fair value gains on assets at fair value through profit or loss

Presented in Note 4.2 – Financial risk management.

29 Insurance rights and claims

The Company has no branch based subrogation income or expense for the period between 1 January – 31 December 2016 (1 January – 31 December 2015: None).

30 Investment contract benefits

As at and for the year ended 31 December 2016 and 31 December 2015, the details of changes in life mathematical provisions recognized in the statement of income and equity from investment contracts are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Change in life mathematical provisions for investment contracts recognized in the statement of income	2,566.293	465.879
Changes in shares of policy holders in unrealized gain or loss from available for sale financial asset in which the liabilities arising from investment contract benefits are invested (Note 18)	(406.106)	(340.159)
Change in life mathematical provisions for investment contracts	2.160.187	125.720

31 Other mandatory expenses

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

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32 Expenses by nature

For the year ended 31 December 2016 and 31 December 2015, the details of operating expenses are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Commission expenses	(128,526,395)	(119,936,549)
<i>Commissions to intermediaries accrued during period</i>	(126,513,287)	(116,193,595)
<i>Change in deferred commission expenses</i>	862,539	(2,581,364)
<i>Deferred commission expenses</i>	(2,875,647)	(1,161,590)
Employee benefit expenses (Note 33)	(72,844,830)	(67,987,570)
Commission income from reinsurers	15,528,562	15,693,713
<i>Commission income from reinsurers accrued during period (Note 10)</i>	16,960,889	16,720,061
<i>Change in deferred commission income</i>	(1,432,327)	(1,026,348)
Advertisement and public related expenses	(14,584,568)	(12,204,971)
Office expenses	(11,744,602)	(11,072,671)
Information technology expenses	(11,712,050)	(9,317,511)
Other expenses	(5,382,769)	(6,867,030)
Total	(229,266.652)	(211.692.589)

33 Employee benefit expenses

For the year ended 31 December 2016 and 31 December 2015, the details of employee benefit expense are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Wages and salaries	(39,453,553)	(36,373,714)
Employer's share in social security premiums	(7,594,861)	(7,221,169)
Employment termination benefits and unused vacation expenses	(705,481)	(473,943)
Bonus, premium and commissions	(13,389,684)	(13,315,047)
Other benefits	(11,701,251)	(10,603,697)
Total (Note 32)	(72.844.830)	(67.987.570)

34 Financial costs

There are not any finance costs classified either on production costs or tangible assets.

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35 Income tax expense

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

	1 January- 31 December 2016	1 January- 31 December 2015
Provision for corporate tax expense:		
Provision for corporate tax expense:	(62.249.467)	(49.674.970)
Deferred tax income:	(163.672)	1.537.620
Total income tax expense presented in the statement of income	(62.413.139)	(48.137.350)

A reconciliation of tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the year ended 31 December 2016 and 31 December 2015 is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Profit before taxes	308.186.004	239.045.127
Taxes on income per statutory tax rate: 20%	(61.637.201)	(47.809.025)
Additions	(842.592)	(340.052)
Non-deductible expenses	40.000	-
Other	26.654	11.727
Total income tax expense presented in the statement of income	(62.413.139)	(48.137.350)

36 Net foreign exchange gains / losses

Net foreign exchange gains/losses are presented in Note 4.2 - Financial Risk Management.

37 Earnings per share

According to IAS 33 "Earnings per Share", earnings per share of unquoted Companies do not disclose earnings per share. As for the Company is not listed, earnings per share is not calculated in the accompanying financial statements.

38 Dividends per share

The Company is not a listed entity, hence dividend per share is not presented in the accompanying financial statements.

39 Cash generated from operations

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

40 Convertible bond

None.

41 Redeemable preference shares

None.

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42 Contingencies

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

As at 31 December 2016, the probable liability amount that will arise in the situation that all the cases that Company is defendant results against the Company is TL 9,505,854 (31 December 2015: TL 6,482,713) in gross. The Company has recorded provision of TL 14,009,490 (31 December 2015: TL 9,700,433) for such lawsuits including interests and other expenses in the outstanding claims reserve in the accompanying financial statements.

43 Commitments

The details of the guarantees that are given by the Company for the operations in life and non-life branches are presented in Note 17. The future aggregate minimum lease payments under operating leases for properties rented for use of head office and regional offices and motor vehicles rented are as follows:

	31 December 2016	31 December 2015
Less than 1 year	5,814,113	4,301,176
More than 1 year less than 5 years	851,275	1,155,827
Total of minimum rent payments	6,665,388	5,457,003
Total of minimum rent payments		

44 Business mergers

None.

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45 Related party transactions

T. Garanti Bankası A.Ş. and Achmea which have 99,91% in total of outstanding shares of the Company and the groups having direct control over those companies and the affiliates and associates of those groups are defined as related party to the Company.

The related party balances as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
T.Garanti Bankası A.Ş. - credit card collections	144.247.305	97.036.050
Other cash and cash equivalents (Not 14)	144.247.305	97.036.050
T.Garanti Bankası A.Ş.- cash at banks	772.093.193	607.906.349
Banks	772.093.193	607.906.349
Garanti Hizmet Yönetimi A.Ş. - fund management	11.111.346	8.981.686
T.Garanti Bankası A.Ş.	19.780	1.294.478
Garanti Faktoring Hizmetleri A.Ş.	20.256	19.950
Eureko Sigorta A.Ş.	-	1.138
Others	-	773
Receivables from main operations	11.151.382	10.298.025
T. Garanti Bankası A.Ş. - commissions payable (net)	16.498.284	14.959.088
Due from main operations	16.498.284	14.959.088
T. Garanti Bankası A.Ş.- shared expenses	124.928	144.418
Garanti Hizmet Yönetimi A.Ş. - portfolio management	117.514	71.525
Eureko Sigorta A.Ş. - shared expenses and premiums written	69.930	47.316
Due from shareholders	312.372	263.259
T. Garanti Bankası A.Ş. - outstanding claims provision	-	192.976
Outstanding claims reserve	-	192.976
Garanti Portföy Yönetimi A.Ş. - pension funds	6.615.310	7.241.851
Garanti Bilişim Hizmetleri A.Ş. - yazılım ve hizmet giderleri	385.899	-
Doğuş Yayın Grubu A.Ş.	43.541	-
Antur Turizm A.Ş. - transportation expenses	39.152	5.037
Garanti Filo Yönetim Hizmetleri A.Ş. - car leases	12.652	102.796
Others	4.655	1.378
Payables to other related parties	7.101.209	7.351.062

No guarantees have been taken for the receivables from related parties.

There are no doubtful receivables and payables from shareholders, subsidiaries and joint ventures. There are no liabilities like guarantee, commitment and loan on behalf of shareholders, subsidiaries and associates.

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45 Related party transactions (continued)

The transactions with related parties during the year ended 31 December 2016 and 31 December 2015 are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
T. Garanti Bankası A.Ş.	4,664,162	4,235,793
Garanti Yatırım Menkul Kıymetler A.Ş.	172,669	101,332
Garanti Ödeme Sistemleri A.Ş.	140,372	126,443
Garanti Finansal Kiralama A.Ş.	80,486	258,345
Eureko Sigorta A.Ş.	82,113	(9,815)
Garanti Portföy Yönetimi A.Ş.	57,169	(6,022)
Doğuş Oto Pazarlama ve Tic. A.Ş.	-	69,073
Doğuş Otomotiv Servis A.Ş.	-	116,413
Doğuş Holding A.Ş.	(20,978)	68,868
Others	166,378	292,183
Written premium	5,342,371	5,252,613
T. Garanti Bankası A.Ş.	798,593	833,146
Doğuş Holding A.Ş.	31,127	22,674
Claim paid	829,720	855,820
T. Garanti Bankası A.Ş.- interest income on bank deposits	79,698,800	59,326,936
Investment income	79,698,800	59,326,936
T. Garanti Bankası A.Ş.	-	32,738
Garanti Portföy Yönetim A.Ş.	-	16,178
Investment expense	-	48,916
T. Garanti Bankası A.Ş.- paid commissions [○]	122,073,884	112,118,249
T. Garanti Bankası A.Ş.- rents, taxes and other expenses	12,430,797	11,294,955
Garanti Portföy Yönetimi A.Ş.	14,865,310	15,054,091
Eureko Sigorta A.Ş. - health and motor insurance premiums	2,167,721	1,934,359
Garanti Filo Yönetim Hizmetleri A.Ş.- car rents	1,569,996	1,586,090
Garanti Hizmet Yönetimi A.Ş.- fund management expenses	1,399,894	1,280,101
Antur Turizm A.Ş. - tourism expenses	1,286,226	2,530,088
Garanti Bilişim Tekn. ve Tic. A.Ş. - information technology expenses	551,311	119,331
Doğuş Enerji Üretim ve Tic. A.Ş. - electricity expenses	269,256	238,543
Garanti Finansal Kiralama A.Ş. leasing expenses	165,153	-
Doğuş Yayın Grubu A.Ş. - advertising expenses	192,513	100,426
Doğuş-GE Gayrimenkul Yatırım Ortaklığı A.Ş. - rent expenses	42,295	39,948
Ayhan Şahenk Vakfı - bağış, sponsorluk giderleri	33,605	30,045
Doğuş Bilgi İşlem A.Ş.	4,211	-
Other	20,932	15,510
Operating expenses	157,073,104	146,341,736

[○] Amounts are demonstrated as gross amounts without deferred commission expenses.

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46 Subsequent events

None.

47 Others

Description and amounts of the items which are higher than 5% of the total assets in the balance sheet or higher than 20% of the total amount of the group including the items phrased with “other” in the accompanying financial statements

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

	31 December 2016	31 December 2015
Advertising expenses	437.326	280.941
Internet expenses payables	346.660	-
Takasbank –customer care commission payables	308.813	286.122
Software expenses payables	110.136	-
Motivation and human resources expenses payables	55.258	-
Policy and contract consignment payables	49.337	123.910
Telecommunication services received payables	42.799	165.314
Consultancy services received payables	6.872	-
Tax office payables	-	217.841
Payables to marketing company	-	66.679
Other payables	402.206	1.381.978
Total payables	1.759.407	2.522.785

Subrogation recorded in the 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.

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47 Others (continued)

As at and for the year ended 31 December 2016 and 2015, details of discount and provision expenses are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Provision for employment termination benefits (Note 23)	(2.107,519)	(1.882,775)
Provision for unused vacation pay liability (Note 23)	(28,667)	781
Provision for lawsuits (Note 23)	(295,074)	(219,588)
Provision for entrance fee receivables (Note 12)	(285,938)	(1.243,997)
Provision (expense) / release for receivables from main operations (Note 4.2)	26,233	(37,521)
Other	(3,000,000)	-
Other expenses are as follows: Total provision expenses	(5.690.965)	(3.383.100)
	1 January- 31 December 2016	1 January- 31 December 2015
Special communication taxes	(93,662)	(82,846)
Donations and grants	(3,750)	(1,553)
Dues	(63,750)	-
Other	(10,678)	(25,057)
Total other expenses	(171,840)	(109,456)

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