(Convenience translation of independent auditors' report and unconsolidated financial statements originally issued in Turkish)

Millî Reasürans Türk Anonim Şirketi and its Subsidiary

Consolidated Financial Statements as of December 31, 2017 together with the Independent Auditor's Report

February 26, 2018
This report includes 3 pages of independent auditors' audit report and 99 pages of consolidated financial statements and notes to the financial statements

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Milli Reasürans Türk Anonim Şirketi

A) Report on the Audit of the Consolidated Financial Statements

1) Opinion

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

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

2) Basis for Opinion

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

3) Other matter

The consolidated financial statements of the Company which were prepared in accordance with the accounting principles and standards in force as of December 31, 2016 were subject to full-scope audit by another independent audit firm. In their independent auditor's report dated February 17, 2017, independent audit firm expressed unqualified opinion on the consolidated financial statements prepared at December 31, 2016.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B) Report on Other Legal and Regulatory Requirements

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

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

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

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

Seda Akkuş Tecer, SMMM
Partner

February 26, 2018
Istanbul, Turkey

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MİLLÎ REASÜRANS TÜRK ANONİM ŞİRKETİ

CONVENIENCE TRANSLATION OF THE COMPANY'S REPRESENTATION ON THE CONSOLIDATED FINANCIAL STATEMENT PREPARED AS OF DECEMBER 31, 2017

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

Istanbul,

February 26, 2018

Şule SOYLU
Assistant
General Manager

Özlem CİVAN
Assistant
General Manager

Hasan Hulki YALÇIN
General Manager

Ertan TAN
Actuary
Registration No: 21

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(Currency: Turkish Lira (TL))

ASSETS			
I- Current Assets	**Note**	**Audited Current Period December 31, 2017**	**Audited-Restated Prior Period December 31, 2016**
A- Cash and Cash Equivalents	**14**	**4.727.809.372**	**4.342.688.861**
1- Cash	14	68.699	52.555
2- Cheques Received		-	1.950.000
3- Banks	14	4.328.461.218	3.919.164.699
4- Cheques Given and Payment Orders (-)	14	(87.620)	(82.544)
5- Receivables From Credit Cards with Bank Guarantee Due Less Than Three Months	14	399.367.075	421.604.151
6- Other Cash and Cash Equivalents		-	-
B- Financial Assets and Investments with Risks on Policy Holders	**11**	**1.554.601.188**	**1.106.730.656**
1- Financial Assets Available for Sale	11	1.214.020.578	970.628.652
2- Financial Assets Held to Maturity	11	-	15.172.182
3- Financial Assets Held for Trading	11	347.535.150	127.881.004
4- Loans		-	-
5- Provision for Loans (-)		-	-
6- Investments with Risks on Policy Holders		-	-
7- Equity Shares		-	-
8- Impairment in Value of Financial Assets (-)	11	(6.954.540)	(6.951.182)
C- Receivables From Main Operations	**12**	**1.355.731.258**	**1.208.734.082**
1- Receivables From Insurance Operations	12	1.074.438.568	984.855.530
2- Provision for Receivables From Insurance Operations (-)	12	(8.337.019)	(8.836.586)
3- Receivables From Reinsurance Operations	12	197.025.414	169.611.886
4- Provision for Receivables From Reinsurance Operations (-)		-	-
5- Cash Deposited For Insurance & Reinsurance Companies	12	92.604.295	63.103.252
6- Loans to Policyholders		-	-
7- Provision for Loans to Policyholders (-)		-	-
8- Receivables from Pension Operation		-	-
9- Doubtful Receivables From Main Operations	4.2,12	226.233.121	188.867.237
10- Provisions for Doubtful Receivables From Main Operations (-)	4.2,12	(226.233.121)	(188.867.237)
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- Rediscount on Receivables Due from Related Parties (-)		-	-
8- Doubtful Receivables Due from Related Parties		-	-
9- Provisions for Doubtful Receivables Due from Related Parties (-)		-	-
E- Other Receivables	**12**	**20.249.955**	**15.454.198**
1- Leasing Receivables		-	-
2- Unearned Leasing Interest Income (-)		-	-
3- Deposits and Guarantees Given	12	303.934	583.462
4- Other Receivables	12	19.946.021	14.870.736
5- Discount on Other Receivables (-)		-	-
6- Other Doubtful Receivables	4.2,12	53.177	53.177
7- Provisions for Other Doubtful Receivables (-)	4.2,12	(53.177)	(53.177)
F- Prepaid Expenses and Income Accruals		**453.776.252**	**408.923.726**
1- Deferred Commission Expenses	17	422.238.492	399.249.100
2- Accrued Interest and Rent Income		-	-
3- Income Accruals	4.2,12	31.213.090	8.999.362
4- Other Prepaid Expenses	4.2,12	324.670	675.264
G- Other Current Assets		**2.160.121**	**24.550.172**
1- Inventories		727.971	1.006.926
2- Prepaid Taxes and Funds	12,19	-	22.930.006
3- Deferred Tax Assets		-	-
4- Job Advances	12	547.641	170.946
5- Advances Given to Personnel	12	466.665	14.890
6- Stock Count Differences		-	-
7- Other Current Assets	12	417.844	427.404
8- Provision for Other Current Assets (-)		-	-
I- Total Current Assets		**8.114.328.146**	**7.107.081.695**

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

(Currency: Turkish Lira (TL))

ASSETS			
II- Non-Current Assets	**Note**	**Audited Current Period December 31, 2017**	**Audited-Restated Prior Period December 31, 2016**
A- Receivables From Main Operations		**-**	**-**
1- Receivables From Insurance Operations		-	-
2- Provision for Receivables From Insurance Operations (-)		-	-
3- Receivables From Reinsurance Operations		-	-
4- Provision for Receivables From Reinsurance Operations (-)		-	-
5- Cash Deposited for Insurance & Reinsurance Companies		-	-
6- Loans to Policyholders		-	-
7- Provision for Loans to Policyholders (-)		-	-
8- Receivables From Pension Operations		-	-
9- Doubtful Receivables from Main Operations	4.2,12	17.966.058	16.858.335
10-Provision for Doubtful Receivables from Main Operations	4.2,12	(17.966.058)	(16.858.335)
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	**4.2,12**	**2.205.704**	**1.749.362**
1- Leasing Receivables		-	-
2- Unearned Leasing Interest Income (-)		-	-
3- Deposits and Guarantees Given		320.795	-
4- Other Receivables	4.2,12	2.129.835	2.129.835
5- Discount on Other Receivables (-)	4.2,12	(244.926)	(380.473)
6- Other Doubtful Receivables		-	-
7- Provisions for Other Doubtful Receivables (-)		-	-
D- Financial Assets	**9**	**197.258.522**	**183.088.026**
1- Investments In Associates		-	-
2- Affiliates	9	196.165.815	181.995.319
3- Capital Commitments to Affiliates (-)		-	-
4- Subsidiaries	9	1.092.707	1.092.707
5- Capital Commitments to Subsidiaries (-)		-	-
6- Joint Ventures		-	-
7- Capital Commitments to Joint Ventures (-)		-	-
8- Financial Assets and Investments with Risks on Policy Holders		-	-
9- Other Financial Assets		-	-
10- Diminution in Value of Financial Assets (-)		-	-
E- Tangible Fixed Assets	**6**	**616.339.449**	**578.741.391**
1- Investment Properties	6,7	427.026.000	388.265.000
2- Diminution in Value for Investment Properties (-)		-	-
3- Buildings for Own Use	6	161.310.000	160.287.253
4- Machinery and Equipments	6	56.957.217	49.033.797
5- Furnitures and Fixtures	6	19.688.504	19.296.491
6- Vehicles	6	1.894.818	1.732.838
7- Other Tangible Assets (Including Leasehold Improvements)	6	23.486.838	22.982.418
8- Leased Tangible Fixed Assets	6	3.858.074	3.868.337
9- Accumulated Depreciation (-)	6	(77.882.002)	(66.724.743)
10- Advances Paid for Tangible Fixed Assets (Including Construction In Progresses)		-	-
F- Intangible Fixed Assets	**8**	**83.327.989**	**69.805.708**
1- Rights	8	126.607.897	116.516.653
2- Goodwill	8	16.250.000	16.250.000
3- Establishment Costs		-	-
4- Research and Development Expenses		-	-
6- Other Intangible Assets		-	-
7- Accumulated Amortizations (-)	8	(104.579.269)	(87.076.641)
8- Advances Regarding Intangible Assets	8	45.049.361	24.115.696
G- Prepaid Expenses and Income Accruals		**6.690.268**	**6.296.844**
1- Deferred Commission Expenses	17	6.639.202	6.211.364
2- Accrued Interest and Rent Income		-	-
3- Other Prepaid Expenses	4.2	51.066	85.480
H- Other Non-current Assets	**21**	**22.161.260**	**-**
1- Effective Foreign Currency Accounts		-	-
2- Foreign Currency Accounts		-	-
3- Inventories		-	-
4- Prepaid Taxes and Funds		-	-
5- Deferred Tax Assets	21	22.161.260	-
6- Other Non-current Assets		-	-
7- Other Non-current Assets Amortization (-)		-	-
8- Provision for Other Non-current Assets (-)		-	-
II- Total Non-current Assets		**927.983.192**	**839.681.331**
TOTAL ASSETS		**9.042.311.338**	**7.946.763.026**

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

(Currency: Turkish Lira (TL))

LIABILITIES			
III- Short-Term Liabilities	**Note**	**Audited Current Period December 31, 2017**	**Audited-Restated Prior Period December 31, 2016**
A- Borrowings	**19,20**	**110.802.339**	**134.413.473**
1- Loans to Financial Institutions		-	-
2- Finance Lease Payables		-	-
3- Deferred Finance Lease Borrowing Costs (-)		-	-
4- Current Portion of Long Term Borrowings		-	-
5- Principal, Installments and Interests on Issued Bills (Bonds)		-	-
6- Other Financial Assets Issued		-	-
7- Value Differences on Issued Financial Assets (-)		-	-
8- Other Financial Borrowings (Liabilities)	19,20	110.802.339	134.413.473
B- Payables From Main Operations	**19**	**518.869.894**	**466.995.593**
1- Payables Due to Insurance Operations	19	302.138.659	282.126.010
2- Payables Due to Reinsurance Operations	19	35.718.777	35.487.145
3- Cash Deposited by Insurance & Reinsurance Companies	19	9.247.311	6.570.424
4- Payables Due to Pension Operations		-	-
5- Payables from Other Operations	19	171.765.147	142.812.014
6- Rediscount on Other Payables From Main Operations (-)		-	-
C- Due to Related Parties	**19**	**362.820**	**171.856**
1- Due to Shareholders	19	81.850	66.287
2- Due to Affiliates	19	36.133	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		220.377	91.826
6- Due to Other Related Parties		24.460	13.743
D- Other Payables	**19**	**116.595.290**	**85.550.857**
1- Deposits and Guarantees Received	19	6.282.082	7.436.777
2- Due to SSI regarding Treatment Expenses	19	31.604.313	32.500.031
3- Other Payables	19	79.390.665	46.076.135
4- Discount on Other Payables (-)	19	(681.770)	(462.086)
E- Insurance Technical Reserves	**17**	**5.728.670.119**	**5.048.648.727**
1- Unearned Premiums Reserve - Net	17	2.151.464.445	2.135.349.141
2- Unexpired Risk Reserves - Net	17	29.445.732	5.051.590
3- Mathematical Reserves - Net	17	116.109	165.157
4- Outstanding Claims Reserve - Net	17	3.547.643.833	2.908.082.839
5- Provision for Bonus and Discounts - Net		-	-
6- Other Technical Reserves - Net		-	-
F- Taxes and Other Liabilities and Relevant Provisions	**19**	**59.324.763**	**40.980.017**
1- Taxes and Dues Payable	19	40.881.289	37.869.439
2- Social Security Premiums Payable	19	3.612.955	3.110.578
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
4- Other Taxes and Liabilities		-	-
5- Corporate Tax Liability Provision on Period Profit	19	96.767.913	26.875.657
6- Prepaid Taxes and Other Liabilities on Period Profit (-)	19	(81.937.394)	(26.875.657)
7- Provisions for Other Taxes and Liabilities		-	-
G- Provisions for Other Risks		**-**	**-**
1- Provision for Employment Termination Benefits		-	-
2- Pension Fund Deficit Provision		-	-
3- Provisions for Costs		-	-
H- Deferred Income and Expense Accruals	**19**	**133.367.192**	**104.670.373**
1- Deferred Commission Income	10,19	77.376.043	46.650.934
2- Expense Accruals	19	55.735.173	57.847.236
3- Other Deferred Income	19	255.976	172.203
I- Other Short Term Liabilities	**23**	**1.878.908**	**1.561.950**
1- Deferred Tax Liability		-	-
2- Inventory Count Differences		-	-
3- Other Short Term Liabilities	23	1.878.908	1.561.950
III - Total Short Term Liabilities		**6.669.871.325**	**5.882.992.846**

(Currency: Turkish Lira (TL))

LIABILITIES			
IV- Long-Term Liabilities	**Note**	**Audited Current Period December 31, 2017**	**Audited-Restated Prior Period December 31, 2016**
A- Borrowings		**-**	**-**
1- Loans to Financial Institutions		-	-
2- Finance Lease Payables		-	-
3- Deferred Finance Lease Borrowing Costs (-)		-	-
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 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- Deposits and Guarantees Received		-	-
2- Due to SSI regarding Treatment Expenses		-	-
3- Other Payables		-	-
4- Discount on Other Payables (-)		-	-
E- Insurance Technical Reserves	**17**	**211.872.440**	**154.637.733**
1- Unearned Premiums Reserve - Net		-	-
2- Unexpired Risk Reserves - Net		-	-
3- Mathematical Reserves - Net		-	-
4- Outstanding Claims Reserve - Net		-	-
5- Provision for Bonus and Discounts - Net		-	-
6- Other Technical Reserves - Net	17	211.872.440	154.637.733
F- Other Liabilities and Provisions		**-**	**-**
1- Other Liabilities		-	-
2- Overdue, Deferred or By Installment Other Liabilities		-	-
3- Other Liabilities and Expense Accruals		-	-
G- Provisions for Other Risks	**23**	**68.568.329**	**54.251.255**
1- Provision for Employment Termination Benefits	23	29.233.214	24.566.143
2- Provisions for Employee Pension Fund Deficits	22,23	39.335.115	29.685.112
H- Deferred Income and Expense Accruals	**19**	**110.500**	**-**
1- Deferred Commission Income		-	-
2- Expense Accruals		-	-
3- Other Deferred Income	19	110.500	-
I- Other Long Term Liabilities	**21**	**27.239.279**	**10.848.500**
1- Deferred Tax Liability	21	27.239.279	10.848.500
2- Other Long Term Liabilities		-	-
IV- Total Long Term Liabilities		**307.790.548**	**219.737.488**

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

(Currency: Turkish Lira (TL))

EQUITY			
V- Equity	**Note**	**Audited Current Period December 31, 2017**	**Audited-Restated Prior Period December 31, 2016**
A- Paid in Capital		**660.000.000**	**660.000.000**
1- (Nominal) Capital	2.13,15	660.000.000	660.000.000
2- Unpaid Capital (-)		-	-
3- Positive Inflation Adjustment on Capital		-	-
4- Negative Inflation Adjustment on Capital (-)		-	-
5- Unregistered Capital		-	-
B- Capital Reserves	**15**	**129.183.348**	**137.993.463**
1- Equity Share Premiums		-	-
2- Cancellation Profits of Equity Shares		-	-
3- Profit on Sale to be Transferred to Capital		23.723.323	23.723.323
4- Translation Reserves	15	(28.441.170)	(26.027.092)
5- Other Capital Reserves	15	133.901.195	140.297.232
C- Profit Reserves		**303.156.167**	**165.559.918**
1- Legal Reserves	15	104.543.229	90.232.526
2- Statutory Reserves	15	14.966.872	10.220.997
3- Extraordinary Reserves	15	179.927.446	81.426.632
4- Special Funds (Reserves)		-	-
5- Revaluation of Financial Assets	11,15	52.911.805	31.358.139
6- Other Profit Reserves	15	21.866.864	23.381.673
7- Subsidiary Capital Correction	15	(71.060.049)	(71.060.049)
D- Previous Years' Profits		**295.707.526**	**267.203.763**
1- Previous Years' Profits		295.707.526	267.203.763
E- Previous Years' Losses (-)		**-**	**-**
1- Previous Years' Losses		-	-
F- Net Profit of the Period		**189.520.109**	**196.283.268**
1- Net Profit of the Period		189.520.109	196.274.618
2- Net Loss of the Period (-)		-	-
3- Net Income not subject to distribution		-	8.650
G- Minority Shares		**487.082.315**	**416.992.280**
Total Shareholders' Equity		**2.064.649.465**	**1.844.032.692**
Total Liabilities and Shareholders' Equity		**9.042.311.338**	**7.946.763.026**

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

I-TECHNICAL SECTION	**Note**	**Audited Current Period January 1- December 31, 2017**	**Audited-Restated Prior Period January 1- December 31, 2016**
A- Non-Life Technical Income		**4.978.734.613**	**4.624.123.461**
1- Earned Premiums (Net of Reinsurer Share)		4.180.416.012	4.012.230.016
1.1 - Written Premiums (Net of Reinsurer Share)	17	4.222.586.079	4.277.940.082
1.1.1 - Gross Written Premiums (+)	17	5.628.119.053	5.304.350.878
1.1.2 - Ceded Premiums to Reinsurers (-)	10,17	(1.296.301.601)	(875.616.791)
1.1.3 - Ceded Premiums to SSI (-)	17	(109.231.373)	(150.794.005)
1.2- Change in Unearned Premiums Reserve (Net of Reinsurers Shares and Reserves Carried Forward) (+/-)	17,29	(17.775.925)	(288.500.376)
1.2.1 - Unearned Premiums Reserve (-)	17	(203.314.435)	(365.034.325)
1.2.2 - Reinsurance Share of Unearned Premiums Reserve (+)	10,17	201.780.496	56.450.295
1.2.3 - SSI of Unearned Premiums Reserve (+)		(16.241.986)	20.083.654
1.3- Changes in Unexpired Risks Reserve (Net of Reinsurer Share and Reserves Carried Forward)(+/-)	17	(24.394.142)	22.790.310
1.3.1 - Unexpired Risks Reserve (-)	17	(44.717.443)	31.430.693
1.3.2 - Reinsurance Share of Unexpired Risks Reserve (+)	10,17	20.323.301	(8.640.383)
2- Investment Income Transferred from Non-Technical Part		698.707.059	528.362.786
3- Other Technical Income (Net of Reinsurer Share)		58.869.585	52.151.853
3.1 - Gross Other Technical Income (+)		58.865.675	52.152.151
3.2 - Reinsurance Share of Other Technical Income (-)		3.910	(298)
4- Accrued Subrogation and Salvage Income (+)		40.741.957	31.378.806
B- Non-Life Technical Expense (-)		**(4.636.804.108)**	**(4.388.689.646)**
1- Total Claims (Net of Reinsurer Share)		(3.380.543.580)	(3.176.559.936)
1.1- Claims Paid (Net of Reinsurer Share)	17,29	(2.741.342.291)	(2.418.397.262)
1.1.1 - Gross Claims Paid (-)	17	(3.294.941.135)	(2.728.766.418)
1.1.2 - Reinsurance Share of Claims Paid (+)	10,17	553.598.844	310.369.156
1.2- Changes in Outstanding Claims Reserve (Net of Reinsurer Share and Reserves Carried Forward) (+/-)	17,29	(639.201.289)	(758.162.674)
1.2.1 - Outstanding Claims Reserve (-)	17	(790.963.561)	(763.503.693)
1.2.2 - Reinsurance Share of Outstanding Claims Reserve (+)	10,17	151.762.272	5.341.019
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) (+/-)	29	(57.055.818)	(49.076.229)
4- Operating Expenses (-)	32	(1.080.593.212)	(1.049.421.699)
5- Changes in Mathematical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (+/-)		-	255.578
5.1- Mathematical Reserves (-)		-	255.578
5.2- Reinsurance Share of Mathematical Reserves (+)		-	-
6.- Other Technical Expenses (-)		(118.611.498)	(113.887.360)
6.1.- Gross Other Technical Expenses (-)		(121.529.377)	(113.887.360)
6.2.- Reinsurance Share of Other Technical Expenses (+)		2.917.879	-
C- Non Life Technical Net Profit (A-B)		**341.930.505**	**235.433.815**
D- Life Technical Income		**18.732.233**	**19.687.077**
1- Earned Premiums (Net of Reinsurer Share)		16.242.726	17.549.152
1.1 - Written Premiums (Net of Reinsurer Share)	17	14.582.105	18.124.443
1.1.1 - Gross Written Premiums (+)	17	15.929.503	19.210.055
1.1.2 - Ceded Premiums to Reinsurers (-)	10,17	(1.347.398)	(1.085.612)
1.2- Change in Unearned Premiums Reserve (Net of Reinsurers Shares and Reserves Carried Forward) (+/-)	17,29	1.660.621	(575.291)
1.2.1- Unearned Premium Reserves (-)	17	1.610.673	(502.515)
1.2.2- Unearned Premium Reserves Reinsurer Share (+)	10,17	49.948	(72.776)
1.3- Changes in Unexpired Risks Reserve (Net of Reinsurer Share and Reserves Carried Forward)(+/-)		-	-
1.3.1- Unexpired Risks Reserves (-)		-	-
1.3.2- Unexpired Risks Reserves Reinsurer Share (+)		-	-
2- Life Branch Investment Income		2.393.978	2.049.914
3- Unrealized Income from Investments		-	-
4-Other Technical Income (Net of Reinsurer Share) (+/-)		95.529	88.011
4.1- Gross Other Technical Income (+/-)		99.116	185.899
4.2- Reinsurance Share of Other Technical Income (+/-)		(3.587)	(97.888)
5- Accrued Subrogation and Salvage Income (+)		-	-

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

I-TECHNICAL SECTION	**Note**	**Audited Current Period January 1- December 31, 2017**	**Audited-Restated Prior Period January 1- December 31, 2016**
E- Life Technical Expense		**(19.687.047)**	**(21.187.012)**
1- Total Claims (Net of Reinsurer Share)		(14.784.249)	(10.454.943)
1.1- Claims Paid (Net of Reinsurer Share)	17,29	(14.424.544)	(8.006.413)
1.1.1- Gross Claims Paid (-)	17	(15.010.303)	(8.664.622)
1.1.2- Claims Paid Reinsurer Share (+)	10,17	585.759	658.209
1.2- Changes in Outstanding Claims Reserve (Net of Reinsurer Share and Reserves Carried Forward) (+/-)	17,29	(359.705)	(2.448.530)
1.2.1 - Outstanding Claims Reserve (-)	17	(922.579)	(2.730.793)
1.2.2 - Reinsurance Share of Outstanding Claims Reserve (+)	10,17	562.874	282.263
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 Mathematical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (+/-)	29	49.048	71.202
3.1- Mathematical Reserves (-)	29	49.048	71.202
3.1.1- Actuarial Mathematical Reserve (-)		49.048	71.202
3.1.2- Profit Share Reserve (Reserves for Life Insurance Policies Including Investment Risk) (-)		-	-
3.2- Reinsurer Share of Mathematical Reserves (+)		-	-
3.2.1- Reinsurance Share of Actuarial Mathematical Reserve (+)		-	-
3.2.2- Reinsurance Share of Profit Share Reserve (Reserves for Life Insurance Policies Including Investment Risk) (-)		-	-
4- Changes in Other Technical Reserves (Net of Reinsurer Share and Reserves Carried Forward) (+/-)	29	(178.889)	(583.585)
5- Operating Expenses (-)	32	(4.772.957)	(10.219.686)
6- Investment Expenses (-)		-	-
7- Unrealized Losses from Investments (-)		-	-
8- Investment Income Transferred to Non- Technical Part (-)		-	-
F- Life Technical Profit (D-E)		**(954.814)**	**(1.499.935)**
G- Individual Retirement Technical Income		**-**	**-**
1- Fund Management Fee		-	-
2- Management Fee Deduction		-	-
3- Initial Contribution Fee		-	-
4- Management Fee In Case Of Temporary Suspension		-	-
5- Witholding tax		-	-
6- Increase in Market Value of Capital Commitment Advances		-	-
7-Other Technical Income		-	-
H- Individual Retirement Technical Expense		**-**	**-**
1- Fund Management Expenses (-)		-	-
2- Decrease in Market Value of Capital Commitment Advances (-)		-	-
3- Operating Expenses (-)		-	-
4- Other Technical Expense (-)		-	-
I- Individual Retirement Technical Profit (G-H)		**-**	**-**

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

II-NON-TECHNICAL SECTION	Note	Audited Current Period January 1- December 31. 2017	Audited-Restated Prior Period January 1- December 31. 2016
C- Net Technical Income – Non-Life (A-B)		**341.930.505**	**235.433.815**
F- Net Technical Income – Life (D-E)		**(954.814)**	**(1.499.935)**
I - Net Technical Income – Pension Business (G-H)		**-**	**-**
J- Total Net Technical Income (C+F+I)		**340.975.691**	**233.933.880**
K- Investment Income		**1.136.476.415**	**763.869.487**
1- Income From Financial Investment	4.2	366.403.590	370.164.896
2- Income from Sales of Financial Investments	4.2	49.294.001	33.059.353
3- Revaluation of Financial Investments	4.2	53.431.892	51.967.175
4- Foreign Exchange Gains	4.2	472.065.152	184.579.297
5- Income from Affiliates	4.2	47.584.280	40.163.943
6- Income from Subsidiaries and Joint Ventures	4.2	4.544	3.251
7- Income Received from Land and Building	7	57.319.827	79.387.860
8- Income from Derivatives	4.2	90.116.129	4.432.112
9- Other Investments		257.000	111.600
10- Investment Income transferred from Life Technical Part		-	-
L- Investment Expense		**(1.071.281.739)**	**(680.499.653)**
1- Investment Management Expenses (including interest) (-)	4.2	(1.231.961)	(4.630.870)
2- Valuation Allowance of Investments (-)	4.2	(1.118.002)	(1.643.638)
3- Losses On Sales of Investments (-)	4.2	(17.134.520)	(17.234.556)
4- Investment Income Transferred to Non-Life Technical Part (-)		(698.707.059)	(528.362.786)
5- Losses from Derivatives (-)	4.2	(179.274.294)	(3.616.449)
6- Foreign Exchange Losses (-)	4.2	(134.071.983)	(88.324.565)
7- Depreciation Expenses (-)	6.8	(30.088.247)	(28.732.695)
8- Other Investment Expenses (-)		(9.655.673)	(7.954.094)
M- Income and Expenses From Other and Extraordinary Operations		**(35.073.584)**	**(50.550.339)**
1- Provisions Account (+/-)	47	(43.838.199)	(49.002.399)
2- Discount account (+/-)	47	(12.174.788)	1.042.702
3- Mandatory Earthquake Insurance Account (+/-)		-	-
4- Inflation Adjustment Account (+/-)		-	-
5- Deferred Tax Asset Accounts(+/-)	35	18.150.973	-
6- Deferred Tax Expense Accounts (-)	35	-	(4.646.599)
7- Other Income and Revenues		3.271.280	3.862.489
8- Other Expense and Losses (-)		(482.850)	(1.806.532)
9- Prior Period Income		-	-
10- Prior Period Losses (-)		-	-
N- Net Profit for the Year		**274.328.870**	**239.877.718**
1- Profit /(Loss) Before Tax		371.096.783	266.753.375
2- Corporate Tax Liability Provision (-)	35	(96.767.913)	(26.875.657)
3- Net Profit (Loss)		274.328.870	239.877.718
3.1-Groups Profit/(Loss)		189.520.109	196.283.268
3.2-Minority Shares		84.808.761	43.594.450
4- Monetary Gains and Losses		-	-

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

Millî Reasürans Türk Anonim Şirketi
Consolidated Statement of Cash Flows
for the Period Ended December 31, 2017

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

	Note	Audited Current Period December 31. 2017	Audited Prior Period December 31. 2016
A. CASH FLOWS FROM THE OPERATING ACTIVITIES			
1. Cash inflows from the insurance operations		5.164.303.853	4.963.098.172
2. Cash inflows from the reinsurance operations		1.216.258.445	844.811.957
3. Cash inflows from the pension operations		-	-
4. Cash outflows due to the insurance operations (-)		(5.104.249.941)	(4.769.080.059)
5. Cash outflows due to the reinsurance operations (-)		(890.576.172)	(212.748.356)
6. Cash outflows due to the pension operations (-)		-	-
7. Cash generated from the operating activities (A1+A2+A3-A4-A5-A6)		**385.736.185**	**826.081.714**
8. Interest payments (-)		-	-
9. Income tax payments (-)		(69.496.299)	(531.339)
10. Other cash inflows		1.208.846.984	1.313.756.953
11. Other cash outflows (-)		(1.285.537.090)	(1.496.564.413)
12. Net cash generated from the operating activities		**239.549.780**	**642.742.915**
B. CASH FLOWS FROM THE INVESTING ACTIVITIES		-	
1. Sale of tangible assets		611.469	8.424.794
2. Purchase of tangible assets (-)	6, 8	(41.358.935)	(42.245.758)
3. Acquisition of financial assets (-)	11	(1.396.845.131)	(1.284.787.847)
4. Sale of financial assets	11	1.124.217.952	1.403.536.295
5. Interest received		476.296.946	63.883.362
6. Dividends received		7.327.798	5.178.576
7. Other cash inflows		390.215.670	200.230.723
8. Other cash outflows (-)		(335.951.255)	(156.293.766)
9. Net cash generated from the investing activities		**224.514.514**	**197.926.379**
C. CASH FLOWS FROM THE FINANCING ACTIVITIES		-	
1. Issue of equity shares		-	-
2. Cash inflows from the loans to policyholders		-	-
3. Payments of financial leases (-)		-	-
4. Dividend paid (-)		(64.822.707)	(45.197.943)
5. Other cash inflows		-	-
6. Other cash outflows (-)		(17.820.655)	(214.584.486)
7. Cash generated from the financing activities		**(82.643.362)**	**(259.782.429)**
D. EFFECTS OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS		**16.571.266**	**2.029.215**
E. Net increase/(decrease) in cash and cash equivalents (A12+B9+C7+D)		**397.992.198**	**582.916.080**
F. Cash and cash equivalents at the beginning of the period	14	**2.886.535.615**	**2.303.619.535**
G. Cash and cash equivalents at the end of the period (E+F)	14	**3.284.527.813**	**2.886.535.615**

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

Millî Reasürans Türk Anonim Şirketi
Consolidated Statement of Changes in Equity
for the Period Ended December 31, 2017

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

Audited-Restated Changes in Equity – December 31, 2016														
	Note	Paid-in capital	Equity Share Owned by Company	Revaluation of financial assets	Inflation Adjustment on Capital	Currency translation reserves	Legal reserves	Statutory Reserves	Other reserves and retained earnings	Net profit/(Loss) for the year	Retained earnings	Total equity before minority shares	Minority share	Total
I – Balance at the end of the previous year – December 31, 2015	**15**	**660.000.000**	**-**	**28.234.178**	**-**	**(19.573.401)**	**80.567.006**	**6.759.148**	**125.163.147**	**156.222.767**	**195.873.555**	**1.233.246.400**	**371.795.991**	**1.605.042.391**
II – Change in Accounting Standards		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1.809.722**	**67.456.224**	**69.265.946**	**-**	**69.265.946**
III – Restated balances (I+II) – January 1, 2016		**660.000.000**	**-**	**28.234.178**	**-**	**(19.573.401)**	**80.567.006**	**6.759.148**	**125.163.147**	**158.032.489**	**263.329.779**	**1.302.512.346**	**371.795.991**	**1.674.308.337**
A- Capital increase (A1+A2)		-	-	-	-	-	-	-	-	-	-	-	-	-
1- In cash		-	-	-	-	-	-	-	-	-	-	-	-	-
2- From reserves		-	-	-	-	-	-	-	-	-	-	-	-	-
B - Effects of changes in group structure		-	-	-	-	-	-	-	-	-	-	-	-	-
C – Purchase of own shares		-	-	-	-	-	-	-	(27.166.000)	-	-	(27.166.000)	-	(27.166.000)
D – Gains or losses that are not included in the statement of income		-	-	-	-	-	-	-	843.778	-	-	843.778	-	843.778
E – Change in the value of financial assets	15	-	-	3.123.961	-	-	-	-	-	-	-	3.123.961	1.601.839	4.725.800
F – Currency translation adjustments		-	-	-	-	(6.453.691)	-	-	-	-	-	(6.453.691)	-	(6.453.691)
G – Other gains or losses		-	-	-	-	-	-	-	-	-	-	-	-	-
H – Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-	-	-
I – Net profit for the year		-	-	-	-	-	-	-	-	196.283.268	-	196.283.268	43.594.450	239.877.718
J – Other reserves and transfers from retained earnings	38	-	-	-	-	-	9.665.520	3.461.849	98.927.886	(115.224.759)	3.873.984	704.480	-	704.480
K – Dividends paid	38	-	-	-	-	-	-	-	-	(42.807.730)	-	(42.807.730)	-	(42.807.730)
IV - Balance at the end of the year – December 31, 2016	**15**	**660.000.000**	**-**	**31.358.139**	**-**	**(26.027.092)**	**90.232.526**	**10.220.997**	**197.768.811**	**196.283.268**	**267.203.763**	**1.427.040.412**	**416.992.280**	**1.844.032.692**

Audited Changes in Equity – December 31, 2017														
	Note	Paid-in capital	Equity Share Owned by Company	Revaluation of financial assets	Inflation Adjustment on Capital	Currency translation reserves	Legal reserves	Statutory Reserves	Other reserves and retained earnings	Net profit/(Loss) for the year	Retained earnings	Total equity before minority shares	Minority share	Total
I – Balance at the end of the previous year – December 31, 2016	15	**660.000.000**	**-**	**31.358.139**	**-**	**(26.027.092)**	**90.232.526**	**10.220.997**	**197.768.811**	**181.244.361**	**197.937.817**	**1.342.735.559**	**416.992.280**	**1.759.727.839**
II – Change in Accounting Standards		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15.038.907**	**69.265.946**	**84.304.853**	**-**	**84.304.853**
III – Restated balances (I+II) – January 1, 2017		**660.000.000**	**-**	**31.358.139**	**-**	**(26.027.092)**	**90.232.526**	**10.220.997**	**197.768.811**	**196.283.268**	**267.203.763**	**1.427.040.412**	**416.992.280**	**1.844.032.692**
A- Capital increase (A1+A2)		-	-	-	-	-	-	-	-	-	-	-	-	-
1- In cash		-	-	-	-	-	-	-	-	-	-	-	-	-
2- From reserves		-	-	-	-	-	-	-	-	-	-	-	-	-
B - Effects of changes in group structure		-	-	-	-	-	-	-	-	-	-	-	-	-
C – Purchase of own shares		-	-	-	-	-	-	-	-	-	-	-	-	-
D – Gains or losses that are not included in the statement of income		-	-	-	-	-	-	-	(8.000.764)	-	-	(8.000.764)	-	(8.000.764)
E –Change in the value of financial assets	15	-	-	21.553.666	-	-	-	-	98.584	-	-	21.652.250	119.598	21.771.848
F – Currency translation adjustments		-	-	-	-	(2.414.078)	-	-	-	-	-	(2.414.078)	-	(2.414.078)
G – Other gains or losses		-	-	-	-	-	-	-	-	-	-	-	-	-
H – Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-	-	-
I – Net profit for the year		-	-	-	-	-	-	-	-	189.520.109	-	189.520.109	84.808.761	274.328.870
J – Other reserves and transfers from retained earnings	38	-	-	-	-	-	14.310.703	4.745.875	98.492.148	(146.283.268)	28.503.763	(230.779)	-	(230.779)
K – Dividends paid	38	-	-	-	-	-	-	-	-	(50.000.000)	-	(50.000.000)	(14.838.324)	(64.838.324)
IV- Balance at the end of the year – December 31, 2017	**15**	**660.000.000**	**-**	**52.911.805**	**-**	**(28.441.170)**	**104.543.229**	**14.966.872**	**288.358.779**	**189.520.109**	**295.707.526**	**1.577.567.150**	**487.082.315**	**2.064.649.465**

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

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

	Note	Audited Current Period December 31, 2017(*)	Audited Prior Period December 31, 2016
I. PROFIT DISTRIBUTION			
1.1. CURRENT YEAR PROFIT(*)		150.503.442	**135.640.914**
1.2. TAX AND FUNDS PAYABLE	35	(44.131.400)	**(3.558.844)**
1.2.1. Corporate Income Tax(Income Tax)	35	(44.131.400)	(3.558.844)
1.2.2. Income tax deduction		-	-
1.2.3. Other taxes and Duties		-	-
A NET PROFIT(1.1 – 1.2)		**106.372.042**	**132.082.070**
1.3. PREVIOUS PERIOD LOSSES (-)		-	-
1.4. FIRST LEGAL RESERVE		(5.318.602)	(6.604.104)
1.5. STATUTORY FUND (-)		-	-
B NET PROFIT DISTRIBUTION [(A-(1.3 + 1.4 + 1.5)]		**101.053.440**	**125.477.966**
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)		-	**(12.547.797)**
1.6.1. Holders of shares		-	(12.547.797)
1.6.2. Holders of Preferred shares		-	-
1.6.3. Holders of Redeemed shares		-	-
1.6.4. Holders of Participation Bond		-	-
1.6.5. Holders of Profıt and Loss sharing certificate		-	-
1.7. DIVIDEND TO PERSONNEL (-)		-	**(2.915.128)**
1.8. DIVIDENDS TO BOARD OF DIRECTORS (-)		-	-
1.9. SECOND DIVIDEND TO SHAREHOLDERS (-)		-	-
1.9.1. Holders of shares		-	**(37.452.203)**
1.9.2. Holders of Preferred shares		-	(37.452.203)
1.9.3. Holders of Redeemed shares		-	-
1.9.4. Holders of Participation Bond		-	-
1.9.5. Holders of Profıt and Loss sharing certificate		-	-
1.10. SECOND LEGAL RESERVE (-)		-	-
1.11. STATUTORY RESERVES (-)		-	**(1.991.513)**
1.12. EXTRAORDINARY RESERVES		-	-
1.13. OTHER RESERVES		-	**(70.571.325)**
1.14. SPECIAL FUNDS		-	-
II. DISTRIBUTION OF RESERVES		-	-
2.1. DISTRIBUTION OF RESERVES		-	-
2.2. SECOND LEGAL RESERVES (-)		-	-
2.3. COMMON SHARES (-)		-	-
2.3.1. Holders of shares		-	-
2.3.2 Holders of Preferred shares		-	-
2.3.3. Holders of Redeemed shares		-	-
2.3.4 Holders of Participation Bond		-	-
2.3.5 Holders of Profıt and Loss sharing certificate		-	-
2.4. DIVIDENDS TO PERSONNEL (-)		-	-
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)		-	-
III. PROFIT PER SHARE		-	-
3.1. HOLDERS OF SHARES		-	132.082.070
3.2. HOLDERS OF SHARES (%)		-	20,0124
3.3. HOLDERS OF PREFERRED SHARES		-	-
3.4. HOLDERS OF PREFERRED SHARES (%)		-	-
IV. DIVIDEND PER SHARE		-	-
4.1. HOLDERS OF SHARES		-	50.000.000
4.2. HOLDERS OF SHARES (%)		-	7,5758
4.3. HOLDERS OF PREFERRED SHARES		-	-
4.4. HOLDERS OF PREFERRED SHARES (%)		-	-

(*) Since the profit distribution proposal for the year 2017 has not prepared by the Board of Directors, profit distribution table has not been filled yet.

(**) Reserve for personnel dividend amounting to TL 2.660.209 that recognized according to TAS 19 is included in period profit as of December 31, 2017

1 General information

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

As of December 31, 2017, the shareholder having direct or indirect control over the shares of Millî Reasürans Türk Anonim Şirketi (the "Company") is Türkiye İş Bankası AŞ Group ("İş Bankası") having 76,64% of the outstanding shares.

The Company was established in February 26, 1929 and has been operating since in July 19, 1929.

On September 30, 2010, the Company purchased 35,53% shares of Anadolu Sigorta Anonim Şirketi with nominal value of TL 177.650.110 from İş Bankası amounting to TL 248.710.154. The transaction is realized on the weighted average price on İstanbul Stock Exchange wholesale market. With the purchase, the share of the Company at Anadolu Sigorta increased to 57,31% and investment increased to TL 286.550.106.

The consolidated financial statements as of December 31, 2017 include the Company and its subsidiary Anadolu Sigorta (together with "the Group").

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 was registered in Turkey in July 16, 1929 and has the status of "Incorporated Company". The address of the Company's registered office is Maçka Cad. No: 35 34367 Şişli İstanbul.

1.3 Main operations of the Company

The Company is primarily engaged in reinsurance and retrocession businesses in domestic and international markets. In 2007, the Company opened a branch in Singapore upon the completion of the necessary local formalities according to the local legislation. Singapore branch has been operating since 2008.

The subsidiary of the Company, Anadolu Sigorta operates in almost all non-life insurance branches consisting of mainly Casualty, health, Land Vehicless, aircraft, ships, marine, Fire and Natural Disasterss, general losses, credits, financial losses, and legal protection. As at December 31, 2017, the Company serves through 2.314 agencies of which 2.215 authorized and 99 unauthorized agencies. (December 31, 2016: 2.458 authorized 98 unauthorized total 2.556 agencies).

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

The Company and its subsidiary Anadolu Sigorta conduct their operations in accordance with the Insurance Law No. 5684 (the "Insurance Law") issued in June 14, 2007 dated and 26552 numbered Official Gazette and the communiqués and other regulations in force issued by Republic of Turkey Prime Ministry-Undersecretariat of Treasury (the "Turkish Treasury") based on the Insurance Law.

(Currency: Turkish Lira (TL))

1 General information *(continued)*

1.4 Details of the Company's operations and nature of field of activities *(continued)*

The purpose and activities of the Company as stated at the Articles of Association of the Company are as follows:

- Providing life and non-life reinsurance and other related products and services in all insurance branches and sub-branches to Turkish and foreign insurance companies;
- Managing and participating in reinsurance operations of Pools,
- Purchasing, selling, constructing and renting real estates,
- Purchasing debt instruments and shares issued by all sorts of commercial, industrial and financial institutions and government agencies as well as providing capital or participating in the establishment of such institutions to provide a consistent, secure and adequate financial income,
- In addition to these, carrying out other operations upon recommendation by the Board of Directors and resolution of the General Meeting which are deemed to be beneficial and material for the Company and are not prohibited by the law.

Anadolu Sigorta is incorporated in Turkey and operates in insurance branches as mentioned above Note 1.3 Business of the Company. Anadolu Sigorta's shares have been listed on the Istanbul Stock Exchange ("BIST"). In accordance with Paragraph 5 Article 136 in Section VIII of the Capital Markets Law numbered 6362, insurance companies have to comply with their own specific laws and regulations in matters of establishment, supervision/oversight, accounting and independent auditing standards; therefore, Anadolu Sigorta performs its operations accordingly.

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*:*

	December 31, 2017	**December 31, 2016**
Top executive	13	12
Managers	71	67
Assistant managers	171	163
Contracted personnel	6	6
Advisors	2	3
Specialist/ Senior/ Other personnel	1.153	1.121
Total	**1.416**	**1.372**

1.6 Remuneration and similar benefits provided to top management

For the year ended December 31, 2017, wages and similar benefits provided to the top management including chairman, members of the board of the directors, general manager, general coordinator, and deputy general managers is amounting to TL 13.250.296**.**(December 31, 2016: TL 12.179.938).

1 General information *(continued)*

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

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

In accordance with the above mentioned Communiqué, insurance and reinsurance companies are allowed to transfer technical section operating expense to insurance section through methods determined by Turkish Treasury or by the Company itself. In accordance with the approval of the Undersecretariat of Treasury, dated March 6, 2008 and numbered 10222, known and exactly distinguishable operating expenses are distributed to related branches directly and services rendered from third parties and other operating expenses in accordance with the gross premiums written for the last three years.

Income from the assets invested against non-life technical provisions is transferred to technical section from non-technical section; remaining income is transferred to the non-technical section. Income are distributed to the sub-branches in accordance with the percentage calculated by dividing "net cash flow" to the "total net cash flow", net cash flow being net of reinsurer share and calculated by deducting net losses paid from net written premiums.

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

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

The accompanying financial statements comprise the consolidated financial information of the Company. Consolidation principles are further discussed in note 2.2 - *Consolidation*.

As at December 31 2017, the Company owns 57.31% of its subsidiary, Anadolu Anonim Türk Sigorta Şirketi ("Anadolu Sigorta") are included in the scope of consolidation by line-by-line method. Anadolu Hayat Emeklilik AŞ ("Anadolu Hayat") is associate of Anadolu Sigorta and is consolidated by equity method with share of 21.00% in the consolidated financial statements as at December 31, 2017.

Anadolu Sigorta as a subsidiary company of the Group, is operating in almost all of the none-life insurance branches composed of Casualty, health, general losses, Land Vehiclesss liability, aircraft liability, general liability, credits, financial losses and legal protection.

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

(Currency: Turkish Lira (TL))

1 General information *(continued)*

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

Trade name of the Company	: Millî Reasürans Türk Anonim Şirketi
Registered address of the head office	: Maçka Cad. No:35 34367 Şişli/İstanbul
The web page of the Company	: **www.millire.com**

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

1.10 Subsequent events

None.

2 Summary of significant accounting policies

2.1 Basis of preparation

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

In accordance with Article 136(5) in Section VIII of the Capital Markets Law, numbered 6362 Anadolu Sigorta and Anadolu Hayat, subsidiaries of the Company, complies with their own specific laws and regulations in matters of establishment, auditing, supervision/oversight, accounting and financial reporting. Therefore, the Group maintains its books of account and prepares its financial statements in accordance with the Turkish Accounting Standards ("TAS"), Turkish Financial Reporting Standards ("TFRS"), and other accounting and financial reporting principles, statements and guidance (collectively "the Reporting Standards") in accordance with the "Communiqué Related to the Financial Reporting of Insurance, Reinsurance, and Individual Pension Companies" as promulgated by the Turkish Treasury based on Article 18 of the Insurance Law and Article 11 of the 4632 numbered Individual Pension Savings and Investment System Law (''Individual Retirement Law'').

In the Article 4 of related regulation, procedures and principles related to insurance contracts, recognition of subsidiaries, jointly controlled associations and associates and formation of consolidated financial statements, financial statements disclosed to public, and explanations related to these statements will be determined by Communiqués issued by Turkish Treasury.

The form and content of financial statements of companies is regulated by "Communiqué on Presentation of Financial Statements" that is published in Official Gazette dated April 18, 2008 and numbered 26851 in order for comparison of financial statements with previous period and other companies' financial statements.

Additional paragraph for convenience translation to English

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

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

Accounting in hyperinflationary countries

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

With respect to the declaration of the Turkish Treasury with the article dated April 4, 2005 and numbered 19387, consolidated financial statements as of December 31, 2004 are adjusted for the opening balances of 2005 in accordance with the section with respect to inflation accounting 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 January 15, 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. Accordingly, as at December 31, 2017, non-monetary assets and liabilities and items included in shareholders' equity including paid-in capital recognized or recorded before January 1, 2005 are measured as restated to December 31, 2004 in order to reflect inflation adjustments. Non-monetary assets and liabilities and items included in shareholders' equity including paid-in capital recognized or recorded after January 1, 2005 are measured at their nominal values.

Other accounting policies

The Company recorded premiums, commissions and claims accruals based on the notifications sent by the insurance and reinsurance companies after the closing of their balances. Premiums, commissions and claims accruals are recorded in the accompanying financial statements with the three-month delay. Therefore, related income statement balances include last quarter results for the year ended December 31, 2016 and nine-month results as at and for the period ended September 30, 2017 and accordingly related balance sheet balances as of December 31, 2017 do not reflect the actual position. According to the letter dated August 31, 2010 and numbered B.02.1.HZN.0.10.03.01/42139 sent by the Turkish Treasury to the Company, it is stated that account statements sent by the ceding companies are subject to possible delays and the Turkish Treasury is considered special situations of the reinsurance companies in their regulations.

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

2.1.3 Valid and presentation currency

The accompanying consolidated financial statements are presented in TL, which is the Group's valid reporting currency.

2.1.4 Rounding scale of the amounts presented in the financial statements

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

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

The accompanying consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until December 31, 2004, except for the financial assets at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments, self-used buildings and investment properties recorded in tangible assets and associates which are measured at their fair values unless reliable measures are available.

2.1.6 Accounting policies, changes in accounting estimates and errors

Accounting of fire and earthquake premiums obtained from foreign reinsurance treaties on the basis of branches

Fire and earthquake premiums obtained from foreign reinsurance treaties could not accounted on the basis of branches in the previous years due to limitations imposed by local legislation of the foreign countries, notification characteristics of the treaties and total premiums used by foreign companies in the reconciliation process. Therefore, all premiums obtained from aforementioned treaties are accounted on the fire branch. According to the letter dated August 2, 2011 and numbered B.02.1.HZN.0.10.03.01/38732 sent by the Turkish Treasury to the Company, it is allowed to use average rate calculated over separately reported fire and earthquake premiums for unclassified premiums of proportioned treaties. Furthermore, according to the letter dated August 12, 2011 sent by the Turkish Treasury to the Company, prospective application as at June 30, 2011 effective from January 1, 2011 is allowed since retrospective application is impossible. Accordingly, financial statements prepared as of December 31, 2016, premiums obtained from foreign proportioned treaties are accounted on the basis of average earthquake premium ratio calculated from foreign proportioned treaties over the period of January 1, 2016 – December 31, 2016. The same ratio is used for unproportioned reinsurance treaties in accordance with the Communiqué released on July 28, 2010 and numbered 27655 "Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves". Distribution of commissions and claims between the fire and earthquake branches is parallel with the aforementioned method.

According to the letter dated January 12, 2012 and numbered B.02.1.HZN.0.10.03.01/854 sent by the Turkish Treasury to the Company, determination of final claims for the last business year used in IBNR calculation has been changed as of December 31, 2011. Accordingly, the final premium amount earned for the last business year is determined by considering premium development factors since premiums may be accrued in the following years under the terms of the agreements. Based on the calculated final premium amount of the last business year, unearned premium reserves and earned premiums are determined. Aforementioned earned premium amount is multiplied by the average of claim/premium ratio of the previous years to determine final claims amount of the last business year. IBNR is calculated by subtracting the paid and reported claims of the last business year from the final claims amount determined by the aforementioned method. In addition, IBNR amounts reported by sedan companies are taken into consideration and in order to prevent duplicate provision; paid claims, outstanding claims reserve and premiums of reported claims are excluded from the data set used in the calculation of IBNR. The Company determined final IBNR amount by adding reported IBNR amounts to IBNR amounts calculated from the data prepared in accordance with the principals mentioned above.

(Currency: Turkish Lira (TL))

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)*

According to 16th article of "Circular on Actuarial Chain Ladder Method (2010/12)" dated September 20, 2010 and announced by Turkish Treasury, ACML calculation should be made through main branches. However, as of December 31, 2012, the Company has calculated ACML reserve for General Damages main branch as two seperate subbranches namely agriculture and non agriculture branches. Because, Agriculture and Engineering subbranches under General Damages main branch have different characteristics in conversion process of outstanding losses to paid losses, IBNR calculation of General Damages branch produces unreliable and improper results. The Company applied to Turkish Treasury on January 17, 2013 with letter numbered 300, so as to receive permission to calculate IBNR reserve for General Damages branch as agriculture and non-agriculture sub branches seperately.

Turkish Treasury has given permission the Company in order to calculate IBNR reserve for General Damages within two sub branches with the letter dated January 28, 2013 and numbered 24179134. As at December 31, 2017, the Company recognised the amount that arose due to change in calculation method for IBNR on General Damages branch.

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

Effects of restatements according to the Circular 2017/7 announced by the T.C. Prime Ministry Undersecretariat of the Treasury are as follows

With the Circular 2017/7 announced by the Undersecretariat of Treasury regarding "the discount of net cash flow from outstanding claim files". Since the discount of "Land Vehicle Liability" and "General Liability" branches has become compulsory, according to the Article 1 of the circular, this is considered as a change of accounting policies and financial statements have been retrospectively restated. Companies are able to discount net cash flow from outstanding claim files according to the methods outlined by the circular.

The effects of the changes were made retrospectively are shown below:

Restatement of detailed the balance sheet as of December 31, 2016:

Detailed Balance Sheet	Previously Reported December 31, 2016	Restated December 31, 2016	Effect
II- Non-Current Assets	**849.909.045**	**839.681.331**	**(10.227.714)**
H- Other Non-Current Assets	**10.227.714**	**-**	**(10.227.714)**
5- Deferred Tax Assets	10.227.714	-	(10.227.714)
III- Short-Term Liabilities	**5.988.373.913**	**5.882.992.846**	**105.381.068**
E-Insurance Technical Reserves	**5.154.029.795**	**5.048.648.727**	**105.381.068**
2- Unexpired Risk Reserves- Net	12.888.197	5.051.590	**7.836.607**
4- Outstanding Claims Reserve - Net	3.005.627.300	2.908.082.839	**97.544.461**
IV- Long-Term Liabilities	**208.888.988**	**219.737.488**	**(10.848.500)**
I - Other Long Term Liabilities	**-**	**10.848.500**	**(10.848.500)**
1- Deferred Tax Liabilities	-	10.848.500	**(10.848.500)**
V- Equity	**1.759.727.839**	**1.844.032.692**	**(84.304.853)**
E- Previous Years' Profits	**197.937.817**	**267.203.763**	**(69.265.946)**
1- Previous Years' Profits	197.937.817	267.203.763	**(69.265.946)**
F-Net Profit for the Year	**181.244.361**	**196.283.268**	**(15.038.907)**
1- Net Profit of the Period	181.235.711	196.274.618	**(15.038.907)**

(Currency: Turkish Lira (TL))

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)*

Restatements of the detailed income statement as of January 1 to December 31, 2016:

Detailed Income Statement	**Previously Reported**	**Restated**	**Effects**
	January 1 – December 31, 2016	**January 1 – December 31, 2016**	
A- Non-Life Technical Income	**4.621.127.210**	**4.624.123.461**	**(2.996.251)**
1.3- Changes in Unexpired Risks Reserve (Net of Reinsurer Share and Reserves Carried Forward)(+/-)	19.794.059	22.790.310	(2.996.251)
1.3.1 - Unexpired Risks Reserve (-)	28.490.590	31.430.693	(2.940.103)
1.3.2 - Reinsurance Share of Unexpired Risks Reserve (+)	(8.696.531)	(8.640.383)	(56.148)
B- Non-Life Technical Expense	**(4.404.492.029)**	**(4.388.689.646)**	**(15.802.383)**
1.2- Changes in Outstanding Claims Reserve (Net of Reinsurer Share and Reserves Carried Forward) (+/-)	(773.965.057)	(758.162.674)	(15.802.383)
1.2.1 - Outstanding Claims Reserve (-)	(779.788.377)	(763.503.693)	(16.284.684)
1.2.2 - Reinsurance Share of Outstanding Claims Reserve (+)	5.823.320	5.341.019	482.301
C- Net Technical Income-Non-Life (A – B)	**216.635.181**	**235.433.815**	**(18.798.634)**
J- Total Net Technical Income (C+F+I)	**215.135.246**	**233.933.880**	**(18.798.634)**
M- Income and Expenses From Other and Extraordinary Operations	**(46.790.612)**	**(50.550.339)**	**3.759.727**
6- Deferred Tax Expense Accounts (-)	(886.872)	(4.646.599)	3.759.727
N- Net Profit for the Year	**224.838.811**	**239.877.718**	**(15.038.907)**
1- Profit Before Tax	251.714.468	266.753.375	(15.038.907)
3- Net Profit for the Year	224.838.811	239.877.718	(15.038.907)

Restatement of the detailed balance sheet as of January 01, 2016:

Detailed Balance Sheet	**Previously Reported**	**Restated**	**Effects**
	January 01, 2016	**January 01, 2016**	
II- Non-Current Assets	**756.869.648**	**742.920.689**	**(13.948.959)**
H- Other Non-Current Assets	13.948.959	-	(13.948.959)
5- Deferred Tax Assets	13.948.959	-	(13.948.959)
III- Short-Term Liabilities	**4.958.872.649**	**4.872.290.216**	**86.582.433**
E-Insurance Technical Reserves	**4.108.661.380**	**4.022.078.947**	**86.582.433**
2- Unexpired Risk Reserves- Net	32.682.256	27.841.900	4.840.356
4- Outstanding Claims Reserve - Net	2.229.213.713	2.147.471.636	81.742.077
IV- Long-Term Liabilities	**155.274.890**	**158.642.418**	**(3.367.528)**
I - Other Long Term Liabilities	**-**	**3.367.528**	**(3.367.528)**
1- Deferred Tax Liabilities	-	3.367.528	(3.367.528)
V- Equity	**1.605.042.391**	**1.674.308.337**	**(69.265.946)**
E- Previous Years' Profit	**352.096.322**	**421.362.268**	**(69.265.946)**
1- Previous Years' Profit	352.096.322	421.362.268	(69.265.946)

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation

"Circular Related to the Preparation of the Consolidated Financial Statements of Insurance, Reinsurance and Individual Pension Companies" issued by the Turkish Treasury in the Official Gazette dated 31 December 2008 and numbered 27097 ("the Circular for Consolidation") requires that insurance, reinsurance and individual pension companies issue consolidated financial statements starting from 31 March 2009. The Company consolidated its subsidiary Anadolu Sigorta by using line-by-line method and Anadolu Hayat which is associate of Anadolu Sigorta is consolidated by the equity method.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The subsidiary, Anadolu Sigorta included in consolidation and effective shareholding percentages of the Company are as follows. The information related to the associate of the Company, Anadolu Hayat which is consolidated using equity method is presented in Note 9.

	Company	Direct and indirect controlling interest	Direct controlling interest	Total assets	Shareholders' equity	Prior period loss	Current period profit
December 31, 2017	Anadolu Sigorta (consolidated)	%57,31	%57,31	6.529.419.178	1.136.126.006	75.051.095	201.514.988
December 31, 2016	Anadolu Sigorta (consolidated)	%57,31	%57,31	5.720.082.152	969.089.194	70.926.240	102.118.697

The Company has not consolidated Miltaş Turizm A.Ş., the subsidiary of the Company, based on the exception specified in the Circular for Consolidation; as the amount of total assets of such subsidiary was below 1% of total assets of the Company. The Company accounted for this subsidiary at cost as of December 31, 2017 and 2016.

Transactions eliminated on consolidation

Anadolu Sigorta's balance sheet and income statement is consolidated by line-by-line method and the book value of Anadolu Sigorta in the Company's accounts and the capital amount in the Anadolu Sigorta accounts are eliminated. Intra-group balances and transactions between the Company and Anadolu Sigorta, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

The accounting policies of subsidiary have been changed when necessary to align them with the policies adopted by the Company.

Non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Net profit or loss of subsidiary, applicable to the non-controlling interest are presented under "Non-controlling interest" account under consolidated statement of income.

2 Summary of significant accounting policies *(continued)*

2.3 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. As of December 31, 2017 and 2016, the Group operates in life and non-life branches and is not required to present segment reporting since its debt or equity instruments are not traded in a public market.

2.4 Foreign currency transactions

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

Changes in the fair value of financial assets denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the asset and other changes in the carrying amount of the asset. Translation differences related to changes in amortised cost are recognized in profit or loss, and other changes in carrying amount are recognized in "valuation of financial assets" in equity.

2.5 Tangible assets

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

The company has started to show based on the revaluation model by measuring over fair value as of the third quarter of the 2015 year by making changes in the use of the property which is measuring the cost model in the financial statements before.

Buildings for own use are recognized by fair value that are determined in valuations made by independent valuation experts who have professional competency by reducing their values accumulated depreciation. Accumulated depreciation at the date of revaluation is deducted from gross book value and net amount is brought to values after revaluation.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.5 Tangible assets *(continued)*

Increase arising from the revaluation of buildings for own use are presented under the other capital reserves in the equity excluding tax. As a result of property based evaluation, value decreases that correspond the previous period value increases are deducted from related fund; other decreases are recognized in income statement.

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.

Lands are not amortised due to their unlimited useful life. Tangible assets are depreciated on a straight-line basis over their estimated useful lives (3-15 years) over the cost of the asset or revaluated amounts.

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 is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets at cost.

Depreciation rates and estimated useful lives are as follows

Tangible assets	**Estimated useful lives (years)**	**Depreciation rates (%)**
Buildings for own use	50	2.0
Machinery and equipment	3 - 16	6.7 - 33.3
Vehicles	5	20.0
Other tangible assets (includes leasehold improvements)	5 - 10	10.0 - 20.0

2 Summary of significant accounting policies *(continued)*

2.6 Investment property

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

Investment properties are initially recorded at cost and subsequently measured at their fair values. The changes which result of fair value valuation recognised in the income statement.

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

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

The fair value on the date of change in the usage is considered as cost in the reclassification recognition when investment property that measured with fair value is reclassified as a tangible asset.

2.7 Intangible assets

The Group’s intangible assets consist of computer software, goodwill and advances on intangible assets.

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

Amortization is charged on a straight-line basis over their estimated useful lives (3-15 years) over the cost of the asset.

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary/associate at the date of the acquisition. Goodwill on acquisitions of associates is included in ‘investments in associates’ and is tested for impairment as part of the overall balance. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gain or losses on the disposal of an entity includes the carrying amount of goodwill relating to the entity disposed of.

For the purpose of impairment testing, goodwill is allocated to cash-generating units. The allocations made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arises.

The Group has acquired the health portfolio of Anadolu Hayat Emeklilik A.Ş. as of August 31, 2004 with all of its rights and liabilities. The value at acquisition of the portfolio amounting to TL 16.250.000 is capitalized as goodwill by the Group.

2 Summary of significant accounting policies *(continued)*

2.8 Financial assets

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

Securities are recognized and derecognized at the date of settlement.

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

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

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

Held to maturity financial assets are the financial assets with fixed maturities and fixed or pre-determined payment schedules that the Company has the intent and ability to hold until maturity, excluding loans and receivables. Subsequent to initial recognition, held to maturity financial assets and loans and receivables are measured at amortized cost using effective interest rate method less impairment losses, if any. The Company has no financial assets that are not allowed to be classified as held to maturity financial assets for two years due to the tainting rules applied for the breach of classification rules.

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

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

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

In the accompanying consolidated financial statements, Anadolu Hayat, associate of the Group, has been consolidated by using the equity method of accounting.

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 Summary of significant accounting policies *(continued)*

2.9 Impairment on assets

Impairment on financial assets

Financial assets or group of financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the Group 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.

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

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

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

Impairment on tangible and intangible assets

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

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

2 Summary of significant accounting policies *(continued)*

2.10 Derivative financial instruments

Derivative instruments are treated as held for trading financial assets in compliance with the standard TAS 39 – *Financial Instruments: Recognition and measurement*.

Derivative financial instruments are initially recognized at their fair value.

The receivables and liabilities arising from the derivative transactions are recognized under the off-balance sheet accounts through the contract amounts.

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

2.11 Offsetting of financial assets

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

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

2.12 Cash and cash equivalents

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

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.13 Capital

The shareholder having direct or indirect control over the shares of the Company is İş Bankası Group. As of December 31, 2017 and 2016, the share capital and ownership structure of the Company are as follows:

	December 31, 2017		**December 31, 2016**	
Name	**Shareholding amount (TL)**	**Shareholding rate (%)**		**Shareholding amount (TL)**
Türkiye İş Bankası AŞ	505.810.925	76,64	505.810.925	76,64
Millî Reasürans TAŞ Mensupları Yardımlaşma Sandığı Vakfı	69.604.854	10,55	69.604.854	10,55
Groupama Emeklilik AŞ	38.809.894	5,88	38.809.894	5,88
Ankara Doğal Elektrik Üretim ve Ticaret A.Ş.	22.240.456	3,37	22.240.456	3,37
T.C. Ziraat Bankası AŞ	16.430.944	2,49	16.430.944	2,49
Other	7.102.927	1,07	7.102.927	1,07
Paid Capital	**660.000.000**	**100,00**	**660.000.000**	**100,00**

Sources of capital increases during the period

The company has not performed capital increase as of December 31, 2017 (December 31, 2016: None).

Privileges on common shares representing share capital

There are no privileges on common shares representing share capital..

The Company has 1.000 registered and bonus founder shares. The only right of Founder Shares is getting dividend. Founder Shares might be purchased back by the Company according to the decision of the General Assembly after the 5th year of the Company. After the allocation of first legal reserves, first dividend to shareholders and statutory reserves (Note 38), 3,5% of the remaining amount is distributed to the Founder Shares as dividend.

As a result of the Extraordinary General Assembly Meeting of the Company held on June 27, 2016, acquisition of total amount of the Founding Shares by Millî Reasürans T.A.Ş. with the cost amounting to TL 27.166.000 determined in the Expert Review Report approved by the Istanbul 6th Court of Peace is unanimously decided. Abolition and extinguishment of Founding Shares acquired by the Company and absorbing acquisition cost from extraordinary reserves is decided in the Extraordinary General Meeting of the Company held on November 30, 2016.

Registered capital system in the Company

None.

Repurchased own shares by the Company

None.

2 Summary of significant accounting policies *(continued)*

2.14 Insurance and investment contracts - classification

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

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

The Group acts as a reinsurer when writing insurance from an insurance company (cedent) on the basis of reinsurance contracts and cedes insurance business to another retrocessionaire (the retrocedant) on the basis of retrocession contracts.

As at the reporting date, the Group does not have a contract which is classified as an investment contract.

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 company, fund or other entity that issues the contract.

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

2.16 Investment contracts with discretionary participation feature

As of the reporting date, the Group does not have any insurance contracts and investment contracts without discretionary participation feature.

2.17 Liabilities

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

2 Summary of significant accounting policies *(continued)*

2.18 Income taxes

Corporate tax

Statutory income is subject to corporate tax at 20%.(However, according to the Provisional Article 10 added to the Corporate Tax Law, the corporate tax rate of 20% is calculated as 22% for the corporate earnings for the fiscal periods starting in the related year for the institutions whose special accounting periods are assigned to the taxation periods of 2018, 2019 and 2020 will be implemented. 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 retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

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 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 tax

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

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 offset 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.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for five years. Tax losses cannot be retrospectively offset against the profits of previous years.

2 Summary of significant accounting policies *(continued)*

2.18 Income taxes *(continued)*

Deferred tax *(continued)*

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

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

Transfer pricing

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

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

2 Summary of significant accounting policies *(continued)*

2.19 Employee benefits

Pension and other post-retirement obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Employees of the Company are the members of “Milli Reasürans Türk Anonim Şirketi Emekli ve Sağlık Sandığı Vakfı (“Milli Reasürans Pension Fund”) and the employees of Anadolu Sigorta are the members of Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı (“Anadolu Anonim Pension Fund”) which is established in accordance with the temporary Article 20 of the Social Security Act No: 506.

As per the temporary sub article No: 20 of the Article 73 of the Social Security Law, pension funds should be transferred to the Social Security Institution within three years after the publication of the aforementioned Law published in the Official Gazette numbered 26870 and dated May 8, 2008 . Decree of the Council of Ministers about two years extending transfer duration, was published in the Official Gazette on April 9, 2011. Based on this, expiration date has been extended to May 8, 2013 from the expiration date on 8 May 2011. On March 8, 2012, “Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees” numbered 28227, was published on Official Gazette and 4th article of this act changed “two years” phrase as “four years” which takes part on second sentence of first clause of 20th article of the code numbered 5510. Also, under the scope of Decree of the council of ministers numbered 2013/4617 was published on Official Gazette numbered 28636, on May 3, 2013 and 20th temporary article of the Social Security Laws numbered 506 banks, insurance and reinsurance companies, chambers of commerce, stock markets or participants of pension funds and salary or income provided ones and their shareholders’ transfer duration has been extended one year to the Social Security Institution by Decree of the council of ministers.

Employees of the Company are the members of “Milli Reasürans Türk Anonim Şirketi Memurları Emekli ve Sağlık Sandığı (“Milli Reasürans Pension Fund”) which is established in accordance with the temporary Article 20 of the Social Security Act No: 506. As per the temporary sub article No: 20 of the Article 73 of the Social Security Law, pension funds should be transferred to the Social Security Institution within three years after the publication of the a aforementioned Law published in the Official Gazette numbered 26870 and dated May 8, 2008. The related three-year transfer period has been prolonged for two years by the Cabinet decision, which was published on the Official Gazette dated April 9, 2011. Accordingly, the three-year period expired on May 8, 2011 was extended to May 8, 2015. The principles and applications of the transfer will be determined by the Decree of the Council of Ministers separately.

Lastly, first paragraph of temporary 20th article of 5510 numbered Law, article 51 of the law regarding changing of several laws and delegated legislations and the law of occupational health and safety which are published in April 23, 2015 dated Official Gazette is changed as following.

Funds participating, pensioned or endowed and beneficiaries of the established funds for the personnel of banks, insurance and reinsurance companies, chambers of commerce, chamber of industries, stock exchanges or is organized by them under the temporary 20th article of law no. 506, council of ministers is entitled to determine the date of transfer to Social Security Institution. As of the transfer date, fund participatings are regarded as social insurant in accordance with the (a) sub clause of first sub articles of 4th article of related law.

In accordance with the Act, as of the transfer date, present value of the liabilities will be determined by considering the income and expense of the pension fund.

The cash value of the obligations of the pension fund for each member of the fund including members left the fund as of the transfer date will be calculated according to following assumptions:

a) Technical deficit rate of 9.8% shall be used in the actuarial calculation of the value in cash, and

b) Gains and losses of the funds stems from benefits covered by the aforementioned Law taken into accounts to calculate present value of the obligations.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.19 Employee benefits *(continued)*

Employee termination benefits

In accordance with existing Turkish Labor 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 of December 31, 2017 is TL 4.732 (December 31, 2016: TL 4.297).

The Company accounted 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 of December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
Discount rate	%4,21-4,25	%4,25-4,61
Expected rate of salary/limit increase	%6,00-7,00	%6,00-5,83
Estimated employee turnover rate	%2,00-3,27	%2,00-3,22

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

Other benefits

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

2.20 Provisions

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. 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 Group discloses the contingent asset.

2.21 Revenue recognition

Written premiums

Written premiums represent premiums taken from insurance and reinsurance companies as a reinsurance company. Premiums ceded to retrocession companies are accounted as "written premiums, ceded" in the profit or loss statement. Written premiums are recorded upon the receipt of quarterly statements of accounts from ceding companies in treaties whereas facultative accounts are registered upon the receipt of monthly payrolls.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.21 Revenue recognition *(continued)*

Claims paid

Claims paid represent payments of the Group as a reinsurance company when risks taken from insurance and reinsurance companies are realized. Claims are recognized as expense upon the receipt of notifications. Notifications have not specific periods and depend on the initiative of the insurance and reinsurance companies.

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

Subrogation, salvage and quasi income

According to the Circular 2010/13 dated September 20, 2010; the Company may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insurer. If the amount cannot be collected from the counterparty insurance company, the Company provides provision for uncollected amounts due for six months. If the counter party is not an insurance Company, the provision is provided after four months. As at the reporting date, in accordance with the related circular the Company provided TL 47.325.075 (December 31, 2016: TL 43.739.284) subrogation receivables and recorded TL 50.653.264 (December 31, 2016: TL 47.016.782) (Note 12) net subrogation and salvage receivables under receivables from main operations. The Company provided allowance for uncollected subrogation receivables amounting to TL 8.337.019 (December 31, 2016: TL 8.836.586) (Note 12) in accordance with circular.

For the years ended December 31, 2017 and 2016, salvage and subrogation collected are as follows:

	December 31, 2017	**December 31, 2016**
Land Vehicles	375.105.975	341.775.724
Land Vehicless Liability	13.422.397	10.694.282
Fire and Natural Disasters	4.521.486	3.961.070
Marine	1.485.087	2.799.577
Sea Vehicles	1.004.392	10.222
General Liability	812.773	103.795
General Damages	307.007	313.114
Financial Losses	144.816	-
Casualty	28.880	21.706
Legal Protection	475	529
Credit	-	467.351
Air Vehicles	-	10.588
Total	**396.833.288**	**360.157.958**

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.21 Revenue recognition *(continued)*

Subrogation, salvage and quasi income *(continued)*

As of December 31, 2017 and December 31, 2016, accrued subrogation and salvage income per branches is as follows:

	December 31, 2017	December 31, 2016
Land Vehicles	37.076.373	37.302.823
Land Vehicles Liability	5.926.818	4.565.163
Fire and Natural Disasters	1.321.152	1.883.852
General Damages	1.657.069	490.114
Marine	2.991.999	2.688.121
Casualty	1.544.801	--
Sea Vehicles	122.868	78.448
General Liability	12.184	8.261
Total	**50.653.264**	**47.016.782**

Commission income and expenses

As further disclosed in Note 2.24 - *Reserve for unearned premiums*, commissions paid to the insurance and reinsurance companies as a reinsurance company and the commissions received from the reinsurance companies are recognized over the life of the contract by deferring commission income and expenses within the calculation of reserve for unearned premiums for the policies produced before January 1, 2008 and recognizing deferred commission income and deferred commission expense in the financial statements for the policies produced after January 1, 2008.

Interest income and expenses

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

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

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 consolidated financial statements.

Dividends

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

2 Summary of significant accounting policies *(continued)*

2.22 Leasing transactions

The maximum period of the lease contracts is 10 years. Tangible assets acquired by way of finance leases are recorded 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 asset and liability amounts, the lower of the fair value of the leased asset and the present value of leasing payments is considered. Financial costs on leasing agreements are expanded in lease periods at a fixed interest rate.

If there is impairment in the value of the assets obtained through finance lease and in the expected future benefits, the leased assets are measured at 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.

2.23 Dividend distribution

It is decided in Ordinary General Assembly Meeting of the Company, held on March 28, 2017, to make a cash dividend payment of TL 50.000.000 to shareholders and to allocate remaining balance as voluntary reserves from the net period income amounting to TL 129.243.232, obtained from 2016 activities of the Company, after the legal reserves are allocated. (December 31, 2016 : TL 42.807.730)

2.24 Unearned premiums reserve

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

Unearned premium reserves are calculated on the basis of 1/8 for reinsurance and retrocession transactions that are not subject to basis of day or 1/24 due to application limitations,

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

In line with the Communiqué on Technical Reserves, the calculation of unearned premium reserve is performed as follows by the Group: for proportional reinsurance contracts, on the basis of 1/8 over the ceded premiums for treaty and facultative contracts, for commodity transportation policies with indefinite expiration dates, 50% of the remaining portion of the premiums accrued in the last three months, less any commissions is also provided as unearned premium reserves and for non-proportional reinsurance contracts, on the basis on day by considering beginning and ending of the contracts. The Company calculates reserve for unearned premiums for ceded premium as retrocedant on the same basis.

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

2 Summary of significant accounting policies *(continued)*

2.24 Unearned premiums reserve *(continued)*

In accordance with the "Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" ("Communiqué on Technical Reserves") which was issued in 26606 numbered and August 7, 2007 dated Official Gazette and put into effect starting from 1 January 2008, the reserve for unearned premiums represents the proportions of the gross written premiums without deductions of commission or any other allowance, in a period that relate to the period of risk subsequent to the reporting date for all short-term insurance policies. For commodity transportation policies with indefinite expiration dates, 50% of the remaining portion of the premiums accrued in the last three months, less any commissions is also provided as unearned premium reserves.

Since the Communiqué on Technical Reserves was effective from January 1, 2008, the Turkish Treasury issued July 4, 2007 dated and 2007/3 numbered "Circular to Assure the Compliance of the Technical Reserves of Insurance, Reinsurance and Pension Companies With the Insurance Law No.5684" ("Compliance Circular") to regulate the technical provisions between the issuance date and enactment date of the Communiqué on Technical Reserves. In accordance with the Compliance Circular, it is stated that companies should consider earthquake premiums written after June 14, 2007 in the calculation of the reserve for unearned premiums while earthquake premiums were deducted in the calculation of the reserve for unearned premiums before. Accordingly, the Company has started to calculate reserve for unearned premiums for the earthquake premiums written after June 14, 2007, while the Company had not calculated reserve for unearned premiums for the earthquake premiums written before June 14, 2007.

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

According to the Communiqué on Technical Reserves, for the calculation of unearned premium reserves of foreign currency indexed insurance agreements, foreign currency selling exchange rates announced by Turkish Central Bank will be used, unless there is a specified exchange rate in the agreement.

According to the "Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" published in Official Gazette no 27655 dated July 28, 2010; there is no change in the calculation of reserve for unearned premiums for reinsurance companies.

As of the reporting date, the Group has provided unearned premiums reserve amounting to TL 2.761.900.572 (December 31, 2016: TL 2.560.196.809) and reinsurer share in unearned premiums reserve amounting TL 551.618.894 (December 31, 2016: TL 349.788.450). Furthermore, unearned premiums reserve includes Social Security Institution ("SSI") share amounting to TL 58.817.233 (December 31, 2016: TL 75.059.218).

2 Summary of significant accounting policies *(continued)*

2.25 Outstanding claims reserves

Claims are recorded in the year in which they occur, based on reported claims or on the basis of estimates when not reported. Outstanding claims reserve represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. Incurred but not reported claims (“IBNR”) are also provided.

Claims incurred before the accounting periods but reported subsequent to those dates are considered as incurred but not reported (“IBNR”) claims.

December 5, 2014 dated “Circular regarding Outstanding Claims Reserve (2014/16)” and 2010/12 numbered “Circular regarding actuarial chain ladder method”of Turkish Treasury is abolished except Article 9 and 10. 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.

The selection of data to be used, correction operations, selection of the most appropriate method and growth factors and interference to growth factors is made by the Company’s actuaries by using actuarial methods on the basis of branches. This matter is detailed in the actuarial report that is sent to Turkish Treasury according to Article 11 of Actuaries Regulation. Actuary of Anadolu Sigorta selects the correct factors for the actuarial analysis and to write back and to calculate the damage growth factors.

In the compulsory traffic branch the physical and bodily damages, and in the General Responsibility branch the employer’s liability, medical injury compensation, professional liability and other liability branches are being analyzed separately.

Anadolu Sigorta uses %9 which is the latest statutory rate of interest in the Official Gazette for the discount process in accordance with "General Instructions Regarding The Cash Flow From Outstanding Claim Reserves And Their Discounts" numbered 2016/22 which regulates the processes involving the discount of cash flow from outstanding claims reserve.

Anadolu Sigorta has used the gradual transition curve which was published by the Undersecretariat of Treasury's "General Instructions Regarding to the Changes in the General Instructions Regarding Outstanding Claim Reserves (2014/16)" which was published in February 29th, 2016 with the number 2016/11. The company has used these gradual transition curve with 100% accuracy and has reflected the calculations on the official statements as of December 31, 2016 and has continued to use same method in the current period.

Anadolu Sigorta, according to Provisional Article 12 of the Regulation on the Amendment of the Regulation on Tariff Implementation Principles in the Compulsory Motor Insurance for Compulsory Liability for Land Vehicles, published in the Official Gazette dated July 11, 2017 and numbered 30121, the "Risk Insured Pool" has been established for those vehicle groups with high damage frequencies. In this context, the premiums and damages related to the traffic insurance policies issued within the scope of the pool starting on April 12, 2017 have started to be shared among insurance companies within the framework of the principles determined by the Undersecretariat of Turkish Motor Vehicle Office.

After the change in legislation, by the Turkish Motor Vehicles office (TMTB) within the scope of monthly declarations, accounting records were created on premiums, damages and commission amounts transferred the pool and transferred to the pool according to its share, and also accounting was made for the amounts for the period not yet communicated by the Turkish Motor Vehicles office.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.25 Outstanding claims reserves *(continued)*

Except for the life branch, outstanding claims reserves consists of claims are recorded in the year in which they occur, based on reported claims and the difference between the result of the actuarial chain ladder method whose content and application criteria stated by the Turkish Treasury and reported but not settled claims are considered as incurred but not reported ("IBNR") claims. Actuarial chain ladder method may be differentiated by the Turkish Treasury for reinsurance companies due to their special conditions.

Methods for the calculation of provision for incurred but not reported claims are determined by the Turkish Treasury in the life-branch.

The ACML methods selected for each branch is provided in the following section. The Group could not perform big claim elimination by Box Plox.

	December 31, 2017		December 31, 2016	
Branches	**Milli Reasürans**	**Anadolu Sigorta**	**Milli Reasürans**	**Anadolu Sigorta**
Fire and Natural Disasters	Standard Chain	Standard Chain	Standard Chain	Standard Chain
General Damages[(*)]	Standard Chain	Standard Chain	Standard Chain	Standard Chain
General Liability	Standard Chain	Cape Cod	Standard Chain	Cape Cod
Land Vehicles Liability	Standard Chain	Cape Cod	Standard Chain	Cape Cod
Marine	Standard Chain	Standard Chain	Standard Chain	Standard Chain
Sea Vehicles	Standard Chain	Standard Chain	Standard Chain	Standard Chain
Land Vehicles	Standard Chain	Standard Chain	Standard Chain	Standard Chain
Casualty	Standard Chain	Standard Chain	Standard Chain	Standard Chain
Health	Standard Chain	Standard Chain	Standard Chain	Standard Chain
Air Vehicles	Standard Chain	Standard Chain	Standard Chain	Standard Chain
Legal Protection	Standard Chain	Standard Chain	Standard Chain	Standard Chain
Sea Vehicles Liabilities	Sector Average (Insurance Association of Turkey 09/2017)	Standard Chain	Sector Average (Insurance Association of Turkey 09/2016)	--
Air Vehicles Liability	Sector Average (Insurance Association of Turkey 09/2017)	Standard Chain	Sector Average (Insurance Association of Turkey 09/2016)	Standard Chain
Fidelity Guarantees	Sector Average (Insurance Association of Turkey 09/2017)	-	Sector Average (Insurance Association of Turkey 09/2016)	--
Financial Losses	Sector Average (Insurance Association of Turkey 09/2017)	Standard Chain	Sector Average (Insurance Association of Turkey 09/2016)	Standard Chain
Credit	Sector Average (Insurance Association of Turkey 09/2017)	Standard Chain	Sector Average (Insurance Association of Turkey 09/2016)	Standard Chain
Life	Sector Average (Insurance Association of Turkey 09/2017)	-	Sector Average (Insurance Association of Turkey 09/2016)	--
Facultative Third Party Liability	-	Standard Chain	--	Standard Chain

(*)Two separate calculations have been made as agriculture and non agriculture sub branches. (Milli Reasürans T.A.Ş.).

The Company, as a reinsurance company, selects data, adjustments, applicable methods and development factors by itself over the data obtained from insurance companies on a branch basis via actuarial methods. According to the article 11 clause 5 of "Circular on Actuarial Report for Non-Life Insurance Branch" dated 6 November 2008, selections and results should be assess in detail in actuarial report by the actuary.

The Company does not have sufficient data for ships, aircraft liability, Fidelity Guarantees, financial losses, credits and life branches. Furthermore, claim development tables have irregular distribution for the aforementioned branches. Therefore, the Company prefers to use sector average in the actuarial chain ladder method.

According to December 5, 2014 dated "Circular regarding Outstanding Claims Reserves (2014/16)" of Turkish Treasury, the Company constitutes data by taking base of acceptance year rather than Casualty period for the reason of characteristic of reinsurance operations in course of ACML calculation and calculates ACML once in a year as of year end. The methods indicated in the table are calculated according to paid claim.

Salvage and subrogation income which will be deducted in the calculation of ACML stated by the Under secretariat should be based on collected amount (collected amount includes interest income over salvage and subrogation income, expertise, consultant and lawsuit expenses). Collections are taken into account according to their collection period.

2 Summary of significant accounting policies *(continued)*

2.25 Outstanding claims reserves *(continued)*

According to the letter dated January 12, 2012 and numbered B.02.1.HZN.0.10.03.01/854 sent by the Turkish Treasury to the Company, determination of final claims for the last business year used in IBNR calculation has been changed as of December 31, 2011. Accordingly, the final premium amount earned for the last business year is determined by considering premium development factors since premiums may be accrued in the following years under the terms of the agreements. Based on the calculated final premium amount of the last business year, unearned premium reserves and earned premiums are determined. Aforementioned earned premium amount is multiplied by the average of claim/premium ratio of the previous years to determine final claims amount of the last business year. IBNR is calculated by subtracting the paid and reported claims of the last business year from the final claims amount determined by the aforementioned method. In addition, IBNR amounts reported by sedan companies are taken into consideration and in order to prevent duplicate provision; paid claims, outstanding claims reserves and premiums of reported claims are excluded from the data set used in the calculation of IBNR. The Company determined final IBNR amount by adding reported IBNR amounts to IBNR amounts calculated from the data prepared in accordance with the principals mentioned above.

In accordance with December 5, 2014 dated and 2014/16 numbered “Circular for Outstanding Claims Reserve” of Turkish Treasury, ACML calculation should be on main branch. However, as at December 31, 2012, the Company has calculated ACML reserve for General Losses main branch as two separate sub branches namely agriculture and non agriculture branches. Because, Agriculture and Engineering sub branches under General Losses main branch have different characteristics in conversion process of outstanding losses to paid losses, IBNR calculation of General Losses branch produces unreliable and improper results. The Company applied to Turkish Treasury on January 17, 2013 with letter numbered 300, so as to receive permission to calculate IBNR reserve for General Losses branch as agriculture and non agriculture sub branches separately. Turkish Treasury has given permission the Company in order to calculate IBNR reserve for General Losses within two sub branches with the letter dated January 28, 2013 and numbered 24179134. As of December 31, 2017, the Company recognised the amount that arose due to change in calculation method for IBNR on General Losses branch.

With the Circular 2017/7 announced by the Undersecretariat of Treasury regarding “the discount of net cash flow from outstanding claim files”. Since the discount of “Land Vehicle Liability” and “General Liability” branches has become compulsory, according to the Article 1 of the circular, this is considered as a change of accounting policies and financial statements have been retrospectively restated. Companies are able to discount net cash flow from outstanding claim files according to the methods outlined by the circular.

As of the reporting date, as a result of actuarial chain ladder method; the Company except Singapore branch recorded 100% of additional negative IBNR amounting to TL 131.488.022 (31 December 2016: TL 49.181.395 negative IBNR) as outstanding claims reserves . As of the reporting date, TL 13.602.239 (31 December 2016: TL 19.924.049) of IBNR provision is recorded for Singapore branch.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.25 Outstanding claims reserves*(continued)*

In accordance with "Circular Related to Information on Calculation of Incurred But Not Reported Claims Reserve" and dated November 26, 2011, companies may decrease their outstanding claims reserve balances based on the winning ratio of the sub-branches calculated from the last five years claims. Winning ratio used for decrease in outstanding claims reserves could not exceed 25% (15% for the new sub-branches which do not have five year data). Based on the aforementioned regulation, the Company calculated winning ratio between 15%-25% from the last five year data set and TL 182.575.898 (December 31, 2016: TL 170.861.245) as IBNR and TL 30.415.385 (December 31, 2016: TL 25.166.208) as reinsurer's share of IBNR is excluded from outstanding claims reserve balance.

The calculated winning ratio of Anadolu Sigorta, the subsidiary of the Company as at 31 December 2017 is within 0%-100% range (December 31, 2016: 0%-100%). Winning ratios used in and amounts decreased from outstanding claims reserves are as follows:

December 31, 2017 **Branch**	**Earnings Ratios Used**	**Gross Amount Decreased**	**Net Amount Decreased**
General Liability	25%	74.714.664	65.998.305
Land Vehicles Liability (MTPL)	10%	62.120.743	61.236.662
Fire and Natural Disasters	25%	25.698.638	11.128.770
Land Vehicles	22%	8.048.030	7.958.337
General Damages	25%	4.214.820	1.646.063
Marine	25%	3.920.234	1.599.097
Casualty	21%	2.320.622	1.366.437
Sea Vehicles	25%	769.345	484.519
Credit	25%	726.931	726.931
Financial Losses	4%	38.485	12.006
Legal Protection	25%	3.386	3.386
Total		**182.575.898**	**152.160.513**

December 31, 2016 **Branch**	**Earnings Ratios Used**	**Gross Amount Decreased**	**Net Amount Decreased**
General Liability	25%	78.777.548	72.050.356
Land Vehicles Liability (MTPL)	11%	55.777.818	54.833.381
Fire and Natural Disasters	25%	21.068.122	9.042.415
General Damages	25%	5.382.650	1.422.206
Land Vehicles	22%	5.296.987	5.210.113
Casualty	25%	1.825.148	1.167.341
Marine	25%	1.308.549	851.196
Sea Vehicles	25%	708.020	422.494
Credit	25%	681.222	681.222
Financial Losses	3%	30.283	9.415
Legal Protection	25%	4.898	4.898
Total		**170.861.245**	**145.695.037**

2 Summary of significant accounting policies *(Continued)*

2.26 Mathematical reserves

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

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

2.27 Unexpired risk reserves

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

According to the “Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves” published in Official Gazette no 28356 dated 17 July 2012; besides the net unexpired risk reserves detailed in the above, gross unexpired risk reserve is also calculated. The test is performed on main branch basis and in case where the net and gross expected claim/premium ratio is higher than 95%, reserve calculated by multiplying the exceeding portion of the expected claim/premium ratio with the unearned premiums reserve of that main branch is added to the reserves of that branch. Difference between the gross and net amount is represents reinsurer’s share. Premiums paid for non-proportional reinsurance agreements are considered as premiums ceded to the reinsurance firms. In order to eliminate the misleading impact of change in calculation method of outstanding claims reserves , outstanding claims reserves of the previous period is calculated by the new method and the amount calculated by the new method as outstanding claims reserves at the beginning of the period is used for calculation of reserve for unexpired risk.

Unexpired risks reserve is calculated on the basis of main branches, within the context of circular of Turkish Treasury, numbered 2012/15 and dated December 10, 2012.

According to the Circular numbered 2011/18, the Company excluded both the premiums and claims transferred to SSI from calculation of reserve for unexpired risks in Land Vehicles Third Party Liability, Compulsory Third Party Liability Insurance for Road Passanger Transportation and Compulsory Road Passenger Transportation Personal Casualty branches.

According to the Circular numbered 2015/30, the opening outstanding claims reserve amount used in the determination of the expected loss premium ratio, which is set for outstanding risk reserves calculation is redefined in a manner consistent with the current period as of December 31, 2017.

With the Circular 2017/7 announced by the Undersecretariat of Treasury regarding “the discount of net cash flow from outstanding claim files”. Since the discount of “Land Vehicle Liability” and “General Liability” branches has become compulsory, according to the Article 1 of the circular, this is considered as a change of accounting policies and financial statements have been retrospectively restated. Companies are able to discount net cash flow from outstanding claim files according to the methods outlined by the circular.

2 Summary of significant accounting policies *(Continued)*

2.27 Reserve for unexpired risk *(Continued)*

According to the related test, as at the reporting date, the Group has provided net unexpired risk reserves amounting to TL 29.445.732 in the accompanying consolidated financial statements (December 31, 2016: 5.051.590 TL).

Net and gross unexpired risk reserves are calculated by multiplying the exceeding portion of the expected claim/premium ratio with the net and gross unearned premiums reserve of that main branch is added to the reserves of that branch in case where the net and gross expected claim/premium ratio that is calculated on the basis of Casualty year and by including indirect reinsurance contracts is higher than 95% for the year 2016, 90% for the year 2017 and 85% for the year 2018. The Company, as a reinsurance company, indicated that usage of Casualty year for the calculation is not possible and demanded the following particulars;

- Calculation of unexpired risk reserves on the basis of business year,

- Calculation of unexpired risk reserves once a year and using portion that calculated on previous year-end in the interim periods,

- The opportunity that the Company will take weighted average of final claim/premium ratio of the previous two years (total final claims of related two years/ total final premium of related two years) in consideration for the final claim/premium ratio estimates on the basis of business year. Turkish Treasury has accepted the demand of the Company as appropriate with the letter dated December 31, 2016 and numbered 38681552-306.99-E.36992 As of the reporting date, the Company has provided net unexpired risk reserves amounting to TL 5.834.053 in the accompanying unconsolidated financial statements (December 31, 2016: TL 3.285.325). If the above calculation had not been made, the Company would have allocated TL 14.715.416 of unexpired risk reserves as of 31 December 2017.

In order to ensure the elimination of misleading impact, caused by the amended outstanding claims reserve calculation method, on unexpired risk reserve, outstanding claims reserve of previous period is also calculated by the new method and amount, calculated based on aforementioned new method, is used in unexpired risk reserves account as the provision for carry-over outstanding claims reserve.

2.28 Equalization reserves

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

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

Equalization provisions are presented under "other technical reserves" within long term liabilities in the accompanying consolidated financial statements. As at the reporting date, the Group has recognized equalization provision amounting to TL 211.872.440 (December 31, 2016: TL 154.637.733)

As of December 31, 2017, the Group has deducted TL 4.070.305 (December 31, 2016: TL 4.475.777) from equalization provision in consequence of realized earthquake losses.

2 Summary of significant accounting policies *(Continued)*

2.29 Related parties

Parties are considered related to the Company if;

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

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

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

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

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

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

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

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

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

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

2.30 Earnings per share

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

2.31 Subsequent events

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

2 Summary of significant accounting policies *(Continued)*

2.32 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the interim financial statements as of December 31, 2017 are consistent with those of the previous financial year except for new and amended TFRS standarts and TFRIC interpretation effective from January 1, 2017. The effect of these standards and interpretations on the Company's financial position and performance are explained in the relevent paragraphs.

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

TAS 7 Statement of Cash Flows (Amendments)

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

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

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

Annual Improvements to TFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

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

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

2 Summary of significant accounting policies *(continued)*

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

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

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

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

TFRS 15 Revenue from Contracts with Customers

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

TFRS 9 Financial Instruments

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

Classification and Measurement of Financial Assets:

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

2 Summary of significant accounting policies *(continued)*

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

Impairment:

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

Hedge accounting:

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

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

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

TFRS 4 Insurance Contracts (Amendments)

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

- a) give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when TFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and

- b) give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying TFRS 9 Financial instruments until 2021. The entities that defer the application of TFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—TAS 39.

These amendments are to be applied for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2 Summary of significant accounting policies *(continued)*

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

TFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation issued by POA on December 19, 2017 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

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

The interpretation is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

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

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

The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

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

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

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

2 Summary of significant accounting policies *(continued)*

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

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

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

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

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

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

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

Annual Improvements – 2010–2012 Cycle

IFRS 13 Fair Value Measurement

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

Annual Improvements – 2011–2013 Cycle

IFRS 16 Leases

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

2 Summary of significant accounting policies *(continued)*

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

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

IFRS 17 - The new Standard for insurance contracts

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

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

In October 2017, the IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

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

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

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

2 Summary of significant accounting policies *(continued)*

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

Annual Improvements – 2015–2017 Cycle

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

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

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

3 Significant accounting estimates and requirements

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 consolidated 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 consolidated financial statements are described in the following notes:

Note 4.1 – *Management of insurance risk*

Note 4.2 – *Financial risk management*

Note 7 – *Investment properties*

Note 9 – *Investments in subsidiaries*

Note 10 – *Reinsurance assets/liabilities*

Note 11 – *Financial assets*

Note 12 – *Loans and receivables*

Note 17 – *Insurance contract liabilities and reinsurance assets*

Note 17 – *Deferred acquisition costs*

Note 19 – *Trade and other payables and deferred income*

Note 21 – *Deferred income taxes*

Note 23 – *Provision for other liabilities and charges*

4 Management of insurance and financial risk

4.1 Management of insurance risk

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

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

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

The main objective of the "Regulative Framework on the Risk Management Activities, Risk Management Policies and Implementation Procedures and Principles of the Risk Management" is to determine the risk measurement, assessment, and control procedures and maintain consistency between the Company's asset quality and limitations allowed by the insurance standards together with the Company's risk tolerance of the accepted risk level assumed in return for a specific consideration. In this respect, instruments that are related to risk transfer, such as; insurance risk selection, risk quality follow-up by providing accurate and complete information, effective monitoring of level of claims by using risk portfolio claim frequency, treaties, facultative reinsurance contracts and coinsurance agreements, and risk management instruments, such as; risk limitations, are used in achieving the related objective.

Reinsurance risk is measured by quantitative methods and kept under pre-specified limits based on the "Limit over Acceptable Reinsurance Risk and Maximum Custody Share Limit" updated and approved annually by the Board of Directors.

Reinsurance risk is monitored regularly according to criteria described in the "Limit over Acceptable Reinsurance Risk and Maximum Custody Share Limit" policy and results are analysed by the Risk Committee and reported to the Board of Directors. Action plan is determined by the Board of Directors in the case of having exposure higher than acceptable level of risk and probability

Objective of managing risks arising from insurance contracts and policies used to minimize such risk

Insurance risk is defined as coverage for exposures that exhibit a possibility of financial loss due to applying inappropriate and insufficient insurance techniques. Main reasons of insurance risk exposure result from the risk selection and inaccurate calculation of insurance coverage, policy terms and fee or inaccurate calculation of coverage portion kept within the Group and coverage portion transfers to policyholders and transfer conditions.

Instruments that are related to risk transfer, such as; insurance risk selection, risk quality follow-up by providing accurate and complete information, effective monitoring of level of claims by using risk portfolio claim frequency, treaties, facultative reinsurance contracts and coinsurance agreements, and risk management instruments, such as; risk limitations, are used in achieving the related objective..

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

4.1 Management of insurance risk *(continued)*

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

Risk tolerance is determined by Board of Directors by considering the Groups long-term strategies, equity resources, potential returns and economical expectations, and it is presented by risk limitations. Authorization limitations during policy issuing include authorizations for risk acceptances granted based on geographical regions in relation to unacceptable special risks or pre-approved acceptable special risks, insurance coverage to agencies, district offices, technical offices, assistant general managers and top management in the policy issuance period and authorizations for claim payment granted to district offices, claim management administration, automobile claims administration and Claim Committee established by the managing director and assistant managing director in the claim payment period.

Whatsoever, risk acceptance is based on technical income expectations under the precautionary principle. In determining insurance coverage, policy terms and fee, these expectations are based accordingly.

It is essential that all the authorized personnel in charge of executing policy issuance transactions, which is the initial phase of insurance process, should ensure to gather or provide all the accurate and complete information to issue policies in order to obtain evidence on the acceptable risks that the Group can tolerate from the related insurance transactions. On the other hand, decision to be made on risk acceptance will be possible by transferring the coverage to the reinsurers and/or coinsurers and considering the terms of the insurance policy.

In order to avoid destructive losses over Group's financial structure, company transfers the exceeding portion of risks assumed over the Group's risk tolerance and equity resources through treaties, facultative reinsurance contracts and coinsurance agreements to reinsurance and coinsurance companies. Insurance coverage and policy terms of reinsurance are determined by assessing the nature of each insurance branch

Sensitivity to insurance risk

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

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

(Currency: Turkish Lira (TL))

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

4.1 Management of insurance risk *(continued)*

Insurance risk concentrations

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

	December 31, 2017		
Branches	**Gross total claims liability (*)**	**Reinsurance share of total claims liability**	**Net total claims liability**
Land Vehicles Liability	760.470.215	(23.933.307)	736.536.908
Land Vehicles	716.831.060	(22.123.590)	694.707.470
Fire and Natural Disasters	609.435.692	(160.698.754)	448.736.938
Health	414.379.027	(25.540.811)	388.838.216
General Damages	333.826.800	(63.053.016)	270.773.784
General Liability	67.891.271	(7.929.900)	59.961.371
Sea Vehiles	83.104.425	(32.903.093)	50.201.332
Casualty	49.643.113	(7.228.749)	42.414.364
Marine	56.393.114	(13.004.328)	43.388.786
Life	15.010.302	(585.759)	14.424.543
Air Vehicles	159.260.684	(156.660.724)	2.599.960
Financial Losses	14.450.056	(12.348.494)	2.101.562
Air Vehicles Liability	25.717.182	(25.261.475)	455.707
Fidelity Guarantees	399.558	-	399.558
Credits	3.069.415	(2.912.603)	156.812
Legal Protection	81.864	-	81.864
Sea Vehiles Liability	(12.340)	-	(12.340)
Total	**3.309.951.438**	**(554.184.603)**	**2.755.766.835**

	December 31, 2016		
Branches	**Gross total claims liability (*)**	**Reinsurance share of total claims liability**	**Net total claims liability**
Land Vehicles Liability	729.691.973	(70.930)	729.621.043
Land Vehicles	625.870.266	(2.057.672)	623.812.594
Fire and Natural Disasters	491.281.870	(136.047.629)	355.234.241
General Damages	344.274.753	(94.467.884)	249.806.869
Health	334.700.119	(43.192.417)	291.507.702
General Liability	58.876.855	(2.905.888)	55.970.967
Sea Vehicles	55.309.663	(15.238.133)	40.071.530
Casualty	38.922.785	(2.401.040)	36.521.745
Marine	34.644.629	(4.613.117)	30.031.512
Life	8.664.622	(658.209)	8.006.413
Air Vehicles	9.169.585	(4.095.208)	5.074.377
Fidelity Guarantees	671.676	(1.390)	670.286
Air Vehicles Liability	1.333.750	(1.082.372)	251.378
Legal Protection	99.268	--	99.268
Sea Vehicles Liability	64.363	--	64.363
Financial Losses	4.033.210	(4.051.280)	(18.070)
Credit	(178.347)	(144.196)	(322.543)
Total	**2.737.431.040**	**(311.027.365)**	**2.426.403.675**

(*) Total claims liability includes outstanding claims reserve (paid).

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

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

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

4.2 Management of financial risk

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

The Group is subject to credit risk, market risk (foreign currency risk, interest rate risk and price risk in relation with financial investments) and liquidity risk due to assets and liabilities. The Group's exposure to each of the above risks is assessed according to "Application Principles in Respect of Risk Limits".

The Group monitors its receivables by obtaining comprehensive information about the debtors and debtors' activities. The risk over investment portfolio is managed by measuring and reporting the market risk daily, reassessing the results validity and applying different scenario analyses. The Group's exposure to each of the above risks is measured by Internal Control and Risk Management Service independently, reported to Board of Directors and units of İş Bankası through the Risk Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if counterparties (parties issued financial instrument, insurance companies, reinsurance companies and other debtors) having business relationship with the Group fails to meet its contractual obligations. The Group manages this credit risk by regularly assessing reliability of the counterparties.

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

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

Doubtful receivables are monitored quarterly.

In addition, concentration of the investment portfolio is assessed quarterly.

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

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Credit risk *(continued)*

Net book value of the assets that is exposed to credit risk is shown in the table below.

	December 31, 2017	December 31, 2016
Cash and cash equivalents *(Note 14)* (*)	4.727.828.293	4.342.718.850
Receivables from main operations *(Note 12)*	1.355.731.258	1.208.734.082
Financial assets and financial investments with risks on policyholders *(Note 11)* (**)	1.322.268.089	901.399.497
Reinsurer share in outstanding claims reserves *(Note 10), (Note 17)*	595.038.575	442.713.431
Prepaid taxes and funds *(Note 12)*	-	22.930.006
Income accruals *(Note 12)*	31.213.090	8.999.362
Other receivables *(Note 12)*	22.455.659	17.203.560
Other current asset *(Note 12)*	1.014.306	185.836
Total	**8.055.549.270**	**6.945.312.028**

(*) Cash on hands balance amounting to TL 68.699 are not included (December 31, 2016: TL 52.555)

(**) Equity shares amounting to TL 232.333.099 are not included(December 31, 2016: TL 205.331.159).

December 31, 2017 and 2016, the aging of the receivables from main operations and related provisions are as follows:

	December 31, 2017		December 31, 2016	
	Gross amount	**Provision**	**Gross amount**	**Provision**
Not past due	1.078.593.595	-	799.022.932	-
Past due 0-30 days	193.751.038	(1.992.510)	182.192.754	-
Past due 31-60 days	26.504.805	(1.486.876)	28.512.365	-
Past due 61-90 days	28.126.173	(1.783.910)	14.269.658	-
More than 90 days(*)	281.291.845	(247.272.902)	236.471.494	(205.725.572)
Total(**)	**1.608.267.456**	**(252.536.198)**	**1.260.469.203**	**(205.725.572)**

(*) As per the February 3, 2005 dated and B.02.1.HM.O.SGM.0.3.1/01/05 numbered Circular issued by the Turkish Treasury, in case where subrogation is subject to claim/legal action, related subrogation amount is recognized as doubtful receivables and allowance for doubtful receivables is provided by the same amount in the financial statements. Related amounts are presented in “More than 90 days” line in the above table

The movements of the allowances for impairment losses for receivables from main operations during the period are as follows:

	December 31, 2017	December 31, 2016
Provision for receivables from insurance operations at the beginning of the year	**205.725.572**	**164.991.381**
Collections during the period *(Note 47)*	(591.941)	(584.677)
Impairment losses provided during the period *(Note 47)*	1.079.389	2.758.273
Impairment losses provided for subrogation – salvage receivables during the period *(Note 47)*	36.875.264	35.926.722
Valuation of doubtful receivables *(Note 47)*	1.110.895	2.633.873
Provision for receivables from insurance operations at the end of the year	**244.199.179**	**205.725.572**

(*) As of December 31, 2017 subrogation and salvage receivables is not included in the movement table of the provision for doubtful receivables amounting to TL 8.337.019.

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Credit risk *(continued)*

The movements of the allowances for impairment losses for other receivables are as follows:

	December 31, 2017	**December 31, 2016**
Provision for other receivables at the beginning of the year	(53.177)	63.177
Collections during the period *(Note 47)*	-	(10.000)
Provision for other receivables at the end of the year	**(53.177)**	**53.177**

Liquidity risk

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

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

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

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

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

Management of the liquidity risk

The Group 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.

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Management of the liquidity risk (continued)

Maturity distribution of monetary assets and liabilities:

December 31, 2017	Book value	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Assets						
Cash and cash equivalents	4.727.809.372	2.340.765.964	1.225.315.897	1.161.727.511	-	-
Financial assets and financial investments with risks on policyholders(*)	1.322.268.089	896.682.036	6.072.043	3.093.332	3.636.781	412.783.897
Receivables from main operations	1.355.731.258	209.414.249	465.095.198	422.146.562	240.288.180	18.787.069
Other receivables and current assets	55.476.635	47.514.629	400.486	1.671.027	3.684.789	2.205.704
Total monetary assets	**7.461.285.354**	**3.494.376.878**	**1.696.883.624**	**1.588.638.432**	**247.609.750**	**433.776.670**
Liabilities						
Financial liabilities	110.802.339	108.072.424	-	2.729.915	-	-
Payables arising from main operations	518.869.894	187.645.069	78.034.089	93.428.986	159.761.750	-
Due to related parties	362.820	362.820	-	-	-	-
Other liabilities	116.595.290	64.928.832	45.384.376	-	-	6.282.082
Insurance technical reserves (**)	3.547.643.833	202.561.915	381.060.259	226.832.656	287.309.067	2.449.879.936
Provisions for taxes and other similar obligations	59.324.763	59.324.763	-	-	-	-
Provisions for other risks and expense accruals	126.182.410	5.631.417	17.357.441	-	29.067.524	74.126.028
Total monetary liabilities	**4.479.781.349**	**628.527.240**	**521.836.165**	**322.991.557**	**476.138.341**	**2.520.288.046**

(*) Equity shares amounting to TL 232.333.099 are not included.

(**) Outstanding claims reserve is presented as short term liabilities in the accompanying consolidated financial statements whereas maturity distribution is presented according to projected payment dated in the above table.

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Management of the liquidity risk (continued)

December 31, 2016	Book value	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Assets						
Cash and cash equivalents	4.342.688.861	2.743.823.526	1.108.329.213	482.762.057	7.774.065	-
Financial assets and financial investments with risks on policyholders(*)	901.399.497	449.903.394	16.535.516	30.624.086	32.071.199	372.265.302
Receivables from main operations	1.208.734.082	194.500.341	454.956.986	404.869.773	142.507.214	11.899.768
Other receivables and current assets	50.506.912	41.886.334	1.735.956	1.628.792	3.506.468	1.749.362
Total monetary assets	**6.503.329.352**	**3.430.113.595**	**1.581.557.671**	**919.884.708**	**185.858.946**	**385.914.432**
Liabilities						
Financial liabilities	134.413.473	134.413.473	-	-	-	-
Payables arising from main operations	466.995.593	157.983.000	2.619.060	49.905.836	256.487.697	-
Due to related parties	171.856	171.856	-	-	-	-
Other liabilities	85.550.857	32.369.933	45.744.147	-	1.950.000	5.486.777
Insurance technical provisions(**)	2.908.082.839	163.150.628	320.240.339	180.809.484	214.124.793	2.029.757.595
Provisions for taxes and other similar obligations	40.980.017	40.980.017	-	-	-	-
Provisions for other risks and expense accruals	112.098.491	1.573.016	50.146.730	20.109.362	-	40.269.383
Total monetary liabilities	**3.748.293.126**	**530.641.923**	**418.750.276**	**250.824.682**	**472.562.490**	**2.075.513.755**

(*) Equity shares amounting to TL 205.331.159 are not included.

(**) Outstanding claims reserve is presented as short term liabilities in the accompanying consolidated financial statements whereas maturity distribution is presented according to projected payment dated in the above table.

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 Group'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: Turkish Lira (TL))

4 Management insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Foreign currency risk

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

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

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

December 31, 2017	**US Dollar**	**Euro**	**Other currencies**	**Total**
Assets:				
Cash and cash equivalents	405.018.634	50.642.040	5.308.957	460.969.631
Financial assets and financial investments with risks on policyholders	133.672.721	17.439.313	-	151.112.034
Receivables from main operations	269.828.361	116.314.547	86.258.484	472.401.392
Total foreign currency assets	**808.519.716**	**184.395.900**	**91.567.441**	**1.084.483.057**
Liabilities:				
Payables arising from main operations	(135.001.053)	(36.488.564)	(11.189.643)	(182.679.260)
Insurance technical reserve(*)	(385.164.426)	(165.677.569)	(132.375.354)	(683.217.349)
Total foreign currency liabilities	**(520.165.479)**	**(202.166.133)**	**(143.564.997)**	**(865.896.609)**
Net financial position	**288.354.237**	**(17.770.233)**	**(51.997.556)**	**218.586.448**

December 31, 2016	**US Dollar**	**Euro**	**Other currencies**	**Total**
Assets:				
Cash and cash equivalents	366.927.501	31.634.119	8.273.112	406.834.732
Financial assets and financial investments with risks on policyholders	127.861.783	11.880.374	-	139.742.157
Receivables from main operations	280.850.864	90.019.255	78.228.421	449.098.540
Total foreign currency assets	**775.640.148**	**133.533.748**	**86.501.533**	**995.675.429**
Liabilities:				
Payables arising from main operations	(181.127.230)	(53.055.138)	(2.029.957)	(236.212.325)
Insurance technical reserve(*)	(311.561.480)	(148.502.270)	(119.539.912)	(579.603.662)
Total foreign currency liabilities	**(492.688.710)**	**(201.557.408)**	**(121.569.869)**	**(815.815.987)**
Net financial position	**282.951.438**	**(68.023.660)**	**(35.068.336)**	**179.859.442**

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

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

(Currency: Turkish Lira (TL))

4 Management insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Foreign currency risk (continued

Foreign currency rates used for the translation of foreign currency denominated monetary assets and liabilities as of December 31, 2017 and 2016 are as follows:

	At the end of the period		Average	
	US Dollar	**Euro**	**US Dollar**	**Euro**
December 31, 2017	3,7719	4,5155	3,6445	4,1159
December 31, 2016	3,5192	3,7099	3,0208	3,3392

Exposure to foreign currency risk

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

	December 31, 2017		December 31, 2016	
	Profit or loss	**Equity(*)**	**Profit or loss**	**Equity(*)**
US Dollar	15.468.152	28.835.424	28.295.144	28.067.874
Euro	(3.520.954)	(1.777.023)	(6.802.366)	(6.802.366)
Others	(5.199.756)	(5.199.756)	(3.506.834)	(3.506.834)
Total, net	**6.747.442**	**21.858.645**	**17.985.944**	**17.758.674**

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

Exposure to interest rate risk

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

(Currency: Turkish Lira (TL))

4 Management insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Exposure to interest rate risk (continued)

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

	December 31, 2017	December 31, 2016
Financial assets		
Financial assets with fixed interest rates:	*4.700.100.331*	*4.297.312.503*
Cash at banks *(Note 14)*(*)	4.302.893.552	3.897.091.928
Available for sale financial assets – Government bonds – TL *(Note 11)*	243.261.087	275.517.300
Cash deposited to insurance and reinsurance companies *(Note 12)*	92.604.295	63.103.252
Available for sale financial assets – Private sector bonds *(Note 11)*	38.099.583	57.291.689
Other- financial assets *(Note 11)*	23.241.814	4.308.334
Financial assets with variable interest rate:	*143.370.843*	*126.454.421*
Available for sale financial assets – Private sector bonds – TL *(Note 11)*	119.759.173	68.430.540
Available for sale financial assets – Government bonds– TL *(Note 11)*	23.611.670	41.938.456
Held to maturity investments – Government bonds *(Note 11)*	-	15.172.182
Financial assets held for trading – Government bonds – TL *(Note 11)*	-	913.243
Financial liabilities:		
Financial liabilities with fixed interest rate:	*110.802.339*	*134.413.473*
Funds from repo transactions *(Note 20)*	102.934.273	134.413.473
Expense Accruals From Derivative Contracts (Not 20)	7.868.066	-

(*) Demand deposits amounting to TL 25.567.666 are not included (December 31, 2016: 22.072.771 TL).

4 Management insurance and financial risk *(continued)*

4.2 Management of financial risk *(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 Group has classified its financial assets as held for trading or available for sale, As at the reporting date, available for sale financial assets and financial assets held for trading are measured at their fair values based on their quoted prices or fair value information obtained from brokers in the accompanying consolidated financial statements. Group 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

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

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

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

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

Classification requires the utilization of observable market data, if available.

(Currency: Turkish Lira (TL))

4 Management insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Classification relevant to fair value information (continued)

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

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Available for sale financial assets(*)	918.673.655	219.514.315	67.311.993	1.205.499.963
Financial assets held for trading *(Note 11)*	123.087.098	224.448.052	-	347.535.150
Total financial assets	**1.041.760.753**	**443.962.367**	**67.311.993**	**1.553.035.113**

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Available for sale financial assets(*)	740.034.504	159.492.559	62.944.793	962.471.856
Financial assets held for trading *(Note 11)*	67.520.258	60.360.746	-	127.881.004
Total financial assets	**807.554.762**	**219.853.305**	**62.944.793**	**1.090.352.860**

(*) As of 31 December 2017, securities that are not publicly traded amounting to TL 1.566.075 (31 December 2016: TL 1.205.614) have been measured at cost.

	December 31, 2017	**December 31, 2016**
Available for sale financial assets at the beginning of the period	**62.944.793**	**62.944.793**
Valuation increase (Account of valuation of financial assets)	4.367.200	-
Available for sale financial assets at the end of the period	**67.311.993**	**62.944.793**

Equity share price risk

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

The effect on Group income as a result of 10% change in the fair value of equity instruments held as held for trading financial assets (traded at İstanbul Stock Exchange) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows (excluding tax effect):

	December 31, 2017		**December 31, 2016**	
	Profit or loss	**Equity(*)**	**Profit or loss**	**Equity(*)**
Financial assets held for trading	4.834.620	4.834.620	(3.778.444)	(3.778.444)
Available for sale financial assets	-	(18.242.083)	-	(16.598.264)
Total, net	**4.834.620**	**(13.407.463)**	**(3.778.444)**	**(20.376.708)**

(*) Equity impact includes impact of change of conjectural interest rates on income statement.

(Currency: Turkish Lira (TL))

4 Management insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Gain and losses from financial assets

Gains and losses recognized in the statement of income, net:	**December 31, 2017**	**December 31, 2016**
Interest income from bank deposits	318.873.647	348.883.022
Foreign exchange gains	472.065.152	184.579.297
Interest income from debt securities classified as available-for-sale financial assets	31.959.880	49.632.870
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15)*	10.944.242	(2.251.759)
Income from derivative transactions	90.116.129	4.432.112
Income from participates	47.584.280	40.163.943
Interest income from debt securities classified as held to maturity financial investments	13.641	1.494.265
Income from debt securities classified as held for trading financial assets	18.303.260	6.762.828
Interest income from debt securities classified as held for trading financial assets	39.566	109.741
Income from equity shares	22.503.231	19.079.145
Interest income from repos	34.218.331	9.510.276
Income from subsidiaries	4.544	3.251
Income from investment funds	22.067.629	17.943.279
Other	3.087.195	1.530.171
Income from investment funds reclassified as available for sale financial assets	7.118.861	2.497.586
Investment income	**1.078.899.588**	**684.370.027**
Loss from derivative transactions	(179.274.294)	(3.616.449)
Foreign exchange losses	(134.071.983)	(88.324.565)
Loss from valuation of financial assets	(1.118.002)	(1.643.638)
Loss from disposal of financial assets	(17.134.520)	(17.234.556)
Investment management expenses (including interest)	(1.231.961)	(4.630.870)
Investment expenses	**(332.830.760)**	**(115.450.078)**
Investment income, net	**746.068.828**	**568.919.949**

Financial gains and losses recognized in equity, net:	**December 31, 2017**	**December 31, 2016**
Fair value changes in available for sale financial assets *(Note 15)*	35.995.664	2.183.107
Amounts resulted from associates through equity accounted consolidation method *(Note 15)*	(3.497.756)	(1.310.905)
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15)*	(10.944.242)	2.251.759
Total	**21.553.666**	**3.123.961**

4 Management insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Capital management

The Company's capital management policies include the following:

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

In accordance with the "Communiqué on Measurement and Assessment of Capital Adequacy for Insurance, Reinsurance and Individual Pension Companies" issued by Turkish Treasury on August 23, 2015 dated and 29454 numbered; the Company measured its minimum capital requirement as TL 391.350.403 as of December 31, 2017. As of December 31, 2017 and December 31, 2016, the capital amount of the Company presented in the unconsolidated financial statements are TL1.841.569.110and TL 1.420.211.473 respectively and capital surplus of the Company is amounting to TL 1.234.601.830 according to the communiqué.

As of June 30, 2017, required equity amount determined in calculations over consolidated financial statements of Company's subsidiary Anadolu Sigorta, is amounted TL 1.137.929.541. As of June 30, 2017, according to communiqué, equity amount in consolidated financial statements of Anadolu Sigorta is over required equity amount.

5 Segment information

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

Business segment

Financial information of the Group is presented on life and non-life basis in the accompanying consolidated financial statements.

Geographical segment

The main geographical segment which the Group operates is Turkey. Hence, the Group has not disclosed report on geographical segments.

(Currency: Turkish Lira (TL))

6 Tangible assets

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

	January 1, 2017	**Addition**	**Foreign currency translation effect**	**Disposals**	**Revaluation surplus**	**December 31, 2017**
Cost:						
Investment properties *(Note 7)*	388.265.000	39.136	-	-	38.721.864	427.026.000
Buildings for own use	160.287.253	-	-	-	1.022.747	161.310.000
Machinery and equipment	49.033.797	8.204.174	-	(280.754)	-	56.957.217
Furniture and fixtures	19.296.491	553.674	57.432	(219.093)	-	19.688.504
Land Vehiclesss	1.732.838	734.663	36.629	(609.312)	-	1.894.818
Other tangible assets (including leasehold improvements)	22.982.418	922.014	-	(417.594)	-	23.486.838
Leased tangible assets	3.868.337	-	-	(10.263)	-	3.858.074
	645.466.134	**10.453.661**	**94.061**			**694.221.451**
				(1.537.016)	**39.744.611**	
Accumulated depreciation:						
Buildings for own use	95.501	551.265		-	(158.435)	488.331
Machinery and equipment	33.541.297	6.486.538	-	(270.968)	-	39.756.867
Furniture and fixtures	14.303.421	1.563.068	51.125	(217.336)	-	15.700.278
Land Vehiclesss	1.077.997	291.152	9.794	(535.228)	-	843.715
Other tangible assets (including leasehold improvements)	13.838.190	3.814.142	-	(417.595)	-	17.234.737
Leased tangible assets	3.868.337	-	-	(10.263)	-	3.858.074
	66.724.743	**12.706.165**	**60.919**	**(1.451.390)**	**(158.435)**	**77.882.002**
Net book value	**578.741.391**					**616.339.449**

(*) Foreign currency translation effect resulted from Singapore Branch.

(Currency: Turkish Lira (TL))

6 Tangible Assets (continued)

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

	January 1, 2016	Additions	Foreign currency translation effect (*)	Disposals	Revaluation Surplus	December 31, 2016
Cost:						
Investment properties *(Note 7)*	324.911.650	9.243	-	(65.000)	63.409.107	388.265.000
Buildings for own use	158.649.350	194.731	-	-	1.443.172	160.287.253
Machinery and equipment	41.909.394	8.714.053	-	(1.589.650)	-	49.033.797
Furniture and fixtures	17.209.219	2.448.147	135.757	(496.632)	-	19.296.491
Land Vehicles	1.859.204	510.108	110.615	(747.089)	-	1.732.838
Other tangible assets (including leasehold improvements)	20.322.655	2.659.763	-	-	-	22.982.418
Leased tangible assets	4.166.354	-	-	(298.017)	-	3.868.337
	569.027.826	**14.536.045**	**246.372**	**(3.196.388)**	**64.852.279**	**645.466.134**
Accumulated depreciation:						
Buildings for own use	187.402	562.188	-	-	(654.089)	95.501
Machinery and equipment	29.623.190	5.481.559	-	(1.563.452)	-	33.541.297
Furniture and fixtures	13.229.195	1.447.107	105.968	(478.849)	-	14.303.421
Land Vehicles	1.373.023	127.470	99.848	(522.344)	-	1.077.997
Other tangible assets (including leasehold improvements)	10.206.266	3.631.924	-	-	-	13.838.190
Leased tangible assets	4.166.354	-	-	(298.017)	-	3.868.337
	58.785.430	**11.250.248**	**205.816**	**(2.862.662)**	**(654.089)**	**66.724.743**
Net book value	**510.242.396**					**578.741.391**

(*)Foreign currency translation effect resulted from Singapore Branch.

The Group's buildings for own use is valuated over fair value as of December 31, 2017 and 2016 year-end and subjected to valuation in this context. Expertise reports regarding this property are prepared by CMB licenced Property Valuation Company in December 2017. There is no pledge over Company's buildings for own use.Milli Reasürans, the Company's buildings for own use is valuated over fair value as of 2016. Expertise reports regarding this property are prepared by independent professional valuation specialists authorized by CMB in December 2016.

As of December 31, 2017, the fair values (excluding VAT) and net carrying values of buidings for own use are presented below:

Owner occupied land and buildings	Expertise date	Expertise value	Net Book Value (December 31, 2017)	Net Book Value (December 31, 2016)
Headquarter	December 2016	147.915.000	147.436.357	147.878.181
İzmir Regional Headquarter	December 2017	7.500.000	7.494.105	8.669.647
Adana Regional Headquarter	December 2017	1.835.000	1.833.762	1.825.031
Lefkoşe Cyprus Branch	December 2017	2.775.000	2.774.620	706.286
Adana Office	December 2017	425.000	424.709	454.719
Other	December 2017	860.000	858.115	657.888
Total		**161.310.000**	**160.821.669**	**160.191.752**

Fair value measurement

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

As of December 31, 2017 and 2016, there is no mortgage on Company's tangible assets.

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(Currency: Turkish Lira (TL))

7 Investment properties

Additions and disposals for investment properties is given "6- Tangible Assets" note in table of current period movement of tangible assets.

Investment properties are started to be presented by fair value method as of December 31, 2016 and 2017 on balance sheet and the Company's investment properties gained TL 38.721.864 amount of value in 2017 in the context of expertise report prepared by independent professional valuation specialists authorized by Capital Markets Board. For the year ended December 31 2017, the Group has rental income from investment properties amounting to TL 18.597.963 (December 31, 2016: TL 15.978.753)

As of December 31, 2017, inflation adjusted cost and carrying amounts of the Company's investment properties are amounting to TL 427.026.000 (December 31, 2016: TL 388.265.000).

Property based value of expertise report (excluding VAT) and fair values of investment properties are as follows. Expertise reports regarding these properties are prepared by independent professional valuation specialists authorized by CMB in December 2017. There is no mortgage on Company's investment properties.

As of December 31, 2017 and 2016, details of investment properties and the fair values are as follows:

	31 December,2017 Net book value	**December 31, 2016 Net book value**	**Date of expertise report**	**Value of expertise report**
Operating Center Rental Offices	180.500.000	160.085.000	October 2017	180.500.000
Suadiye Fitness Center	36.175.000	33.200.000	October 2017	36.175.000
Tunaman Garage	105.000.000	90.000.000	October 2017	105.000.000
Villa Office Block	44.300.000	42.800.000	October 2017	44.300.000
Çifteler Land	6.000	5.000	October 2017	6.000
Other buildings	61.045.000	62.175.000	December 2017	61.045.000
Net book value	**427.026.000**	**388.265.000**		**427.026.000**

Fair value measurement

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

8 Intangible Assets

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

	January 1, 2017	**Additions**	**Transfers**	**Foreign currency translation effects(*)**	**Disposals**	**December 31, 2017**
Cost:						
Other intangible assets	116.516.653	3.959.109	6.012.500	156.034	(36.399)	126.607.897
Goodwill	16.250.000	-		-	-	16.250.000
Advances given for intangible assets	24.115.696	26.946.165	(6.012.500)	-	-	45.049.361
	156.882.349	**30.905.274**	**-**	**156.034**	**(36.399)**	**187.907.258**
Accumulated amortization:						
Other intangible assets	87.076.641	17.382.082	-	155.881	(35.335)	104.579.269
	87.076.641	**17.382.082**	**-**	**155.881**	**(35.335)**	**104.579.269**
Net book value	**69.805.708**					**83.327.989**

(*) Foreign currency translation effect resulted from Singapore Branch.

(Currency: Turkish Lira (TL))

8 Intangible assets *(continued)*

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

	January 1, 2016	Additions	Transfers	Foreign currency translation effects(*)	Disposals	December 31, 2016
Cost:						
Other intangible assets	97.650.098	3.608.180	14.959.548	377.264	(78.437)	116.516.653
Goodwill	16.250.000	-	-	-	-	16.250.000
Advances given for intangible assets	14.973.711	24.101.533	(14.959.548)	-	-	24.115.696
	128.873.809	**27.709.713**	**-**	**377.264**	**(78.437)**	**156.882.349**
Accumulated amortization:						
Other intangible assets	69.276.525	17.482.447	-	376.837	(59.168)	87.076.641
	69.276.525	**17.482.447**	**-**	**376.837**	**(59.168)**	**87.076.641**
Net book value	**59.597.284**					**69.805.708**

(*) Foreign currency translation effect resulted from Singapore Branch.

9 Investments in associates

	December 31, 2017		December 31, 2016	
	Book value	**Participation rate %**	**Book value**	**Participation rate %**
Anadolu Hayat Emeklilik A.Ş.	196.165.815	21,00	181.995.319	21,00
Associates, net	**196.165.815**		**181.995.319**	
Miltaş Turizm Inşaat Ticaret Anonim Şirketi	1.092.707	77,00	1.092.707	77,00
Subsidiaries, net	**1.092.707**		**1.092.707**	
Total financial asset	**197.258.522**		**183.088.026**	

Name	Total assets	Shareholders' equity	Retained earnings	Profit for the year	Audited	Period
Subsidiaries:						
Miltaş Turizm Inşaat Ticaret AŞ	4.350.019	4.151.613	-	199.876	Not Audited	December 31, 2017
Associates:						
Anadolu Hayat Emeklilik AŞ (consolidated)	17.884.757.726	934.122.932	102.405.178	226.591.810	Audited	December 31, 2017

In the current period TL 47.584.280 of income is obtained from associates through equity accounted consolidation method (December 31, 2016: TL 40.163.943).

(Currency: Turkish Lira (TL))

10 Reinsurance assets and liabilities

As of December 31, 2017 and 2016, outstanding reinsurance assets and liabilities of the Group in accordance with existing reinsurance contracts are as follows:

Reinsurance assets	**December 31, 2017**	**December 31, 2016**
Unearned premiums reserves, ceded (Note 17)	551.618.894	349.788.450
Outstanding claims reserve, ceded (Note 4.2), (Note 17)	595.038.575	442.713.431
Receivables from reinsurance companies (Note 12)	56.929.444	41.416.933
Cash deposited to reinsurance companies	92.604.295	31.738.373
Total	**1.296.191.208**	**865.657.187**

There are no impairment losses recognized for reinsurance assets.

Reinsurance liabilities	**December 31, 2017**	**December 31, 2016**
Payables to the reinsurers related to premiums written *(Note 19)*	293.709.891	276.408.549
Deferred commission income *(Note 19)*	77.376.043	46.650.934
Cash deposited by reinsurance companies	8.573.616	5.624.583
Commission payables to the reinsurers related to written premiums *(Note 19)*	-	7.963.322
Total	**379.659.550**	**336.647.388**

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

	December 31, 2017	**December 31, 2016**
Premiums ceded during the period *(Note 17)*	(1.297.648.999)	(876.702.403)
Unearned premiums reserve, ceded at the beginning of the period *(Note 17)*	(349.788.450)	(293.410.931)
Unearned premiums reserve, ceded at the end of the period *(Note 17)*	551.618.894	349.788.450
Earned premiums, ceded *(Note 17)*	**(1.095.818.555)**	**(820.324.884)**
Claims paid, ceded during the period *(Note 17)*	554.184.603	311.027.365
Outstanding claims reserves, ceded at the beginning of the period *(Note 17)*	(442.713.429)	(437.090.148)
Outstanding claims reserves, ceded at the end of the period *(Note 17)*	(595.038.575)	442.713.429
Incurred claims, ceded *(Note 17)*	**(483.567.401)**	**316.650.646**
Commission income accrued from reinsurers during the period *(Note 32)*	209.781.952	119.937.652
Deferred commission income at the beginning of the period *(Note 19)*	46.650.934	39.714.319
Deferred commission income at the end of the period *(Note 19)*	(77.376.043)	(46.650.934)
Commission income earned from reinsurers *(Note 32)*	**179.056.843**	**113.001.037**
Changes in unexpired risk reserves, reinsurers' share *(Note 17)*	**20.323.301**	**(8.640.383)**
Total, net	**(1.380.005.812)**	**(399.313.584)**

(Currency: Turkish Lira (TL))

11 Financial assets

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

	December 31, 2017	December 31, 2016
Available for sale financial assets	1.214.020.578	970.628.652
Financial assets held for trading	347.535.150	127.881.004
Held to maturity financial assets	-	15.172.182
Impairment loss on available for sale financial assets	(6.954.540)	(6.951.182)
Total	**1.554.601.188**	**1.106.730.656**

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

	December 31, 2017			
	Nominal value	Cost	Fair value	Book value
Debt instruments:				
Other TL	-	23.219.811	23.241.814	23.241.814
	-	**23.219.811**	**23.241.814**	**23.241.814**
Non-fixed income financial assets:				
Equity shares	-	220.387.100	266.365.506	266.365.506
Investment funds	-	45.337.430	48.346.198	48.346.198
Derivative guarantees	-	9.570.458	9.581.632	9.581.632
		275.294.988	**324.293.336**	**324.293.336**
Total financial assets held for trading		**298.514.799**	**347.535.150**	**347.535.150**

	December 31, 2016			
	Nominal value	Cost	Fair value	Book value
Debt instruments:				
Government bonds – TL	900.000	902.576	913.243	913.243
Other TL	-	4.306.508	4.308.334	4.308.334
	900.000	**5.209.084**	**5.221.577**	**5.221.577**
Non-fixed income financial assets:				
Equity shares	-	37.936.869	37.784.443	37.784.443
Investment funds	-	55.064.774	78.225.348	78.225.348
Derivative guarantees	-	6.646.566	6.649.636	6.649.636
		99.648.209	**122.659.427**	**122.659.427**
Total financial assets held for trading		**104.857.293**	**127.881.004**	**127.881.004**

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

As of December 31, 2017 and 2016, the Group's available for sale financial assets are detailed as follows:

	December 31, 2017			
	Nominal value	**Cost**	**Fair value**	**Book Value**
Debt instruments:				
Government bonds – TL	205.859.655	198.858.005	199.853.376	199.853.376
Private sector bonds – TL	90.318.788	96.418.788	98.159.956	98.159.956
Private sector bonds- USD	65.517.903	65.746.944	66.653.340	66.653.340
Government bonds – USD	62.613.540	71.044.346	67.019.381	67.019.381
Impairment loss on private sector bonds			(6.954.540)	(6.954.540)
		432.068.083	**424.731.513**	**424.731.513**
Non-fixed income financial assets:				
Investment funds		549.341.464	598.347.625	598.347.625
Equity shares		144.022.438	183.986.900	183.986.900
		693.363.902	**782.334.525**	**782.334.525**
Total available-for-sale financial assets		**1.125.431.985**	**1.207.066.038**	**1.207.066.038**

	December 31, 2016			
	Nominal value	**Cost**	**Fair value**	**Book Value**
Debt instruments:				
Government bonds – TL	254.676.176	248.809.966	252.180.302	252.180.302
Private sector bonds – TL	68.559.000	68.559.863	69.991.140	69.991.140
Private sector bonds- USD	61.656.384	61.591.056	62.586.329	62.586.329
Government bonds – USD	57.714.880	65.861.358	65.275.454	65.275.454
Impairment loss on private sector bonds			(6.855.240)	(6.855.240)
		444.822.243	**443.177.985**	**443.177.985**
Non-fixed income financial assets:				
Investment funds		341.217.943	352.952.769	352.952.769
Equity shares		131.160.255	167.642.658	167.642.658
Impairment loss on equity shares		-	(95.942)	(95.942)
		472.378.198	**520.499.485**	**520.499.485**
Total available-for-sale financial assets		**917.200.441**	**963.677.470**	**963.677.470**

All debt instruments presented above are traded in the capital markets, As of December 31, 2017, equity shares classified as available for sale financial assets with a carrying amount of TL 1.566.075 are not publicly traded (December 31, 2016: TL 1.564.077).

There is no debt security issued during the period or issued before and paid during the period by the Group.

Value increases in financial assets including equity shares classified as available for sale financial assets and subsidiaries for the last 3 years (including tax effects):

Year	**Change in value increase**	**Total increase in value**
2017	21.553.666	52.911.805
2016	3.123.961	31.358.139
2015	(21.174.977)	28.234.178

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

As of December 31, 2017, there is no financial assets held to maturity. As of December 31, 2016, the Group's financial assets held to maturity are detailed as follows:

	December 31, 2016			
	Nominal value	**Cost**	**Fair value**	**Book value**
Debt instruments:				
Government bonds – TL	14.866.200	14.870.978	15.168.262	15.172.182
Total financial assets held to maturity	**14.866.200**	**14.870.978**	**15.168.262**	**15.172.182**

As of 31 December 2017 and 2016 the movement of the financial assets is presented below:

	December 31, 2017			
	Trading	**Available-for-Sale**	**Held to maturity**	**Total**
Balance at the beginning of the period	**127.881.004**	**963.677.470**	**15.172.182**	**1.106.730.656**
Acquisitions during the period	501.264.684	895.580.447	-	1.396.845.131
Disposals (sale and redemption)	(346.680.646)	(762.351.483)	(15.185.823)	(1.124.217.952)
Change in the fair value of financial assets	64.872.059	75.449.709	-	140.321.768
Change in amortized cost of the financial assets	-	20.789.498	13.641	20.803.139
Bonus shares acquired	198.049	13.920.397	-	14.118.446
Balance at the end of the period	**347.535.150**	**1.207.066.038**	**-**	**1.554.601.188**

	December 31, 2016			
	Trading	**Available-for-Sale**	**Held to maturity**	**Total**
Balance at the beginning of the period	**96.232.135**	**1.022.169.912**	**15.555.214**	**1.133.957.261**
Acquisitions during the period	243.494.173	1.041.293.674	-	1.284.787.847
Disposals (sale and redemption)	(216.906.226)	(1.185.116.690)	(1.513.379)	(1.403.536.295)
Change in the fair value of financial assets	4.802.230	68.203.716	-	73.005.946
Change in amortized cost of the financial assets	-	3.355.195	1.130.347	4.485.542
Bonus shares acquired	258.692	13.771.663	-	14.030.355
Balance at the end of the period	**127.881.004**	**963.677.470**	**15.172.182**	**1.106.730.656**

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

Details of the financial assets issued by related parties of the Group are as follows:

	December 31, 2017			
	Nominal value	**Cost**	**Fair value**	**Book value**
Available for sale financial assets – Private sector bonds	15.000.000	15.000.000	15.302.769	15.302.769
Financial assets held for trading – Investment funds		769.728.564	864.713.131	864.713.131
Available for sale financial assets – Equity shares		54.872.059	72.183.344	72.183.344
Total	**15.000.000**	**839.600.623**	**952.199.244**	**952.199.244**

	December 31, 2016			
	Nominal value	**Cost**	**Fair value**	**Book value**
Available for sale financial assets – Private sector bonds	21.897.632	21.985.364	22.593.404	22.593.404
Financial assets held for trading – Investment funds		55.064.774	78.225.348	78.225.348
Available for sale financial assets – Investment funds		341.217.943	352.952.769	352.952.769
Available for sale financial assets – Equity shares		48.003.771	60.025.295	60.025.295
Total		**466.271.852**	**513.796.816**	**513.796.816**

As of December 31, 2017, there is no financial assets blocked in favour of the Turkish Treasury as a guarantee for the insurance activities. As of December 31, 2016, financial assets blocked in favour of the Turkish Treasury as a guarantee for the insurance activities are detailed as follows

	December 31, 2016			
	Nominal value	**Cost**	**Fair value**	**Book value**
Held to maturity financial assets *(Note 17)*	14.866.200	14.870.978	15.168.262	15.172.182
Total	**14.866.200**	**14.870.978**	**15.168.262**	**15.172.182**

(Currency: Turkish Lira (TL))

12 Loans and receivables

	December 31, 2017	December 31, 2016
Receivables from main operations *(Note 4.2)*	1.355.731.258	1.208.734.082
Prepaid taxes and funds *(Note 19), (Note 4.2)*	-	22.930.006
Income accruals (*Note 4.2)*	31.213.090	8.999.362
Other receivables *(Note 4.2)*	22.455.659	17.203.560
Other current assets *(Note 4.2)*	1.014.306	185.836
Total	**1.410.414.313**	**1.258.052.846**
Short-term receivables	1.408.208.609	1.256.303.484
Medium and long-term receivables	2.205.704	1.749.362
Total	**1.410.414.313**	**1.258.052.846**

As at 31 December 2017 and 2016, receivables from main operations are detailed as follows:

	December 31, 2017	December 31, 2016
Receivables from insurance companies	90.857.035	76.357.040
Receivables from reinsurance companies *(Note 10)*	56.929.444	41.416.933
Receivables from agencies, brokers and intermediaries	49.238.935	51.837.913
Total receivables from reinsurance operations, net	**197.025.414**	**169.611.886**
Receivables from agencies, brokers and other intermediaries	884.442.432	786.165.652
Long term receivable which is bank guarantee and three months credit card	107.556.543	105.184.248
Receivables from policyholders	50.653.264	47.016.782
Salvage and subrogation receivables *(Note 2.21)*	31.786.329	46.488.848
Total receivables from insurance operations, net	**1.074.438.568**	**984.855.530**
Cash deposited to insurance and reinsurance companies *(Note 4.2)*	92.604.295	63.103.252
Provisions for receivables from insurance operations – subrogation receivables *(Note 2.21)*	(8.337.019)	(8.836.586)
Doubtful receivables from main operations – premium receivables	47.804.379	46.175.079
Provision for doubtful receivables from main operations – premium receivables	(47.804.379)	(46.175.079)
Doubtful receivables from insurance operations – subrogation receivables	196.394.800	159.550.493
Provisions for doubtful receivables from insurance operations – subrogation receivables	(196.394.800)	(159.550.493)
Receivables from main operations	**1.355.731.258**	**1.208.734.082**

As of December 31, 2017 and 2016, mortgages and collaterals obtained for receivables are disclosed as follows:

	December 31, 2017	December 31, 2016
Letters of guarantees	83.516.803	80.884.673
Mortgage notes	115.537.919	111.390.450
Other guarantees	50.299.983	49.243.518
Government bonds and treasury bills	3.028.656	2.902.263
Total	**252.383.361**	**244.420.904**

(Currency: Turkish Lira (TL))

12 Loans and receivables *(continued)*

Provisions for overdue receivables and receivables not due yet

a) Receivables under legal or administrative follow up (due): TL 47.804.379 for main operations (December 31, 2016: TL 46.175.079) and TL 53.177 (December 31, 2016: TL 53.177) for other receivables.

b) Provision for premium receivables (due): None (December 31, 2016: None).

c) Provision for subrogation receivables: TL 204.731.819 (December 31, 2016: TL 168.387.079).

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

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

13 Derivative financial assets

As of December 31, 2017, the Company has derivative financial instruments recognized in the financial assets held for trading amounting to TL 9.581.631 (December 31, 2016: TL 6.649.637). As of December 31, 2017 the Company has express warranty in derivative instruments amounting to TL 5.818.015 (December 31, 2016: None)

As of December 31, 2017, the Company has accounted in income accruals and other financial liabilities amounting to TL 18.939.649 (December 31, 2016: None) that is increase in value and TL (7.868.067) (December 31, 2016: None) that is decrease in value respectively, due to forward foreign currency agreement..

14 Cash and cash equivalents

As of December 31, 2017 and December 31, 2016, the details of the cash and cash equivalents are as follows:

	December 31, 2017		**December 31, 2016**	
	At the end of the period	**At the beginning of the period**	**At the end of the period**	**At the beginning of the period**
Cash on hand	68.699	52.555	52.555	53.835
Cheques received	-	1.950.000	1.950.000	-
Bank deposits	4.328.461.218	3.919.164.699	3.919.164.699	2.929.798.391
Cheques given and payment orders	(87.620)	(82.544)	(82.544)	(125.585)
Bank guaranteed credit card receivables with maturities less than three months	399.367.075	421.604.151	421.604.151	367.176.057
Cash and cash equivalents in the balance sheet	**4.727.809.372**	**4.342.688.861**	**4.342.688.861**	**3.296.902.698**
Bank deposits – blocked(*)	(483.583.442)	(399.689.396)	(399.689.396)	(340.278.123)
Time deposits with maturities longer than 3 months	(945.825.944)	(1.037.818.192)	(1.037.818.192)	(644.460.216)
Interest accruals on banks deposits	(13.872.173)	(18.645.658)	(18.645.658)	(8.544.824)
Cash and cash equivalents presented in the statement of cash flows	**3.284.527.813**	**2.886.535.615**	**2.886.535.615**	**2.303.619.535**

(*) As of December 31, 2017, cash collateral amounting to TL 483.582.942 is kept in favour of the Turkish Treasury as a guarantee for the insurance activities of Anadolu Sigorta. (31 December 2015: TL 399.688.896).

14 Cash and cash equivalents *(continued)*

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

	December 31, 2017	**December 31, 2016**
Foreign currency denominated bank deposits		
- time deposits	2.292.662.264	394.517.157
- demand deposits	13.068.914	12.279.005
Bank deposits in Turkish Lira		
- time deposits	2.010.231.288	3.502.574.771
- demand deposits	12.498.752	9.793.766
Bank deposits	**4.328.461.218**	**3.919.164.699**

15 Equity

Paid in Capital

The shareholder having direct or indirect control over the shares of the Company is İş Bankası Group having 76.64% of outstanding shares. As of December 31, 2017 and 2016, the shareholding structure of the Company is presented below:

	December 31, 2017		**December 31, 2016**	
Name	**Shareholding amount(TL)**	**Shareholding rate (%)**	**Shareholding amount(TL)**	**Shareholding rate (%)**
Türkiye İş Bankası AŞ	505.810.925	76,64	505.810.925	76,64
Millî Reasürans TAŞ Mensupları Yardımlaşma Sandığı Vakfı	69.604.854	10,55	69.604.854	10,55
Groupama Emeklilik AŞ	38.809.894	5,88	38.809.894	5,88
Ankara Doğal Elektrik Üretim ve Ticaret A.Ş.(*)	22.240.456	3,37	22.240.456	3,37
T.C. Ziraat Bankası AŞ	16.430.944	2,49	16.430.944	2,49
Other	7.102.927	1,07	7.102.927	1,07
Paid in capital	**660.000.000**	**100,00**	**660.000.000**	**100,00**

As of December 31, 2017, the issued share capital of the Group is TL 660,000,000 (December 31, 2016: TL 660,000,000) and the share capital of the Group consists of 66,000,000,000 (December 31, 2016: 66,000,000,000 shares) issued shares with TL 0,01 nominal value each. There are no privileges over the shares of the Group.

The Company has 1,000 registered and bonus founder shares. The only right of Founder Shares is getting dividend. Founder Shares might be purchased back by the Company according to the decision of the General Assembly after the 5th year of the Company. After the allocation of first legal reserves, first dividend to shareholders and statutory reserves *(Note 38)*, 3.5% of the remaining amount is distributed to the Founder Shares as dividend..

As a result of the Extraordinary General Assembly Meeting of the Company held on June 27, 2016, acquisition of total amount of the founding stocks by Millî Reasürans T.A.Ş. with the cost amounting to TL 27.166.000 has been determined in the Expert Review Report approved by the Istanbul 6th Court of Peace is unanimously decided. Abolition and extinguishment of founding stocks acquired by the Company and absorbing acquisition cost from extraordinary reserves is decided in the Extraordinary General Meeting of the Company held on November 30, 2016

There are not any treasury shares held by the Group itself or by its subsidiaries or associates.

There are not any treasury shares issued which will be subject to sale in accordance with forward transactions and contracts.

(Currency: Turkish Lira (TL))

15 Equity *(continued)*

Equity method consolidation

As of December 31, 2017 and 2016, in the accompanying consolidated financial statements of the Group, Anadolu Hayat, 21% of shares is owned by the Group, is consolidated by using the equity method.

Legal Reserves

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

The movements of legal reserves are as follows:

	December 31, 2017	December 31, 2016
Legal reserves at the beginning of the period	**90.232.526**	**80.567.006**
Transfer from profit	14.310.703	9.665.520
Legal reserves at the end of the period	**104.543.229**	**90.232.526**

As of December 31, 2017 and 2016, "Other Reserves and Retained Earnings" includes extraordinary reserves, sales profits to be capitalized and buidings for own use revaluation differences.

As at December 31, 2017 and 2016, "Other Reserves and Retained Earnings" are detailed as below:

	December 31, 2017	December 31, 2016
Other profit reserves	25.107.926	25.353.668
Extraordinary reserves	179.927.446	81.426.632
Other capital reserves	133.901.195	140.297.232
Sales profits to be capitalized	23.723.323	23.723.323
Other earnings and losses	(3.241.062)	(1.971.995)
Subsidiary capital correction	(71.060.049)	(71.060.049)
Total	**288.358.779**	**197.768.811**

Other capital reserves

According to TAS 16 – "Property Plant and Equipment", property, plant and equipment are initially recorded at cost and can be subsequently measured at their fair values. The Company has started to show based on the revaluation model by measuring over fair value as of the third quarter of 2015 by making changes in the use of the property which is measuring the cost model in the financial statements before.

In accordance with tax legislation, 75% of profits from sales of participation shares and 50% of profits from sales real estates included in the assets of companies is exempt from corporate tax provided that it is classified under a special fund for full five years. The exempt gains cannot be transferred to another account other than a capital increase or cannot be withdrawn from the entity for five years..

Anadolu Sigorta, as of December 31, 2017, the tax exempt gain from sale of participation shares and real estate in 2010, 2011, 2013, 2014, 2015 and 2016 years respectively, amounting to TL 8.081.516, TL 80.025, TL 647.763, TL 920.272, TL 2.541.500 and TL 15.094 are classified as other capital reserves.

(Currency: Turkish Lira (TL))

15 Equity (continued*)*

Legal reserves *(continued)*

Other capital reserves *(continued)*

Milli Reasürans, according to expertise reports, fair value of property for use is calculated as TL 147.915.000 and revaluation differences amounting to TL 130.065.426 TL is recognized in 'Other Capital Reserves' account under equity as TL 117.058.884 with net tax effect in financial statements as of December 31, 2017 (December 31, 2016: TL 123.562.155).

Extraordinary reserves

The movement of extraordinary reserves is as follows:

	December 31, 2017	December 31, 2016
Extraordinary reserves at the beginning of the period	**81.426.632**	**34.827.040**
Transfer from profit	98.500.814	73.765.592
Acquisition of the founding stocks (*)	-	(27.166.000)
Extraordinary reserves at the end of the period	**179.927.446**	**81.426.632**

(*) As a result of the Extraordinary General Assembly Meeting of the Company held on June 27, 2016, acquisition of total amount of the founding stocks by Millî Reasürans T.A.Ş. with the cost amounting to TL 27.166.000 determined in the Expert Review Report approved by the Istanbul 6th Court of Peace is unanimously decided. Abolition and extinguishment of founding stocks acquired by the Company and absorbing acquisition cost from extraordinary reserves is decided in the Extraordinary General Meeting of the Company held on November 30, 2016.

Subsidiary capital correction

On September 30, 2010, the Company purchased 35.53% shares of Anadolu Sigorta Anonim Şirketi with nominal value of TL 177.650.110 from İş Bankası amounting to TL 248.710.154. As Anadolu Sigorta and the Company are under common control and when information transfer and structure is considered, Anadolu Sigorta is accepted as a part of the Company's operations. This subsidiary under common control is recorded at cost in the financial statements. In the business combination of subsidiary under common control, the purchasing company is not obliged to, but has the permission to reflect the effects of business combination the prior year financial statements. In business combinations under common control, shares are transferred from one company to the other in the same group and independent third parties are not included in the transaction and purchasing price is not determined on fair value, the application is determined by the management's decision. The Company management decided not to reflect the effects of the business combination in the comparative financial statements. The difference between purchase price and net asset value amounting to TL (71.060.049), is recorded under "Subsidiary Capital Correction" account under equity.

Other profit reserves

In accordance with the July 4, 2007 dated and 2007/3 numbered Compliance Circular issued by the Turkish Treasury, it was stated that the companies would not further provide earthquake provision for the year 2007. However, it was also stated that earthquake provisions provided in previous periods (earthquake provision in the financial statements as at December 31, 2006) should be transferred to the reserve accounts under equity in accordance with the 5th Temporary Article of the Insurance Law. The companies had to transfer total amount of provisions, including earthquake provisions reserved as at December 31, 2006 and related gains obtained from investment of these amounts, to the account called as "549.01 – transferred earthquake provisions" which would be opened as at September 1, 2007 within Uniform Chart of Account and the reserves amount should not be subject to dividend distribution or should not be transferred to other accounts.

(Currency: Turkish Lira (TL))

15 Equity (continued*)*

Other profit reserves *(continued*)

According to revision on TAS 19, actuarial profit and losses that recognized in income statement in termination indemnity calculation before, is recognized in “Other Profit Reserves” account under equity in current period financial statements. As of December 31, 2017, TL (3.241.062) (31 December 2016: TL (1.971.995)). of actuarial gains and losses, which are presented in profit or loss is presented under “other profit reserves”.

Profit for the period that is extraneous from the distribution

In accordance terms of tax legislation 50% portion of the gains from sales real estate and 75% portion of the gains from subsidiaries are exempt from corporate tax on condition that it has kept in a special fund account at least five years. Exempt gains cannot be transferred to another account except to add capital or in any way cannot be withdrawn from the business in five years. In the direction of sector announcement made by Treasury dated October 27, 2008 and numbered 2008/41, for the year ended December 31, 2016, the Company categorized the TL 23.723.323 profit on sale from the sale of the properties realized on April 10, 2015 under the company’s equity as “Profit for the period that is extraneous from the distribution” and as “sales profits to be capitalized” and “other capital reserves” under the equity for the current period

Statutory reserves

After the allocation of first legal reserves and first dividend to shareholders, reserve for natural disasters and catastrophe might be allocated, if deemed necessary, based on the suggestion of the Board of Directors and decision of the General Assembly. As of December 31, 2017, total funds allocated is amounting TL 14.966.872 (December 31, 2016: TL 10.220.997) and funds amounting TL 4.745.875 is allocated from current period profit in current period.

Foreign currency translation differences

Foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. As at December 31, 2017, foreign currency translation reserve amounting to TL 28.441.170 loss (December 31, 2016: TL 26.027.092 loss) stems from Singapore Branch whose functional currency is US Dollars.

Valuation of financial assets

As of December 31, 2017 and 2016, changes in fair values that stem from securities classified as available for sale financial assets that present share in capital and associates are detailed as below:

	December 31, 2017	**December 31, 2016**
Fair value reserves at the beginning of the period	**31.358.139**	**28.234.178**
Change in the fair value during the period *(Note 4.2)*	35.995.664	2.183.107
Resulted from equity accounted associate *(Note 4.2)*	(3.497.756)	(1.310.905)
Net gains transferred to the statement of income *(Note 4.2)*	(10.944.242)	2.251.759
Fair value reserves at the end of the period	**52.911.805**	**31.358.139**

16 Other reserves and equity component of discretionary participation

As of December 31, 2017 and 2016, other reserves are explained in detail in Note 15 – *Equity* above.

As of December 31, 2017 and 2016, the Group does not hold any insurance or investment contracts which contain a DPF.

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets

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

As of December 31, 2017 and 2016, technical reserves of the Group' are as follows:

	December 31, 2017	**December 31, 2016**
Unearned premiums reserves, gross	2.761.900.572	2.560.196.810
Unearned premiums reserves, ceded *(Note 10)*	(551.618.894)	(349.788.450)
Unearned premiums reserves, SSI share	(58.817.233)	(75.059.219)
Unearned premiums reserves, net	**2.151.464.445**	**2.135.349.141**
Outstanding claims reserve, gross	4.142.682.408	3.350.796.268
Outstanding claims reserve, ceded *(Note 10)*	(595.038.575)	(442.713.429)
Outstanding claims reserve, net	**3.547.643.833**	**2.908.082.839**
Unexpired risk reserves	53.356.959	8.639.516
Unexpired risk reserves, ceded	(23.911.227)	(3.587.926)
Unexpired risk reserves, net	**29.445.732**	**5.051.590**
Equalization reserves, net(*)	211.872.440	154.637.733
Other technical reserves, net	**211.872.440**	**154.637.733**
Life mathematical reserves	**116.109**	**165.157**
Total technical reserves, net	**5.940.542.559**	**5.203.286.460**
Short-term	5.728.670.119	5.048.648.727
Medium and long-term	211.872.440	154.637.733
Total technical reserves, net	**5.940.542.559**	**5.203.286.460**

As of December 31, 2017 and 2016, movements of the insurance liabilities and related reinsurance assets are presented belows:

	December 31, 2017			
Unearned premiums reserve	**Gross**	**Ceded**	**SSI Share**	**Net**
Unearned premiums reserve at the beginning of the period	2.560.196.810	(349.788.450)	(75.059.219)	2.135.349.141
Written premiums during the period	5.644.048.556	(1.297.648.999)	(109.231.373)	4.237.168.184
Earned premiums during the period	(5.442.344.794)	1.095.818.555	125.473.359	(4.221.052.880)
Unearned premiums reserve at the end of the period	**2.761.900.572**	**(551.618.894)**	**(58.817.233)**	**2.151.464.445**

(Currency: Turkish Lira (TL))

17 Insurance liabilities and reinsurance assets *(continued)*

	December 31, 2016			
Unearned premiums reserve	**Gross**	**Ceded**	**SSI Share**	**Net**
Unearned premiums reserve at the beginning of the period	2.194.659.969	(293.410.931)	(54.975.564)	1.846.273.474
Written premiums during the period	5.323.560.933	(876.702.403)	(150.794.005)	4.296.064.525
Earned premiums during the period	(4.958.024.093)	820.324.884	130.710.351	(4.006.988.858)
Unearned premiums reserve at the end of the period	**2.560.196.809**	**(349.788.450)**	**(75.059.218)**	**2.135.349.141**

	December 31, 2017		
Outstanding claims reserves	**Gross**	**Ceded**	**Net**
Outstanding claims reserve at the beginning of the period	3.350.796.268	(442.713.429)	2.908.082.839
Claims reported during the period and changes in the estimations of outstanding claims reserves provided at the beginning of the period	4.101.837.578	(706.509.749)	3.395.327.829
Claims paid during the period	(3.309.951.438)	554.184.603	(2.755.766.835)
Outstanding claims reserve at the end of the period	**4.142.682.408**	**(595.038.575)**	**3.547.643.833**

	December 31, 2016		
Outstanding claims reserves	**Gross**	**Ceded**	**Net**
Outstanding claims reserve at the beginning of the period	2.584.561.784	(437.090.148)	2.147.471.636
Claims reported during the period and changes in the estimations of outstanding claims reserves provided at the beginning of the period	3.503.665.524	(316.650.646)	3.187.014.878
Claims paid during the period	(2.737.431.040)	311.027.365	(2.426.403.675)
Outstanding claims reserve at the end of the period	**3.350.796.268**	**(442.713.429)**	**2.908.082.839**

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

As the Company is a reinsurance company, there is not any guarantee that should be placed. The details given below are the amounts of guarantees for Anadolu Sigorta A.Ş.

	December 31, 2017		
	Should be placed(**)	**Placed(*)**	**Book value**
Non-life:			
Bank deposits *(Note 14)*		483.372.018	483.582.942
Total	**380.109.847**	**483.372.018**	**483.582.942**

(Currency: Turkish Lira (TL))

17 Insurance liabilities and reinsurance assets *(continued)*

Total amount of guarantee that should be placed by the Group for life and non-life branches and guarantees placed for the life and non-life branches in respect of related assets *(continued)*

	December 31, 2016		
	Should be placed(**)	**Placed(*)**	**Book value**
Non-life:			
Bank deposits *(Note 14*	-	398.452.370	399.688.896
Financial assets(*) *(Note 11))*	-	15.169.173	15.172.182
Total	**359.073.153**	**413.621.543**	**414.861.078**

(*) As of December 31, 2017 and 2016, government bonds and treasury bills are measured at daily official prices announced by the Central Bank of Turkey in accordance with the 6th Article of “Circular Related to the Financial Structure of Insurance, Reinsurance, and Private Pension Companies

(**) “According to the 7th article of the “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.

Total amount of insurance risk on a branch basis

Total amount of insurance risk on branch basis for non-life insurance branch is not kept by the Group.

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

None.

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

None.

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

None.

Pension investment funds established by the Group and their unit prices

None.

Number and amount of participation certificates in portfolio and circulation

None.

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

None.

(Currency: Turkish Lira (TL))

17 Insurance liabilities and reinsurance assets *(continued)*

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

None.

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

None.

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

None.

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

None.

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

None.

Profit share distribution rate of life insurances

None.

Deferred commission expenses

The Group capitalizes commissions paid to the intermediaries related to policy production under short-term and long-term prepaid expenses. As of December 31, 2017, short-term prepaid expenses amounting to TL 422.238.492 (December 31, 2016: TL 399.249.100) consist of deferred acquisition cost; deferred commission expenses amounting to TL 384.974.032 (December 31, 2016: TL 369.762.099) and other prepaid expenses amounting to TL 37.264.460 (December 31, 2016: TL 29.487.001). Long-term prepaid expenses amounting TL 6.639.202 (December 31, 2016: TL 6.211.364) are composed of other prepaid expenses.

	December 31, 2017	**December 31, 2016**
Deferred commission expenses at the beginning of the period	369.762.099	340.538.326
Commissions accrued during the period *(Note 32)*	805.870.258	882.941.642
Commissions expensed during the period	(790.658.325)	(853.717.869)
Deferred commission expenses at the end of the period	**384.974.032**	**369.762.099**

Individual pension funds

None.

18 Investment contract liabilities

None.

(Currency: Turkish Lira (TL))

19 Trade and other payables and deferred income

	December 31, 2017	**December 31, 2016**
Financial payables	110.802.339	134.413.473
Payables from main operations	518.869.894	466.995.593
Other payables	116.595.290	85.550.857
Short/long term deferred income and expense accruals	133.477.692	104.670.373
Taxes and other liabilities and similar obligations	59.324.763	40.980.017
Due to related parties *(Note 45)*	362.820	171.856
Total	**939.432.798**	**832.782.169**
Short-term liabilities	939.322.298	832.782.169
Long-term liabilities	110.500	-
Total	**939.432.798**	**832.782.169**

As of December 31, 2017, other payables amounting to TL 116.595.290 (December 31, 2016: TL 85.550.857) consist of treatment cost payables to SSI amounting to TL 30.922.543 (December 31, 2016: TL 32.037.945), payables to Tarsim and DASK and outsourced benefits and services amounting to TL 76.358.578 (December 31, 2016: TL 46.076.135) and deposits and guarantees received amounting to TL 9.314.169 (December 31, 2016: TL 7.436.777).

Payables arising from main operations of the Group as of December 31, 2017 and 2016 are as follows

	December 31, 2017	**December 31, 2016**
Payables to reinsurance companies *(Note 10)*	293.709.891	276.408.549
Payables to agencies, brokers and intermediaries	44.147.545	41.204.606
Cash deposited by insurance and reinsurance companies	9.247.311	6.570.424
Total payables arising from reinsurance and insurance operations	**347.104.747**	**324.183.579**
Payables arising from other operating activities	171.765.147	142.812.014
Payables arising from main operations	**518.869.894**	**466.995.593**

Corporate tax liabilities and prepaid taxes are disclosed below

	December 31, 2017	**December 31, 2016**
Corporate tax liabilities	(96.767.913)	(26.875.657)
Taxes paid during the period	81.937.394	49.805.663
Corporate tax assets, net	**(14.830.519)**	**22.930.006**

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

None.

(Currency: Turkish Lira (TL))

20 Financial liabilities

Group's financial liabilities from repo transactions is amounted TL 102.934.273 as of December 31, 2017 (December 31, 2016: TL 134.413.473)

Maturity	**December 31, 2017**	**Maturity**	**December 31, 2016**
January 19, 2018	20.084.905	January 17, 2017	40.153.847
January 26, 2018	82.849.368	January 25, 2017	94.259.626
Balance sheet value	**102.934.273**		**134.413.473**

As of December 31, 2017, the detail of the expense accrual arising from swap contracts amounting to TL 7.868.066 is disclosed at Note 13

21 Deferred taxes

As of December 31, 2017 and 2016, deferred tax assets and liabilities are attributable to the following::

	December 31, 2017	**December 31, 2016**
	Deferred tax assets / (liabilities))	**Deferred tax assets / (liabilities))**
Unexpired risk reserves	6.478.061	2.577.639
Provision for the pension fund deficits	7.867.023	5.937.022
Equalization reserves	30.152.964	20.212.691
Provisions for employee termination benefits	6.260.002	5.793.388
Other provisions	11.218.221	8.802.603
Subrogation provision	1.834.144	3.137.117
Discount of receivables and payables	658.758	500.832
TAS adjustment differences in depreciation	(2.352.237)	(3.368.617)
Profit commission accruals	(2.004.770)	(928.093)
Subrogation receivables from third parties	(3.977.190)	(3.356.747)
Valuation differences in financial assets	(8.864.895)	(3.485.938)
Time deposits	85.806	52.495
Other	1.951.615	(607.571)
Valuation of real estate	(54.385.521)	(25.039.108)
Discount of outstanding claims	-	(21.076.213)
Deferred tax assets, net	**(5.078.019)**	**(10.848.500)**

As of December 31, 2017, the Group does not have deductible tax losses.. (December 31, 2016:None.)

Movement of deferred tax assets as of December 31, 2017 and 2016 are given below

	December 31, 2017	**December 31, 2016**
Opening balance at January 1	**(10.848.500)**	**(3.367.528)**
Recognized in profit or loss	18.150.973	(4.646.599)
Recognized in equity	(12.380.492)	(2.834.372)
Closing balance at December 31	**(5.078.019)**	**(10.848.500)**

22 Retirement benefit obligations

Employees of the Company are the members of "Milli Reasürans Türk Anonim Şirketi Emekli ve Sağlık Sandığı Vakfı ("Milli Reasürans Pension Fund") and the employees of Anadolu Sigorta are the members of Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı ("Pension Fund of Anadolu Anonim Türk Sigorta Şirketi") which has been founded in accordance with the Article 20 of the Social Securities Act No: 506.

As per the provisional article No: 23 of the Banking Law No: 5411, pension funds of the banks which were established within the framework of Social Security Institution Law, should be transferred to the Social Security Institution within three years after the publication of the prevailing Banking Law enacted on November 1, 2005. However, the said article of the Banking Law has been vetoed by the President on November 2, 2005 and the execution of the article was ceased based on the Supreme Court's decision numbered E.2005/39, K.2007/33 and dated March 22, 2007 effective from March 31, 2007. Supreme Court asserted possible losses on acquired rights of employees of pension fund as reason for cancellation decision.

Following annulment of the temporary Article 23 of the Banking Law, the new law "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" was published in the Official Gazette dated May 8, 2008 and came into force. The new law requires transfer of the participants or beneficiaries of pension funds to Social Security Institution as at the effective date of the Act within 3 years and prescribe the extension period of the transfer as maximum of two years upon the order of the Cabinet. Accordingly, the three-year period expired on May 8, 2011 was extended to the May 8, 2013. On March 8, 2012, "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" numbered 28227, was published on Official Gazette and 4th article of this act changed "two years" phrase as "four years" which takes part on second sentence of first clause of 20th article of the code numbered 5510. Also, under the scope of Decree of the council of ministers numbered 2013/4617 was published on Official Gazette numbered 28636, on May 3, 2013 and 20th temporary article of the Social Security Laws numbered 506 banks, insurance and reinsurance companies, chambers of commerce, stock markets or participants of pension funds and salary or income provided ones and their shareholders' transfer duration has been extended one year to the Social Security Institution by Decree of the council of ministers.

Under the scope of Decree of Turkish Ministry of Labour and Social Security numbered 174, according to 20th temporary article of the Social Security Laws numbered 5510, the Council of Ministers postpone transfer of the funds until May 8, 2015 with the decision of The Council of Ministers dated February 24, 2015.

Lastly, first paragraph of temporary 20th article of 5510 numbered Law, article 51 of the law regarding changing of several laws and delegated legislations and the law of occupational health and safety which are published in April 23, 2015 dated Official Gazette is changed as following.

"Council of minister is entitled to determine the Social Security Intuition's turnover date for banks, assurance and reinsurance companies, chamber of commerce and industry, stock markets or pension fund' partnerships that is constituted by them for union employees along with monthly income endowed people and their rights holder within the scope of 506 numbered law' provisional 20. Article. Pension fund contributors as of the transfer date and considered insured by the first paragraph of Article 4 of this law.

In accordance with the Act, as of the transfer date, present value of the liabilities will be determined by considering the income and expense of the pension fund.

On the other hand, the application made on June 19, 2008 by the Republican People's Party to the Constitutional Court for the annulment and motion for stay of some articles, including the first paragraph of the provisional article 20 of the Law, which covers provisions on transfers, was rejected in accordance with the decision taken at the meeting of the afore-mentioned court on March 30, 2011.

(Currency: Turkish Lira (TL))

22 Retirement benefit obligations *(continued)*

As per the temporary sub article No: 20 of the Article 73 of the above mentioned law also includes the following:

a) technical deficit rate of 9.8% shall be used in the actuarial calculation of the value in cash, and
b) uncovered other rights and compensations of participants or beneficiaries of pension funds should be covered by the entities who transfer the funds.

In accordance with the law; after fund affiliates along with monthly salary and/or revenue endowed people and their rights holder transfer to Social Security Intuition, these people' uncovered social rights and payments is paid, even if it is written in the foundation's obligation which they are belong to, by funds and fund affiliate's employer institutions.

The benefits stated in the settlement deeds of pension fund but not subject to transfer will continue to be covered by the pension funds.

The technical financial position of the Milli Reasürans Pension Fund is audited by the registered actuary in accordance with the Article 21 of the Insurance Law and Actuary Act. As per the calculations based on the above mentioned assumptions, actuarial and technical deficit amounting to TL 39.335.115 (December 31, 2016: TL 29.685.112) is accounted as "Provision for pension fund deficits" in the accompanying consolidated financial statements.

An actuarial report has been obtained from registered actuary regarding calculation of the amount to be paid to the Social Security Institution by the Company in accordance with the new law. The CSO 1980 mortality table for December 31,2016 and the TUIK 2013 mortality table for December 31, 2017 9.8% of technical deficit interest rate are taken into account in the calculation of the said technical deficit. No real increase / decrease is anticipated in salary and health expenses. The health benefits to be paid will be considered by the Group management due to the changes in the Social Security Institution legislation and other regulations. As of December 31, 2017 and 2016, technical deficit from pension funds comprised the following:

	December 31, 2017	**December 31, 2016**
Net present value of total liabilities other than health	(120.115.748)	(105.825.425)
Net present value of insurance premiums	25.469.048	23.100.988
Net present value of total liabilities other than health	**(94.646.700)**	**(82.724.437)**
Net present value of health liabilities	(14.756.726)	(12.841.513)
Net present value of health premiums	13.918.802	12.625.747
Net present value of health liabilities	**(837.924)**	**(215.766)**
Pension fund assets	**56.149.509**	**53.255.091**
Amount of actuarial and technical deficit	**(39.335.115)**	**(29.685.112)**

Plan assets are comprised of the following items:

	December 31, 2017	**December 31, 2016**
Cash and cash equivalents	46.869.599	45.069.448
Associates	8.356.885	7.376.761
Other	923.025	808.882
Total plan assets	**56.149.509**	**53.255.091**

Up to date, as per the actuarial calculation performed, there has not been any deficit in Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı and Anadolu Sigorta has made no payment for this purpose. It is believed that the assets of this institution are adequate enough to cover its total obligations; therefore this shall not constitute any additional liability on Anadolu Sigorta.

(Currency: Turkish Lira (TL))

23 Provision for other liabilities and expense accruals

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

	December 31, 2017	**December 31, 2016**
Provision for pension fund deficits *(Note 22)*	39.335.115	29.685.112
Provision for employee termination benefits	29.233.214	24.566.143
Provision for unused vacation	1.878.908	1.561.950
Total provision for other risks	**70.447.237**	**55.813.205**

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

	December 31, 2017	**December 31, 2016**
Provision at the beginning of the period	24.566.143	21.894.700
Interest cost *(Note 47)*	2.472.607	2.109.207
Service cost *(Note 47)*	1.986.644	1.649.185
Payments during the period *(Note 47)*	(2.306.150)	(2.263.874)
Actuarial gain/ loss	2.513.970	1.176.925
Provision at the end of the period	**29.233.214**	**24.566.143**

24 Net insurance premium revenue

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

25 Fee revenue

None.

26 Investment income

Investment income is presented in Note 4.2 – *Financial risk management*.

(Currency: Turkish Lira (TL))

27 Net income accrual on financial asset

Net realized gains on financial assets are presented in Note 4.2 – *Financial risk management*.

28 Assets held at fair value through profit or loss

Presented in “*Note 4.2* – Financial Risk Management” .

29 Insurance rights and claims

	December 31, 2017	December 31, 2016
Claims paid, net off reinsurers’ share	(2.755.766.835)	(2.426.403.675)
Changes in outstanding claims reserves, net off reinsurers’ share	(639.560.994)	(760.611.204)
Changes in unearned premium reserves, net off reinsurers’ share	(16.115.304)	(289.075.667)
Change in equalization reserves	(57.234.707)	(49.659.814)
Change in life mathematical reserves, net off reinsurers’ share	49.048	326.780
Changes in unexpired risks reserves, net off reinsurers’ share	(24.394.142)	22.790.310
Total	**(3.493.022.934)**	**(3.502.633.270)**

30 Investment contract benefits

None.

31 Other expenses

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

32 Operating expenses

For the years ended December 31, 2017 and 2016, the operating expenses are disclosed as follows:

	December 31, 2017	December 31, 2016
Commission expenses *(Note 17)*	790.658.325	853.717.869
Commissions to the intermediaries accrued during the period (Note 17)	*805.870.258*	*882.941.642*
Changes in deferred commission expenses (Note 17)	*(15.211.933)*	*(29.223.773)*
Employee benefit expenses *(Note 33)*	201.226.446	177.232.414
Foreign exchange losses	26.255.159	20.648.604
Administration expenses	120.087.667	107.794.640
Commission income from reinsurers *(Note 10)*	(179.056.843)	(113.001.037)
Commission income from reinsurers accrued during the period (Note 10)	*(209.781.952)*	*(119.937.652)*
Change in deferred commission income (Note 10)	*30.725.109*	*6.936.615*
Advertising and marketing expenses	21.577.701	12.046.504
Outsourced benefits and services	20.149.187	17.987.684
Other	84.468.527	(16.785.293)
Total	**1.085.366.169**	**1.059.641.385**

(Currency: Turkish Lira (TL))

33 Employee benefit expenses

As of December 31 2017 and 2016, employee benefit expenses are disclosed as follows:

	December 31, 2017	December 31, 2016
Wages and salaries	151.637.041	131.597.277
Employer's share in social security premiums	32.708.900	30.080.787
Pension fund benefits	4.021.799	3.885.629
Other	12.858.706	11.668.721
Total *(Note 32)*	**201.226.446**	**177.232.414**

34 Financial costs

Finance costs of the period are presented in "Note 4.2 – *Financial Risk Management*" above. There are no finance costs classified in production costs or capitalized on tangible assets. All financial costs are directly recognized as expense in the consolidated statement of income.

35 Income tax

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

	December 31, 2017	December 31, 2016
Current tax expense provision:		
Corporate tax provision	(96.767.913)	(26.875.657)
Deferred taxes:		
Origination and reversal of temporary differences	18.150.973	(4.646.599)
Total income tax expense/(income)	**(78.616.940)**	**(31.522.256)**

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 Group's effective income tax rate for the year ended December 31, 2017 and 2016 is as follows:

	2017		2016	
Profit before taxes	**352.945.810**	**Tax rate (%)**	**271.399.974**	**Tax rate (%)**
Taxes on income per statutory tax rate	70.589.162	20,00	54.279.995	20,00
Tax exempt income	(24.127.762)	(6,84)	(26.462.474)	(9,75)
Non-deductible expenses	32.155.540	9,11	3.704.735	1,37
Total tax expense recognized in consolidated profit or loss	**78.616.940**	**22,27**	**31.522.256**	**11,61**

36 Net foreign exchange gains

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

(Currency: Turkish Lira (TL))

37 Earnings per share

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

	2017	**2016**
Net profit for the period	189.520.109	196.283.268
Weighted average number of shares	66.000.000.000	66.000.000.000
Earnings per share (TL)	0,00287	0,00297

38 Dividends per share

Dividend distribution policy of the Company stated its Articles of Association are as follows:

Net profit for the year presents remaining amount of total income of the year after deducting operating expenses, amortisation, provisions, taxes and other similar obligations and prior year losses if any. Net profit is divided and distributed in accordance with order as follows.

- 5% of legal reserve is divided from annual net profit, until it reaches 20% of share capital.

- Amounts described by a and b clauses of 2nd paragraph of 519th article of the Turkish Commercial Law will be added to general legal reserves, after legal limit is reached.

- 10% of the remaining net profit amount is distributed to shareholders, as first dividend.

- If the company has acquired his share, according to 520th article of the Turkish Commercial Law, legal reserve is divided to meet the acquiring amount.

- Reserve for natural disasters and catastrophe might be allocated, if deemed necessary, based on the suggestion of the Board of Directors and decision of the General Assembly,

- After the allocation of first legal reserves, first dividend to shareholders and statutory reserves, up to 3% of the remaining amount not exceeding three-wages is distributed to personnel.

- After the allocation of above mentioned reserves and dividends, second dividend to shareholders might be allocated, based on the suggestion of the Board of Directors and decision of the General Assembly.

- According to c clause of 2nd paragraph of 519th article of the Turkish Commercial Law, 10% of total amount distributed to people have share of profit will be added to general legal reserves.

- The fate of remaining amount will be determined by the General Assembly.

Judgements of 3rd paragraph of 519th article of Turkish Commercial Law are reserved.

Other legal reserves can not be divided, profit can not be transferred to next year and share of profit can not be distributed to workers, unless legal reserves have to be divided according to laws and first dividend for shareholders is divided, in accordance with the Articles of Association.

It is decided in Ordinary General Assembly Meeting of the Company, held on March 28, 2017, to make a cash dividend payment of TL 50.000.000 to shareholders and to allocate remaining balance as voluntary reserves from the net period income amounting to TL 129.243.232, from 2016 activities of the Company, after the legal reserves are allocated.

Paid dividend amount is reflected to financial statements as liability in the period it is declared by the Company.

As a result of the Extraordinary General Assembly Meeting of the Company held on June 27, 2016, acquisition of total amount of the founding stocks by Millî Reasürans T.A.Ş. with the cost amounting to TL 27.166.000 has been determined in the Expert Review Report approved by the Istanbul 6th Court of Peace is unanimously decided. Abolition and extinguishment of founding stocks acquired by the Company and absorbing acquisition cost from extraordinary reserves is decided in the Extraordinary General Meeting of the Company held on November 30, 2016.

39 Cash generated from operations

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

40 Convertible bond

None.

41 Redeemable preference shares

None.

42 Risks

In the normal course of its operations, the Group 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 Group are provided under outstanding claims reserves in the accompanying consolidated financial statements.

As of December 31,2017, total amount of the claims that the Group face is TL 1.485.894.000 in gross (December 31, 2016: TL 1.189.434.000). The Group provided outstanding claims reserves in the consolidated financial statements by considering collateral amounts.

As of December 31, 2017, ongoing law suits prosecuted by the Company's subsidiary Insurance Company against the third parties amounting TL 378.729.000 (December 31, 2016: TL 324.644.000).

Anadolu Anonim Türk Sigorta Şirketi Mensupları Dayanışma Vakfı" was established by Anadolu Anonim Türk Sigorta Şirketi in accordance with the Turkish Commercial and Civil Laws which is examined by Tax Audit Committee inspectors due to the Company payments what are fulfilled obligations to the foundation owing to deed of the foundation and the related act. As a result of this investigation, an examination was reported for periods of 2007, 2008, 2009, 2010 and 2011.

The final legal process which is related the period of 2007 and 2008 is expected to result in the Company's favour and the amount of provision TL 12.768.684 which was published on the Official Gazette dated November 12, 2014. December 2013 and after the condition of the provision is evaluated later ongoing development of the legal process. There is a provision amount of TL 3.678.791 (December 31, 2016: TL 3.381.653) related with this process. The Company has no revenue recognization resulting from the possibility of recovering tax auditing fines.(December 31, 2016: None).

As a result of investigation conducted by the Ministry of Finance Tax Audit Board, tax penalty which is amount of TL 2.1 million(actual tax) and TL 3.1 million tax penalty is announced by reason to tax salvage operations not subject to the banking and insurance transactions. The amount of TL 10 million tax, TL 15 million tax penalty has been modified for the period of 2010, 2011 and 2012 in February 6, 2015. The Company do not make provision for this tax penalty because of considering the implementation of these financial statements in accordance with legislation. The Company has utilized the means put forward in the "Law Regarding Some Claims" which was published in the official gazette on August 19, 2016 with the number 6736. According to this, The Company has paid TL 6.990.560 on November 29, 2016 and as a result the assessment has ended..

(Currency: Turkish Lira (TL))

42 Risks *(continued)*

An examination related to payments made for Company's liabilities in frame of related regulations to "Milli Reasürans Türk Anonim Şirketi Mensupları Yardımlaşma Sandığı Vakfı" that established by Milli Rasürans Türk Anonim Şirketi in accordance with the Turkish Commercial and Civil Laws is realized by Tax Inspection Board inspectors. As a result of this investigation, a tax audit report is issued for the periods 2007, 2008, 2009, 2010 and 2011 with the claim that liability amounts shall be taxed at cost principle and be taxable for income tax withholding and stamp tax.

Legal process has been started for the years 2007, 2008, 2009, 2010, 2011 and the later years and the payment regarding to the revenue authorities was paid. As of the report date, there is no recognized provision.

43 Commitments

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

	December 31, 2017	**December 31, 2016**
Less than one year	10.841.883	11.866.768
Between one to five years	18.012.507	16.138.148
More than 5 years	3.390.162	3.390.161
Total of minimum rent payments	**32.244.552**	**31.395.077**

44 Business combinations

None.

(Currency: Turkish Lira (TL))

45 Related party transactios

For the purpose of the accompanying consolidated 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.

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

	December 31, 2017	**December 31, 2016**
Türkiye İş Bankası AŞ	1.189.057.352	1.167.824.872
Other	617	1.132
Banks	**1.189.057.969**	**1.167.826.004**
Investment funds founded by İş Portföy Yönetimi A.Ş. (Note 11)	847.273.818	419.297.743
Equity shares of the related parties (Note 11)	72.183.344	60.025.295
Bond issued by İş GYO (Note 11)	15.302.769	15.543.150
Bond issued by Türkiye Sınai Kalkınma Bankası (Note 11)	-	7.050.254
Investment funds founded by İşbank AG (Note 11)	17.439.313	11.880.374
Financial assets	**952.199.244**	**513.796.816**
Türkiye İş Bankası A.Ş	333.801.033	304.802.265
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	4.773.567	6.182.414
Anadolu Hayat Emeklilik A.Ş.	1.046.299	1.474.059
Ziraat Sigorta A.Ş.	723.702	1.238.110
Allianz Sigorta AŞ	207.266	-
İstanbul Umum Sigorta A.Ş.	120.904	107.627
Ziraat Hayat ve Emeklilik	70.000	51.250
Ergo Sigorta A.Ş.	18.246	18.246
Axa Sigorta A.Ş.	-	3.934.701
Receivables from main operations	**340.761.017**	**317.808.672**
Türkiye İş Bankası AŞ	3.962.974	7.016.739
Ergo Sigorta AŞ	1.793.100	2.468.712
Şişecam Sigorta Aracılık Hizmetleri AŞ	554.498	399.796
Axa Sigorta AŞ	385.547	35.723
Güven Sigorta TAŞ	194.916	1.266.357
Groupama Sigorta AŞ	94.095	222.070
AvivaSa Emeklilik A.Ş	46.800	-
İstanbul Umum Sigorta AŞ	35.023	30.112
Allianz Sigorta AŞ	28.741	1.193.374
Anadolu Hayat Emeklilik A.Ş.	-	2
Payables from main operations	**7.095.694**	**12.632.885**
Due to personnel	220.377	91.826
Due to shareholders	81.850	66.287
Due to subsidiaries	36.133	-
Due to other related parties	24.460	13.743
Due to related parties	**362.820**	**171.856**

(Currency: Turkish Lira (TL))

45 Related party transactions *(continued)*

No guarantees have been taken against receivables from related parties.

There are no doubtful receivables and payables from/ to shareholders, subsidiaries and joint ventures.

There are no guarantees, commitments, guarantee letters, advances and endorsements given in favor of shareholders, associates and subsidiaries.

The transactions with related parties during the years ended December 31, 2017 and 2016 are as follows:

	December 31, 2017	**December 31, 2016**
Türkiye İş Bankası A.Ş.	601.172.759	502.036.843
Axa Sigorta A.Ş	22.769.967	36.740.520
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	17.080.389	20.429.253
Ziraat Sigorta A.Ş.	15.697.535	15.282.714
Groupama Sigorta A.Ş	3.688.180	4.528.283
Anadolu Hayat Emeklilik A.Ş.	1.400.834	3.911.743
Allianz Sigorta A.Ş	903.676	684.257
Ziraat Hayat ve Emeklilik	280.000	205.000
Ergo Sigorta A.Ş	241.627	3.793.595
Güven Sigorta TAŞ	14	21.639
Premium received	**663.234.981**	**587.633.847**
Groupama Sigorta A.Ş	1.422	28
Axa Sigorta A.Ş	719	(72)
Ergo Sigorta A.Ş	630	(1.227)
Güven Sigorta TAŞ	259	(80)
Allianz Sigorta A.Ş.	27	(29)
İstanbul Umum Sigorta A.Ş.	14	(3)
Premiums ceded	**3.071**	**(1.383)**
Allianz Sigorta A.Ş.	-	(3)
Axa Sigorta A.Ş.	(295)	(3.021)
Groupama Sigorta A.Ş.	(375)	(1.285)
Güven Sigorta T.A.Ş.	(111)	(7.032)
Ergo Sigorta A.Ş.	(249.343)	(3.567)
Commissions received	**(250.124)**	**(14.908)**
Türkiye İş Bankası A.Ş.	67.160.770	59.382.880
Ziraat Sigorta A.Ş	3.936.304	3.562.905
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	3.389.113	4.027.166
Axa Sigorta A.Ş	3.045.707	6.778.440
Groupama Sigorta A.Ş	1.029.254	908.651
Allianz Sigorta A.Ş	149.046	96.741
Anadolu Hayat Emeklilik A.Ş.	86.163	122.120
Güven Sigorta T.A.Ş	1	(5)
Ergo Sigorta A.Ş	-	1.345.451
Commissions given	**78.796.358**	**76.224.349**

(Currency: Turkish Lira (TL))

45 Related parties transactions *(continued)*

	December 31, 2017	December 31, 2016
Axa Sigorta A.Ş	13.029.641	14.516.386
Ziraat Sigorta A.Ş.	10.858.885	3.811.044
Ergo Sigorta A.Ş	10.377.343	13.725.776
Groupama Sigorta A.Ş	3.914.587	3.573.133
Allianz Sigorta A.Ş	1.984.185	4.875.749
Güven Sigorta TAŞ	1.036.209	2.496.742
Anadolu Hayat Emeklilik A.Ş.	509.224	307.788
Ziraat Hayat ve Emeklilik	169.447	217.078
Avivasa Emeklilik A.Ş.	46.800	-
Claims paid	**41.926.321**	**43.523.696**
Ergo Sigorta A.Ş	61.945	(11.781)
Groupama Sigorta A.Ş	83.682	(18.898)
Axa Sigorta A.Ş.	66.253	33.560
Güven Sigorta T.A.Ş	51.508	38.868
İstanbul Umum Sigorta A.Ş	18.462	15.706
Allianz Sigorta A.Ş	14.896	13.919
Reinsurance's share of claims paid	**296.746**	**71.374**
Axa Sigorta A.Ş	491.232	625.977
Güven Sigorta T.A.Ş	259.537	-
Anadolu Hayat Emeklilik A.Ş.	189.576	179.649
Ziraat Sigorta A.Ş.	90.046	67.728
Allianz Sigorta A.Ş	31.477	99.536
Ergo Sigorta A.Ş	10.941	1.398.446
Groupama Sigorta A.Ş	23.922	22.475
İstanbul Umum Sigorta A.Ş	721	-
Other income	**1.097.452**	**2.393.811**
İş Merkezleri Yönetim ve İşletim A.Ş. – office service costs	5.418.690	4.176.042
Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı Vakfı-rent expense	3.381.423	2.997.956
Ergo Sigorta A.Ş.	192.974	1.467.669
İş Portföy Yönetimi – management commission	293.093	965.206
Allianz Sigorta A.Ş.	124.008	113.938
Yatırım Finansman Menkul Değerler A.Ş. – management commission	122.317	51.884
Axa Sigorta A.Ş.	62.251	117.026
Groupama Sigorta A.Ş.	21.223	7.017
Ziraat Sigorta A.Ş.	8.636	9.925
İstanbul Umum Sigorta A.Ş	6.789	-
Anadolu Hayat ve Emeklilik A.Ş.	242	178
Groupama Sigorta A.Ş. (Güven Sigorta T.A.Ş)	-	457.001
Other expenses	**9.631.646**	**10.363.842**

(Currency: Turkish Lira (TL))

46 Subsequent events

Subsequent events are disclosed in note 1.10 - *Subsequent events*.

47 Other

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

They are presented in the related notes above.

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

None.

Subrogation recorded in "Off-Balance Sheet Accounts

None.

Real rights on immovable and their values

None.

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

None.

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

	December 31, 2017	**December 31, 2016**
Provision expense for doubtful receivables *(Note 4.2)*(*)	(39.065.548)	(40.724.191)
Provision for pension fund deficits *(Note 23)*	(9.650.003)	(1.326.173)
Provision expense for employee termination benefits *(Note 23)*	(2.153.101)	(1.494.518)
Provision expenses for unused vacation *(Note 23)*	(316.958)	(69.241)
Provision expenses for tax assessments *(Note 42)*	(297.137)	(297.137)
Impairment loss on financial assets	(99.299)	(6.855.240)
Terminated provision income/ (expense)	7.740.675	2.352.227
Other provision expenses *(Note 4.2)*(*)	3.172	(588.126)
Provision expenses	**(43.838.199)**	**(49.002.399)**

	December31, 2017	**December 31, 2016**
Rediscount income / (expense) from main operations receivables	16.755.100	21.048.926
Rediscount income / (expense) from main operations payables	(28.929.888)	(20.006.224)
Total of rediscounts	**(12.174.788)**	**1.042.702**