88th year

2016 Annual Report

MİLLİ RE
Since 1929
Local Leader, Global Partner

General Information

Millî Reasürans Türk Anonim Şirketi
2016 Annual Report
Harbiye Mah. Maçka Caddesi No: 35
34367 Şişli - İstanbul/TURKEY
Phone : +90 212 231 47 30
Fax : +90 212 230 86 08
E-mail : info@millire.com
millire@millire.com
Central Registry System
(Mersis) No : 0621003912600011

Singapore Branch

4 Battery Road #20-01
Bank of China Building Singapore 049908
Phone : +65 6499 9340
Fax : +65 6534 2884
E-mail : singapore@millire.com

Web address: www.millire.com
www.millire.com.tr

Contents

Vision

To maintain and further strengthen the key position in the local market and transform into a prominent reinsurance company in international markets.

Mission

- Provide quality service and effective solutions with best practice standards.
- Further strengthen its strong capital structure and financial adequacy.
- Ensure ethical, transparent conduct and high standards in its relations and to create value for all counterparties.
- Further enhance the development and the performance of employees aligned with the company-wide strategic targets.

The photographs used in this report are from the book entitled "Mylasa/Labraunda Archaeology and Rural Architecture in Southern Aegean Region" which was published by Milli Re and were exhibited at Milli Re Art Gallery under the same name.

Corporate Profile

Milli Re was established by Türkiye İş Bankası (İşbank) on 26 February 1929 to operate the compulsory reinsurance system, and commenced operations on 19 July 1929.

Prestigious and trusted

As the world's only privately-owned company that operated a compulsory reinsurance system for all lines of business, Milli Re has played an important role in the formation and development of the insurance industry in Turkey. Following the termination of the compulsory reinsurance system, the Company has redefined its goals and strategies in alignment with the current conditions and today continues to serve as a global, prestigious and trusted reinsurer.

A reliable and unrivalled position in the local market

Milli Re has been making every effort to support the development of the insurance industry in Turkey and provide high quality service. The Company meets reinsurance capacity needs of the market with best possible terms and conditions, contributing significantly to customer satisfaction of insurance companies by providing prompt claim settlements.

While operating the compulsory reinsurance system, the Company has also made various contributions to the country such as;

- Nationalization of the Turkish insurance industry,
- Generation of continuous revenue for the Undersecretariat of Turkish Treasury,
- Significant reduction in the outflow of foreign currency,
- Providing insurance training and education programs for the insurance industry,
- Conducting top notch international relations.

Management of the Federation of Afro-Asian Insurers and Reinsurers (FAIR) Pool

Milli Re managed Turkish Reinsurance Pool from 1963 to 1985, and the Economic Cooperation Organization (ECO) Pool from 1967 to 1995, which was originally established under the name of RCD Pool.

Managing the Federation of Afro-Asian Insurers and Reinsurers (FAIR) Pool since 1974, Milli Re has also taken on the management of the Turkish Catastrophe Insurance Pool (TCIP) between 2000 and 2005 where it was a co-founder.

A preferred business partner in the international markets

As part of Milli Re's strategy to expand to international markets, the Company began writing business from these markets in 2006. In alignment with this strategy, Singapore Branch was opened in 2007.

Having brought its justified reputation and technical knowledge gained in the Turkish market to international arena and with the support of its financial strength, Milli Re has continued to maintain its credibility in international markets through its strong performance.

On 24 June 2016, A.M. Best assigned Milli Re a global rating of B+ with a negative outlook. Milli Re's national scale rating was affirmed as "tr AA+" by Standard&Poor's (S&P) on 9 November 2016.

Sustainable growth

With a focus on the future, Milli Re has the structural competence and strong equity level necessary for growth. The Company's main objective is to achieve sustainable growth and translating its strong position in the local insurance market to international markets within its business philosophy that gives utmost attention to risk/return balance.

Milli Re Singapore Branch

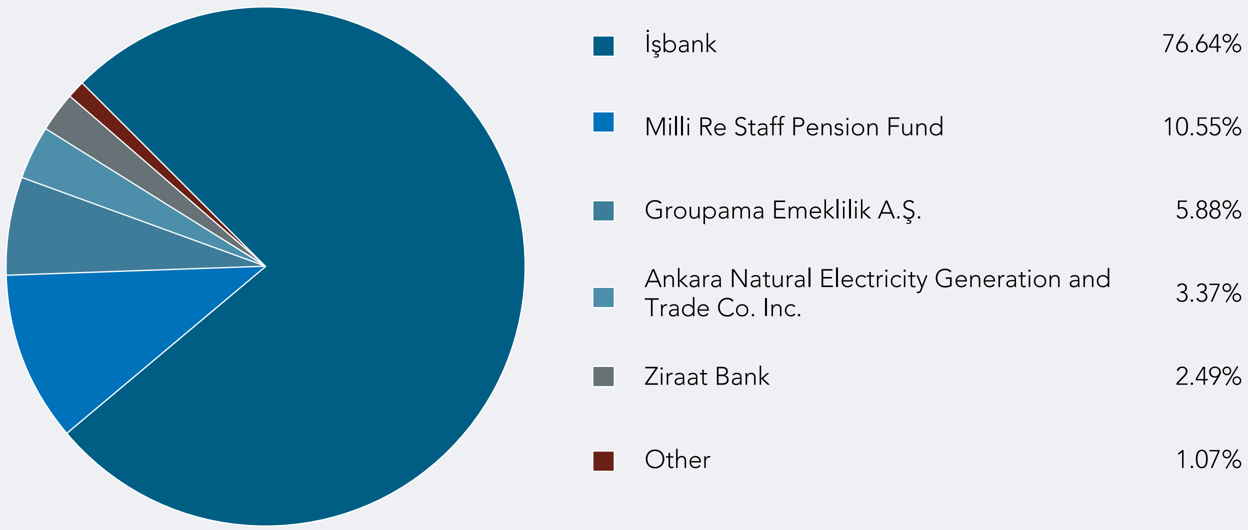
As part of its strategy to expand to international markets, Milli Re, like many other international reinsurers examined the benefits of establishing regional branches. Consequently, Singapore Branch was opened in view of the significance of Far East in global insurance market, as well as its potential business volume and geographical location.

Having received the license for operation from the Monetary Authority of Singapore (MAS) in November 2007, Singapore Branch began writing business from 1 April 2008. With its well qualified and highly experienced workforce of 10 people, Singapore Branch plays an important role in international operations of Milli Re.

Anadolu Sigorta

Holding 57.31% share in its capital, Milli Re is the principal shareholder in Anadolu Anonim Türk Sigorta Şirketi, one of the largest and well-established insurance companies in the Turkish insurance industry.

Milli Re Shareholder Structure



Shareholder	Value of Stake (TL)	Stake (%)
İşbank	505,810,925.41	76.64
Milli Re Staff Pension Fund	69,604,853.95	10.55
Groupama Emeklilik A.Ş.	38,809,894.19	5.88
Ankara Natural Electricity Generation and Trade Co. Inc.	22,240,455.60	3.37
Ziraat Bank	16,430,944.19	2.49
Other	7,102,926.66	1.07
Total	**660,000,000.00**	**100.00**

Note: Shareholders controlling 1% or greater stakes in the company are shown here above.

Capital Increases
There were no capital increases during 2016.

Changes in the Shareholder Structure during 2016
Following the decision No.1239 taken at the Board of Directors Meeting held on 11 March 2016, total shares corresponding to 3.37% with a nominal value of TL 22,240,456 belonging to the Privatization Administration of the Prime Ministry of the Republic of Turkey were transferred to the Ankara Natural Electricity Generation and Trade Co. Inc.

Changes in the Articles of Association during 2016
Pursuant to the decision of the General Assembly convened on 30 November 2016, following the purchase of founders shares, Article 7 "Founder Shares of the Company's Articles of Association" was abolished and Articles "Transfer of Shares" and 27 "Dividend Distribution" were revised.

Disclosures on Preferred Shares
There are no preferred shares.

Milestones

1929

Milli Re is founded by İşbank with a capital of TL 1,000,000 to operate the compulsory reinsurance system.

1963

The management of "Turkish Reinsurance Pool", established to write international business was handed over to Milli Re in accordance with the agreement signed with Turkish insurance companies.

1967

The management of "RCD Fire Reinsurance Pool", established under the agreement of "Cooperation for Regional Development" between Turkey, Iran and Pakistan, was handed over to Milli Re.

1970

The management of the system known as "Decree Pool", established according to Decree no. 17 set out by the Ministry of Finance on the Protection of the Value of Turkish Currency was handed over to Milli Re.

"Türk Sigorta Enstitüsü Vakfı" (Turkish Insurance Institute Foundation) was established by Milli Re and the Association of the Insurance and Reinsurance Companies of Turkey.

1974

The management of "FAIR Reinsurance Pool" established by the Federation of Afro-Asian Insurers & Reinsurers (FAIR) was handed over to Milli Re.

1982

Compulsory reinsurance cessions to Milli Re on Quota Share basis were changed to Surplus basis.

1986

MİLTAŞ Sports Complex, which hosts the traditional "International Insurers Tennis Tournament" organization was built by Milli Re and was brought into the service of the market.

1991

Milli Re began to offer conventional reinsurance capacity through reinsurance treaties apart from "Compulsory Cessions" and "Decree Pool".

First issue of "Reasürör" magazine was published. The magazine is a scientific resource with full academic content on re/insurance, including compilations, translations, interviews, and statistical data on various lines.

1993

Milli Re moved to its new head office constructed in Teşvikiye.

1994

Milli Re Art Gallery, a corporate gallery where art works by prominent local and foreign artists are exhibited, was opened.

1996

Milli Re Chamber Orchestra was established. The orchestra is made up of artists, most of whom also continue their solo music careers, and the orchestra performs with the participation of renown local and international artists and conductors.

2000

Turkish Catastrophe Insurance Pool (TCIP) set up alongside the "Compulsory Earthquake Insurance" system established by the Undersecretariat of Turkish Treasury became operational under the management of Milli Re.

2001

Risk-based Compulsory Reinsurance System came to an end.

2005

Milli Re became the only active and local reinsurance company in the Turkish market after the acquisition of Destek Reasürans T.A.Ş.

2006

Milli Re began to write business from international markets. Decree Pool was terminated.

2007

Singapore Branch, which plays an important role for Milli Re in international markets, was opened.

2010

Milli Re acquired an additional 35.5% stake in Anadolu Sigorta, another group company. Accordingly, Milli Re, Turkey's one and only active local reinsurer, increased its share in the capital of Anadolu Sigorta to 57.3%, one of the largest and well-established insurance companies in the industry.

2016

By the close of 2016, Milli Re increased its shareholders' equity to TL 1,336 million, with assets reaching TL 2,823 million. Net profit for the period was TL 129.2 million.

Chairman's Message

Uncertainty around global economic growth still prevails.

Global economic growth, showing modest recovery in the aftermath of the global financial crisis, was around 3% by the third quarter 2016. Accelerated growth in advanced economies such as US, Euro Zone, United Kingdom and Japan, was subdued by the adverse performance of emerging market economies, with the exception of China and India. Uncertainty on the outlook of global economic growth escalated in the last quarter, mainly originating from the developments in advanced countries.

One of the key factors triggering change in the global political climate was UK's decision to leave the EU (Brexit). The outcome of UK's referendum in June makes it difficult to forecast the development of monetary policies in European countries.

Subsequently the result of the US presidential election in November, signaling heightening protectionism, brought about uncertainties around a number of upcoming elections in Europe.

The likelihood of the recent developments impacting political paradigm in other countries will be critical in determining global economic policies in the near future. Current political environment with all inherent uncertainties and volatilities, poses various challenges for advanced as well as emerging economies. First signs of the recent developments which are expected to have implications particularly on trade, in areas such as fiscal and monetary policies and capital flows, were visible in global financial markets in the form of increased interest rates and repricing of assets.

Turkish economy was exposed to challenges arising from global economic developments and heightened geopolitical risks.

Nearly all sectors in the economy were adversely affected by the political and economic risks arising from successive terrorist attacks in the country, failed coup attempt on 15 July 2016 and the recent cross-border operations. Instability in financial markets in relation with global and domestic developments has intensified perception of uncertainty, thereby repressing private sector demand, in particular investment expenditures. Direct and indirect effect of increased energy prices and the fall in tourism revenues resulted with slowdown in services and industrial production and pulled down growth in Turkish economy to 2.2% by the third quarter 2016.

Soft market conditions prevailed during 2016 renewals.

Abundant reinsurance capital against more modestly growing demand which remained limited with certain regions and lines of business resulted with the continuation of soft market conditions in 2017 renewals. Nevertheless it was observed that reinsurers were no longer willing to be as flexible as in previous years due to continuously deteriorating profit margins in relation with competitive pressures on pricing in recent years and their marginal investment income. Increased catastrophe activity in 2016 which generated circa USD 175 billion economic loss, with USD 50 billion borne by re/insurance markets was also a source of concern affecting the behaviour of reinsurers.

In its 88th year of operation, Milli Re maintained its leading position in the local market and pursued its profit-oriented approach in the international markets.

Turkish insurance market grew by 30.5% in 2016.
According to 2016 year-end figures released by the Insurance Association of Turkey, market premium grew by 30.5% and reached TL 40.5 billion, largely due to circa 73% of increase in Motor Third Party Liability reflecting the continuation of price corrections by insurers in 2016. 88% of total premiums originated from Non-Life business and 12% from Life.

2017 reinsurance renewals of insurance companies operating in Turkey were completed smoothly.

Milli Re achieved its operational and financial goals.
In its 88th year of operation, Milli Re maintained its leading position in the local market and pursued its profit-oriented approach in the international markets. In 2016, our Company generated TL 930 million premium, 75% of which originate from local business and 25% from international operations.

Milli Re's total asset size reached TL 2,823 million with shareholders' equity of TL 1,336 million by the end of 2016. Net profit for the period was TL 129.2 million.

Milli Re will continue to grow profitably and keep creating added value for the country's economy.
Our Company offers best services to fulfill the needs of the insurance market with its accurate and timely assessment of market dynamics and swiftness in adapting to changing conditions through its successful risk management and strong financial structure.

With the confidence of a strong and established entity and excellent reputation earned in local and international markets, Milli Re will maintain its robust performance and be prepared for new endeavors in the forthcoming years.

On behalf of myself and the Board of Directors, I would like to thank our shareholders, insurance companies and our valuable employees for their contribution.

Mahmut MAGEMİZOĞLU
Chairman of the Board of Directors

General Manager's Message

2016 has been marked in history as a year of economic and political volatility.
Economic and political developments in 2016 systematically surrounded emerging and advanced countries as a natural consequence of globalization.

Early signs of the recent developments were observed in financial markets in the last quarter of 2016 in the form of increased interest rates and repricing of assets. Simultaneously, in conjunction with in increases in interest rates in advanced countries, currencies of emerging economies started to weaken and substantial outflow of funds was experienced.

In view of these developments, emerging markets are considered to be on the verge of a more challenging period in terms of monetary policies. Tighter monetary policies to be implemented in advanced economies are expected put pressure on rates of exchange and thereby raise inflation in emerging countries. On the other hand, increase in interest rates is another source of concern for emerging countries that are dependent on external financing.

Economy slowed down in Turkey.
2016 was a year marked with numerous economic and political challenges in Turkey as well as the region. Successive terrorist attacks in the country, failed coup attempt on 15 July 2016 and the recent cross-border operations brought along various risks.

Slowdown triggered by the fall in tourism revenues even deepened with the adverse effect of the incidents in July on local demand. Substantial increase in public spending and mild outlook of construction industry were the only factors moderating the negative impact of the decline in other components of domestic demand on economic growth.

Under these challenging circumstances, growth in the economy remained below the desired level, while rates of exchange and interest rates increased above projections. Furthermore, inflation rate based on consumer price index (CPI), gradually slowing down after July, showed a significant upsurge and closed the year at 8.5%, above the projected upper band.

Whilst Turkish economy is expected to show recovery as the result of a series of measures and incentives implemented by the state, outlook on global growth, uncertainties related with monetary policies of developed countries, slowdown in capital flows, and geopolitical developments are considered among the significant risks for 2017.

Excess reinsurance supply prevailed.
Reinsurance capital reached circa USD 595 billion by the end of the third quarter 2016, generating excess reinsurance supply. However rate reductions in January 2017 renewals remained considerably limited, as most reinsurers showed increased discipline in pricing, as the result of the adverse effect of competitive pressures prevailing in recent years and their marginal investment income on their profits.

There was also an uptick on the demand side; particularly in the US and Europe, where a number of insurers increased their property catastrophe purchase to have greater capital relief under new regulatory requirements and rating agency thresholds while terms and conditions were still favorable.

It is reported that nearly 30% of the total USD 175 billion economic losses generated by catastrophic events in 2016 were insured. In 2016, there were around 750 cat events which were above the ten-year average, consisting of a series of earthquakes, storms, floods, drought and heatwaves. Significant part of the losses, nearly 34%, resulted from floods.

2017 renewals was smooth for insurers operating in Turkey.
Turkish insurance industry produced nearly TL 40.5 billion premiums in 2016. Around 30% increase in non-life premiums was driven by around 73% growth in Motor Third Party Liability premiums reflecting price corrections by insurers in this line. On the other hand, Life grew by 34% with the expansion of mortality products in conjunction with personal loans. There was no major change in the breakdown of the total premium per line of business.

There was significant improvement in technical profitability of the market thanks to the positive impact of price corrections in Motor Third Party Liability which accounts for a substantial part of the total premium production, starting in second half of 2015.

Insurers operating in Turkey were able maintain their favorable position due to prevailing soft market conditions and excess capacity. Benign loss activity and positive results of treaties in 2016 were also instrumental in the smooth renewal. Generally ceding companies were inclined to increase their catastrophe protections, taking advantage of the favorable market conditions, and renewal negotiations mainly focused on terrorism cover, in relation with the events occurring in the region including Turkey.

Milli Re has 27% market share in proportional reinsurance contracts and an average share of 7% in Catastrophe Excess of Loss programs.

Most insurers in the market continued to protect their risk portfolios by proportional bouquet treaties in 2017 and Milli Re participated in the proportional bouquets of 21 cedants, leading 15. Milli Re has 27% market share in proportional reinsurance contracts and an average share of 7% in Catastrophe Excess of Loss programs.

Despite challenging conditions, Milli Re maintained its robust performance in 2016.

Milli Re generated total premium of TL 930 million in 2016. TL 699 million accounting for 75% originated from local business, while TL 231 million corresponding to 25% was from international operations. By the end of 2016, Milli Re's asset size reached TL 2,823 million and its shareholders' equity TL 1,336 million and the Company recorded a net profit of TL 129 million.

Being the only active local reinsurance company operating for the last 88 years in the Turkish insurance market, Milli Re was able to translate the experience, reputation and reliability acquired in the local market to its international operations and proved to be a preferred and strong business partner in the international markets.

Our aim as always is to maintain our leading position in the local market and ensure consistent development in our international operations in alignment with our diligent underwriting policy.

We aim to ensure sustainable growth, development and success in the future.

2017 is expected to be a challenging year given the current global and regional circumstances. Nevertheless, owing to our strong financial structure, ability in closely monitoring and assessing market developments, as well as the efforts of our experienced employees, we strongly believe that we will reach our goals under all circumstances.

I would like to extend my thanks to our shareholders, our business partners, and employees, for their support and confidence.

Hasan Hulki YALÇIN
Director and General Manager

Board of Directors

7	6	5	4	2
Oktay EKE Director	Kemal Emre SAYAR Director	Erdal İNCELER Director	Aynur DÜLGER ATAKLI Director	Hülya ALTAY Vice Chairman

1	9	3	8	10
Mahmut MAGEMİZOĞLU Chairman	Hasan Hulki YALÇIN Director and General Manager	İsmet ATALAY Director	Özgür TEMEL Director	Fahriye ÖZGEN Reporter of the Board of Directors

Board of Directors

1- Mahmut MAGEMİZOĞLU
Chairman

Mahmut Magemizoğlu is a graduate of Middle East Technical University, Faculty of Administrative Sciences, Department of Business Administration. He holds a master's degree in Investment Analysis from The University of Stirling (UK). Mahmut Magemizoğlu began his professional career at İşbank on the Board of Inspectors in 1982 and is currently the Senior Deputy Chief Executive of İşbank. Having served as board member in nearly 20 companies to date, Mahmut Magemizoğlu has been the Chairman of the Board of Anadolu Hayat Emeklilik A.Ş. since 2009 and of Milli Re since 2011.

2- Hülya ALTAY
Vice Chairman

Hülya Altay graduated from Ankara University, Faculty of Political Sciences, and joined İşbank in 1982 as an Assistant Economics Specialist. After serving in a number of the Bank's units and branches, she has been appointed as Deputy Chief Executive in April 2004 where she served until 2011. Functioned as the Chairman of İş Portföy Yönetimi A.Ş., Hülya Altay has been the Vice Chairman of the Board of Directors at Milli Re since 25 March 2015.

3- İsmet ATALAY
Director

İsmet Atalay graduated from the Faculty of Law, İstanbul University and he started his professional career as an independent lawyer in Kars and served as Kars Provincial Chairman of Republican People's Party (CHP) for 10 years. He entered to the Turkish Parliament (TBMM) as a representative of Kars in 1977, of Ardahan in 1995 and of İstanbul in 2002. In CHP, he served as a member of the Group Board, the General Administrative Committee, and the Central Executive Committee, and as a General Accountant. Served as a member of the Board of Directors of İşbank between 2008-2010, İsmet Atalay has been a member of the Board of Directors at Milli Re since 29 April 2011.

4- Aynur DÜLGER ATAKLI
Director

Aynur Dülger Ataklı graduated from the Department of Economics-Finance at the Faculty of Political Sciences at Ankara University. She attended programs the various Senior Public Administration Techniques and European Union at The Royal Institute of Public Administration (RIPA) in the UK and USA. She started her professional career in 1979 as a Research Assistant at the Faculty of Political Sciences of Ankara University. She later served as an Assistant Specialist and Specialist and member of the special commission at the State Planning Organization. She served as a Specialist, Department Head and Deputy General Manager at the Undersecretariat of Turkish Treasury. Aynur Dülger Ataklı served as a member of the Board at Sivas Demir-Çelik İşletmeleri A.Ş. and as the Chairman of the Board at BETEK A.Ş. (Berlin), a member of the Board and High Advisory Board at the Ankara Art Institution and Alumni Association of Faculty of Political Sciences of Ankara University and also as the Head of the Civil Services Sports Club. She served as a member of the Board at İşbank between 2011 and 2014, and at İş Portföy Yönetimi A.Ş. between 17 April and 12 May 2014. Aynur Dülger Ataklı has been a member of the Board of Directors at Milli Re since 16 May 2014.

5- Erdal İNCELER
Director

Erdal İnceler holds a degree in Economics from the Faculty of Economics and Administrative Sciences at the Middle East Technical University and a master's degree in International Banking and Finance from the University of Heriot-Watt in Edinburgh. Erdal İnceler began his career at İşbank as an Assistant Specialist in the Training Department in 1990. He was appointed as an Assistant Manager in 1999 and as a Group Manager in 2005 in the same Department. He served as a member of the Board of Auditors at İş Gayrimenkul Yatırım Ortaklığı A.Ş. and ASMAŞ, and as a member of the Board of Directors at Anadolu Hayat Emeklilik A.Ş. He is currently the Human Resource Management Unit Manager at İşbank. Erdal İnceler has been a member of the Board of Directors at Milli Re since 28 March 2013.

6- Kemal Emre SAYAR
Director

Kemal Emre Sayar is a graduate of the Faculty of Industrial Engineering at the Middle East Technical University. He holds a master's degree in Information Technologies in Management from Sabancı University and in Economics and Finance from the Boğaziçi University. Kemal Emre Sayar began his career in 1999 as an Assistant Inspector on the Board of Inspectors at İşbank, while from 2008 he served at the Change Management Directorate and the Strategy and Corporate Performance Management Department. He is currently the Subsidiaries Department Unit Manager at İşbank and also a member of the Board of Directors of Anadolu Anonim Türk Sigorta Şirketi and Anadolu Hayat Emeklilik A.Ş.. Kemal Emre Sayar has been a member of the Board of Directors at Milli Re since 30 November 2015.

7- Oktay EKE
Director
Oktay Eke holds a degree in Economics in Faculty of Economics and Administrative Sciences from the Marmara University. He began his career at İşbank as an Assistant Inspector at the Board of Inspectors in 1989. He was appointed at İşbank as an Assistant Manager in Accounting Management in 1999, as a Group Manager in Financial Transactions Management in 2003, as an Accounting Manager at Anadolu Hayat Emeklilik A.Ş. in 2005 and as a Unit Manager in Managerial Reporting & Internal Accounting Division at İşbank in 2007. He has been holding the position of Inspector of Anadolu Sigorta Türk A.Ş. and İş Net Elektronik Bilgi Üretim Dağıtım Ticaret ve İletişim Hizmetleri A.Ş. and also a member of the Board of Directors of İş Net Elektronik Bilgi Üretim Dağıtım Ticaret ve İletişim Hizmetleri A.Ş. and İŞMER İş Merkezleri Yönetim ve İletişim A.Ş. and also ANT Gıda A.Ş.. He is currently the Internal Operations Division Manager at İşbank since 2011. Oktay Eke has been a member of the Board of Directors at Milli Re since 18 August 2016.

8- Özgür TEMEL
Director
Özgür Temel holds a bachelor's degree in Business Administration from the Hacettepe University and a master's degree in International Banking and Finance from the University of Birmingham. He began his career at İşbank Beyazıt Branch as an Assistant Credit Specialist in 1994. Özgür Temel, who joined Board of Internal Auditors in 1995, was appointed to Capital Markets Department as an Assistant Manager in 2003. After his duties as İzmir Branch Assistant Manager in 2005 and Ege Corporate Branch Assistant Manager in 2006, he was appointed as Capital Markets Department Unit Manager in 2008 and as Division Manager in 2013. He served as a member of the Board of Directors at İş Yatırım Menkul Değerler A.Ş. in April 2013 and the Chairman of İş Yatırım Ortaklığı A.Ş. in December 2013. He is currently the International Financial Institutions Division Manager at İşbank. Özgür Temel has been a member of the Board of Directors at Milli Re since 18 August 2016.

9- Hasan Hulki YALÇIN
Director and General Manager
Hasan Hulki Yalçın attended TED Ankara College for his primary, secondary and high school education and graduated from the Middle East Technical University, Department of Economics. He then got his master's degree in International Banking and Finance from The University of Birmingham in the U.K. Mr. Yalçın joined İşbank as a member of the Board of Inspectors, where he worked for 14 years in different positions. He joined Milli Re in 2003 and attended various professional training programs abroad. Appointed as a member of the Board of Directors and General Manager on 16 January 2009, Hasan Hulki Yalçın is also a member of the Non-Life Management Committee of the Insurance Association of Turkey, and a member of the Board of Directors of Anadolu Anonim Türk Sigorta Şirketi.

10- Fahriye ÖZGEN
Reporter of the Board of Directors

Participation of the Members of the Board of Directors in Relevant Meetings during the Fiscal Period

The Company's Board of Directors convenes as and when necessitated by the Company's business affairs and upon the Chairman's or Vice Chairman's invitation, with the participation of the majority of the total number of directors on the Board. Meeting agendas are drawn up in line with the proposals of the General Management. During the meetings, various topics that are not covered in the agenda but raised by the members are also discussed. Meeting agenda letters and files relating to the agenda items are sent to all Board members 7 days in advance of the meeting date.

The Board of Directors met 17 times during 2016, with all members attending 13 of these meetings, whereas one member was excused from each one of three meetings and three members was excused from each one of one meeting.

Senior Management

3	2	1	5	4
Fatma Özlem CİVAN Assistant General Manager	Yıldırım Kemal ÇUHACI Assistant General Manager	Hasan Hulki YALÇIN Director and General Manager	Şule SOYLU Group Manager	Vehbi Kaan ACUN Assistant General Manager

1- Hasan Hulki YALÇIN
Director and General Manager
Please see Board of Directors page for Mr. Yalçın's CV.

2- Yıldırım Kemal ÇUHACI
Assistant General Manager
Kemal Çuhacı graduated with a B.A. degree in Political Science from Ankara University and started his business career in Milli Re's Marine Insurances Department in 1986. He attended the diploma courses at Chartered Insurance Institute in the UK in 1987 and was awarded the title of "Associate" in 1988. During his employment, he participated in various seminars and conferences abroad. He has been appointed as Assistant General Manager on 1 September 2011.

3- Fatma Özlem CİVAN
Assistant General Manager
Having completed her secondary and high school education at Robert College, Özlem Civan graduated with a B.A. degree in Business Administration in English from the Faculty of Business Administration at İstanbul University. Between 1990 and 1993, she worked in the Treasury and Fund Management Departments of several banks, embarking on her career in the insurance market in 1994 at the Reinsurance Department of Güneş Sigorta. Leaving her position as Group Manager in charge of Reinsurance, Casualty and Credit Insurance in September 2006, Özlem Civan joined Milli Re the same year. She has participated in a number of training programs and seminars on insurance and reinsurance, organized by leading international reinsurers and brokers. Özlem Civan has been appointed as Assistant General Manager on 1 September 2011.

4- Vehbi Kaan ACUN
Assistant General Manager
Vehbi Kaan Acun graduated from İstanbul University, Department of Economics in English. He started his career as an assistant inspector on İşbank's Board of Inspectors. After serving at İşbank for 8 years, he joined Milli Re in 2006. During his career at Milli Re, he also worked as a Coordinator in the Company's Singapore Branch. He participated in various seminars and conferences abroad and functions as the Vice President of the Turkish Insurance Institute Foundation Board. Vehbi Kaan Acun has been appointed as Assistant General Manager on 1 February 2016.

5- Şule SOYLU
Group Manager
Şule Soylu graduated with a B.A. degree in Business Administration from the Faculty of Economic and Administrative Sciences at Anadolu University and received her master's degree in Financial Institutions from İstanbul University Institute of Business Economy. She began her professional career in Milli Re in 1990 and finished cum laude the Accounting Branch of the Turkish Insurance Institute. Currently serving as a Board Member of Turkish Insurance Institute Foundation and a member of the Financial and Accounting Committee of the Insurance Association of Turkey, Şule Soylu has been appointed as Group Manager on 1 September 2011.

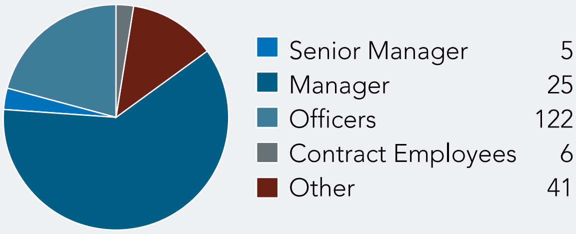
Internal Systems Managers

Ekin ZARAKOL SAFİ
Internal Audit Assistant Manager
Term of Office: 3 years
Professional Experience: 14 years
Departments Previously Served: Turkish Reinsurance Pool Directorate, Internal Audit and Risk Management Directorate
Academic Background: Bachelor's Degree

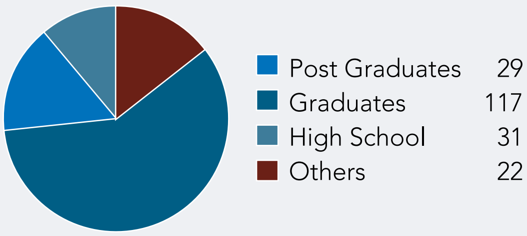
Duygu GÖLGE
Internal Control and Risk Management Assistant Manager
Term of Office: 3 years
Professional Experience: 21 years
Departments Previously Served: Decree Pool Directorate
Academic Background: Master's Degree

Human Resources Applications

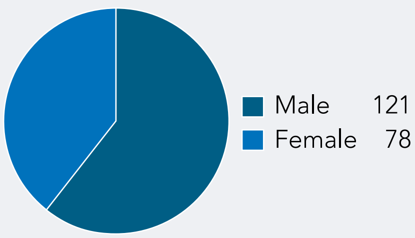
Employee Profile



Educational Background Profile



Human Resources Profile



Milli Re possesses a highly qualified and committed work force, open to continuous learning and development.

The Company's Human Resources policy is focused on establishing a competent organisation composed of employees who follow the latest developments and support the Company strategies with their individual performances and adapt fully to the enterprise culture.

In recognition of the fact that its staff is among the key strengths in its achievements, Milli Re in line with its objectives, pursues the policy of increasing the performance of its employees by contributing to their enrichment.

The Company's Human Resources policy is built on the fundamental principles of:

- recruiting appropriate candidates with qualifications relevant to the vacant position,
- providing an environment that is conducive to working efficiently, productively and happily,
- protecting and observing financial and moral rights of employees,
- providing fair and equal opportunities for development and training in view of personal skills; enabling to foster social relationships that serve to motivate individuals,
- conducting all internal processes efficiently.

At year-end 2016, Milli Re had 199 employees.

Job Application
Job applications are made via **personel@millire.com** on our corporate website and other communication means and stored in the candidate pool established within our Company. When needed, applications are examined and candidates who are considered suitable for the positions are contacted.

Recruitment
Milli Re recruits candidates with qualifications required for the relevant position, also considering their ability to adapt to the corporate culture.

Performance Management
Performance appraisals of employees are conducted on an annual basis in accordance with the Performance Appraisal System Guidelines in place; career planning and training needs are determined based on the results of the appraisals conducted.

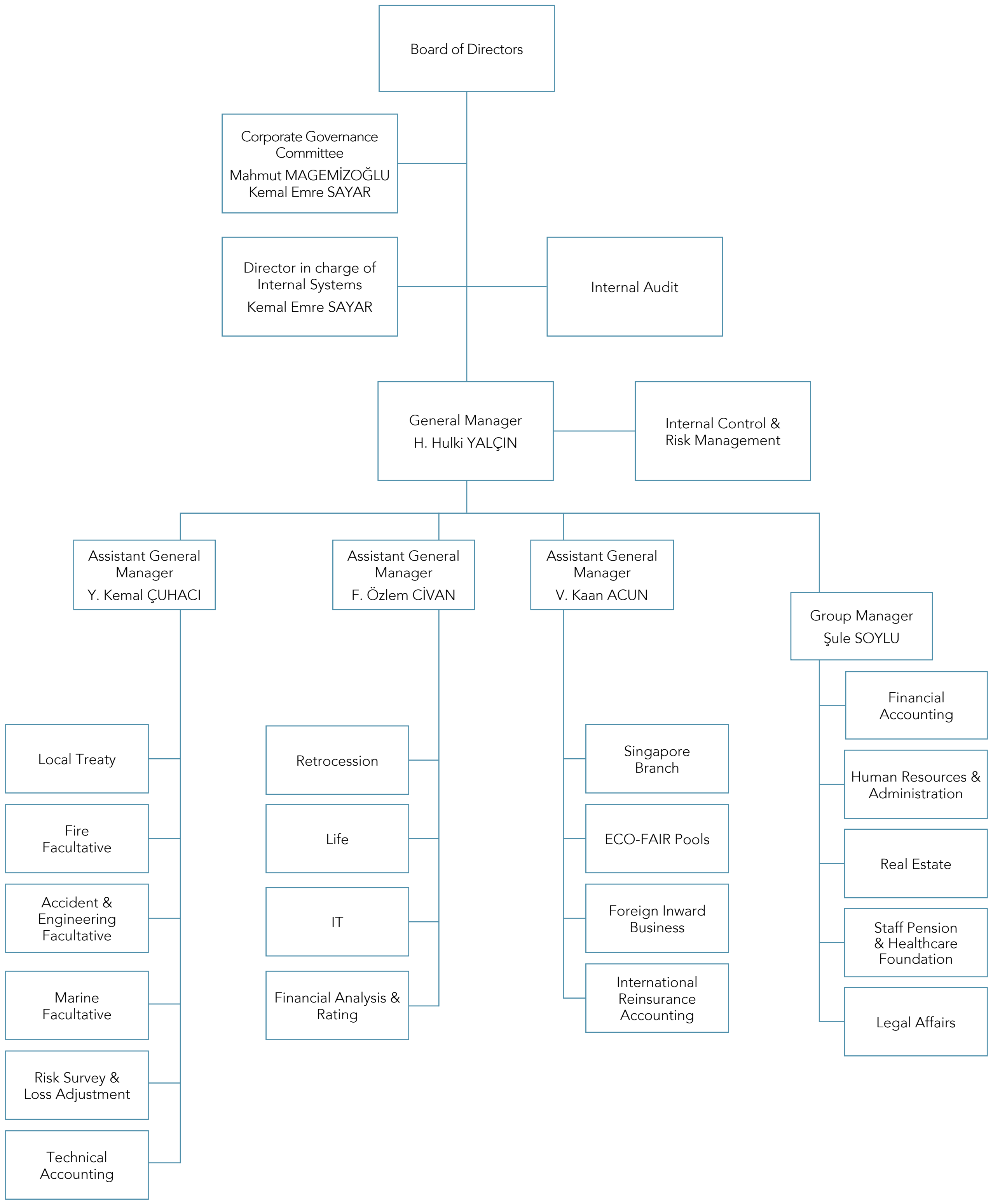
Training
Training requirements identified according to performance appraisal results are used to formulate the training program, and employees are given the opportunity to receive technical and personal development training in Turkey or abroad as required by their positions.

Career
Ever since its establishment, Milli Re has the policy of investing in its work force and recruiting internally for managerial positions. Promotions are made in line with the Personnel Regulation and the principles set forth in the collective agreement, signed with the Workers' Trade Union, taking into consideration the results of Performance Appraisals.

Compensation Policy
Salaries of our employees are determined in accordance with the terms of the collective bargaining agreement within the context of related regulations.

Occupational Health and Safety
Obligations under Law No. 6331 on Occupational Health and Safety are fulfilled by the Personnel and Administrative Affairs Department.

Organization Chart



2016 Annual Report Compliance Statement

We hereby represent that Millî Reasürans T.A.Ş. 2016 Annual Report issued for its 88th year of operation has been drawn up in line with the principles and procedures enforced by the "Regulation on the Financial Structures of Insurance, Reinsurance and Pension Companies" published in the Official Gazette issue 26606 dated 7 August 2007 by the Undersecretariat of Turkish Treasury.

February 21, 2017

Şule SOYLU Assistant General Manager	Yıldırım Kemal ÇUHACI Assistant General Manager	Hasan Hulki YALÇIN General Manager	Mahmut MAGEMİZOĞLU Chairman of the Board of Directors

Report on the Audit of Board of Directors' Annual Report

Convenience Translation into English of the Independent Auditor's Report Related to Annual Report Originally Issued in Turkish

To Milli Reasürans Türk Anonim Şirketi General Assembly,

Report on the Audit of Board of Directors' Annual Report Based on Standards on Auditing which is a Component of The Turkish Auditing Standards Published by The Public Oversight Accounting and Auditing Standards Authority ("POA")

We have audited the accompanying annual report of Milli Reasürans Türk Anonim Şirketi (the "Company"), for the year ended 31 December 2016.

Board of Directors' Responsibility for the Annual Report
Pursuant to the article 514 of the Turkish Commercial Code numbered 6102 ("TCC") and Communiqué on Individual Retirement Saving and Investment System" ("Communiqué") issued on 7 August 2007 dated and 26606 numbered, management is responsible for the preparation of the annual report fairly and consistent with the financial statements and for such internal control as management determines is necessary to enable the preparation of such annual report.

Auditor's Responsibility
Our responsibility is to express an opinion on the Company's annual report based on our audit in accordance with article 397 of the TCC and Communiqué whether the financial information included in the accompanying annual report is consistent with the audited financial statements expressed in the auditor's report of the Company dated 17 February 2017 and provides fair presentation.

Our audit has been conducted in accordance with the Standards on Auditing which is a component of the Turkish Auditing Standards ("TAS") published by the POA and the insurance legislation. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information included in the annual report is consistent with the financial statements and provide fair presentation.

An audit also includes performing audit procedures in order to obtain audit evidence about the historical financial information. The procedures selected depend on the auditor's judgment.

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

Opinion
In our opinion, the financial information included in the annual report is consistent, in all material respects, with the audited financial statements and provides a fair presentation.

Report on Other Regulatory Requirements
In accordance with the third clause of the article 402 of TCC, no material issue has come to our attention that shall be reported about the Company's ability to continue as a going concern in accordance with TAS 570 "Going Concern".

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member firm of KPMG International Cooperative

Alper Güvenç
Partner
14 March 2017
İstanbul, Turkey

Financial Rights Provided to the Members of the Governing Body and Senior Executives

The Company's Research & Development Activities

Financial Rights Provided to the Members of the Governing Body and Senior Executives

The Company's Board of Directors is composed of Chairman, Vice Chairman and seven Board members. Senior Management comprises of one General Manager, three Assistant General Managers, and one Group Manager. The chart below presents the benefits provided to the Senior Executives in 2015 and 2016 in comparison.

(TL)	2015	2016
Benefits such as salary, premium, bonus, dividend etc.	5,042,324	5,305,820
Travel, accommodation, entertainment expenses and means in kind and in cash	320,223	375,013

The Company's Research & Development Activities

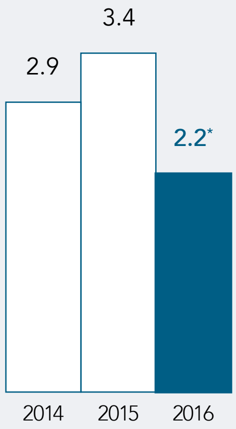
- Information Technology Strategy Document and Information Technology Action Plan for 2017-2019 were established within the scope of CobiT in 2016. IT contingency plan and segregation of duties procedures were updated. In addition, draft procedures for operational management and quality assurance management were prepared and executed as a pilot study.

- In 2016 significant progress has been achieved in the company-wide transformation project, which aims to renew the existing reinsurance applications. The project will continue throughout 2017 and with the completion of the project, different applications used in the Head Office and Singapore Branch will be fully standardized and integrated.

Company Activities and Major Developments in Activities

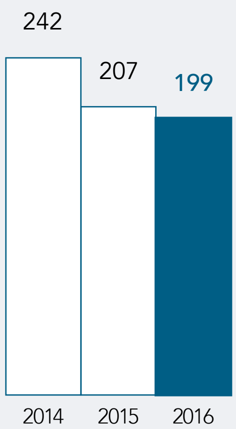
Turkish Economy and Outlook

GDP Growth Rate - On the basis of Fixed Prices (%)

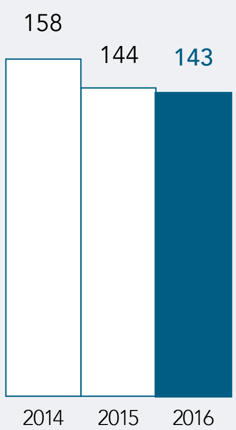


* 9 months

Imports (USD billion)



Exports (USD billion)



At the end of the first 9 months of 2016, the growth of the Turkish economy declined to 2.2%, largely due to local and global risks.

Turkish economy showed limited growth in 2016.

Turkish economy has been confronting a number of risks emanating from domestic and international developments in recent years. GDP growth, recorded as 4.5% in the first half year 2016, contracted drastically by the end of the third quarter due to uncertainties related with political developments.

Slowdown in economic activity caused by the fall in tourism revenues was deepened by the decline in local demand reflecting the impact of events in July. Substantial increase in public spending and mild outlook of construction industry were able to reduce the negative effect of the decline in other components of domestic demand on economic growth to some extent. With the economy downsizing by 1.8% in the third quarter, GDP growth deteriorated to 2.2% at the end of the first 9 months.

Contraction in the volume of exports and imports continued in 2016.

Despite the relative recovery in European economies, regional tensions adversely affected the exports of Turkey. In addition to geopolitical issues, fall in oil prices leading to large-scale drops in the revenues of oil exporting countries, resulted with declines in exports to Middle East and North Africa (MENA) countries, Russia and Iraq. Turkey's exports fell to USD 143 billion in 2016 with a 0.9% reduction year-on-year.

Downward movement in energy prices was the major source of the fall in imports. Import volume in 2016 decreased by 4.2%, to USD 199 billion. Consequently, current trade deficit fell to USD 56 billion with 11.8% decline and the exports/imports coverage ratio rose to 71.8% as at December 2016 from 69.4% as at December 2015.

With the improvements in trade and the impact of macro-economic measures implemented, the recovery in the current account balance has continued in the first 8 months of the year. However deficit slightly expanded with the diminishing effect of fallen energy prices and the decline in tourism revenues.

Annual cumulative current account deficit in November 2016 was USD 33.7 billion. The financing of the current account deficit was provided through direct capital investments and long-term resources.

Budget realization was in line with targets.
Fiscal discipline continued to be the major strength of the Turkish economy in 2016. By the year-end, there was a deficit of TL 29.3 billion in central government budget balance and a surplus of TL 21 billion in the non-interest budget balance. Tax revenues increased modestly by 12.5% in 2016 compared to 2015 and the central government budget revenues rose by 14.8% with the contribution of a significant increase of 33.1% in tax-exempt income.

Non-interest budget expenditure showed an increase of 17.7% and materialized well above budget revenues, resulting with a relative decline in non-interest budget surplus compared to the previous year. The reduction in interest payments in 2016 compared to 2015, limited any further increase in the budget deficit.

Recovery in core inflation indicators came to a close.
Inflation rate based on consumer price index (CPI) moved up to 8.53% at the end of 2016, showing a gradual slowdown after July, increasing substantially in December and materializing above uncertainty band in estimations. Weakened Turkish Lira, fiscal adjustments and the partial increase in food prices were the main drivers of the increase in CPI.

Domestic producer price index (D-PPI) increased to 9.94% driven by developments in manufacturing industry prices. Increase in commodity prices, particularly oil and metal, on global level, adversely affected producer prices during this period, followed by the spread of price increases across all sub groups.

Consumer price index, showing a gradual slowdown after July, increased substantially in December and materialized above uncertainly band estimations.

Central Bank of the Republic of Turkey (CBRT) maintained its stance in facilitating financial stability.
Strong fiscal discipline has been one of the pillars of the economy, ensuring its resilience against adverse external shocks. Central Bank of Turkey (CBRT) has maintained its policy stance in 2016, by applying tight measures on inflation, stabilizing in foreign currency liquidity and being supportive on financial stability.

During March-September 2016, reduced inflationary pressures, tight financial discipline and moderate performance of global financial markets, allowed CBRT to simplify its interest rate corridor and lower the upper band of the corridor by a total of 250 basis points.

CBRT made no changes in its interest rates policy in October. However, in view of increased volatility in exchange rates, it raised the upper band of the interest rate corridor and the policy interest rate by 25 and 50 basis points, respectively and mildly tightened its monetary policy in November. Accordingly, the CBRT marginal rate of funding was at 8.50%, borrowing interest rate was 7.25% and one week repo auction interest rate was at 8%.

Average funding cost which had decreased to 7.7% following the interest rate cut decision by CBRT, stood at 8.3% in December 2016.

Turkish Economy and Outlook

Some acceleration in economy is anticipated for the upcoming periods.

Major expectation for the upcoming period is the subsidence of geopolitical risks in the region consequently recovery in tourism revenues and the volume of trade.

Economic growth is estimated to accelerate slightly, albeit remaining lower than its potential. It is anticipated that public spending would continue to support economy in 2017.

On the other hand, continued increase in oil prices, ongoing uncertainties in Turkey's main export markets and weak tourism revenues are expected to exert pressure on the current account deficit.

High volatility in food prices, continuing rise in oil prices and state of domestic demand are factors expected are to have important impact on inflation.

Considering the delayed repercussions of the depreciation of the Turkish Lira and partial recovery in energy prices, inflation is expected to be higher in 2017

Developments with currency movements and inflation will most likely continue to be critical in determining the monetary policy.

CBRT declares to maintain fiscal discipline and prudent policies.

It is anticipated that CBRT will preserve its prudent monetary policy in the following period. Developments with currency movements and inflation will most likely continue to be critical in determining the monetary policy.

CBRT's main assumption in determining its monetary policy for the upcoming period is the maintenance of the fiscal discipline and the absence of unforeseen increase in managed/steered prices.

Any significant deviation in fiscal policy and its negative effects on medium term inflation would result with adjustments in the monetary policy.

Furthermore, thorough assessment of the impact of planned changes in public spending and tax policies, considering their effect not only on budget but also on macroeconomic variables including growth, domestic savings and inflation, would contribute to the coordination between monetary and fiscal policies and support macroeconomic stability.

Overview of the Turkish Insurance Industry in 2016

73% growth in Land Vehicles Liability premiums which account for a significant portion of Non-Life premiums had substantial influence on the general outlook and profitability of the industry.

According to the year-end figures released by the Turkish Insurance Association, Turkish insurance industry produced nearly TL 40.5 billion premiums in 2016, showing a year-on-year increase of 30.5%. 88% of total premiums was generated by Non-Life and 12% by Life Insurance, with virtually no change in the composition from the previous year.

The main factor contributing to the increase in Non-Life premium production in 2016 is the 73% growth in Land Vehicles Liability business which constitutes 36.5% of Non-Life premiums. Significant growth in this line originated primarily from the upward movement in policy premiums which started with the second half of 2015 and continued throughout 2016, in response by insurance companies to the upsurge in their liabilities stemming from previous years due to legislative changes that had retroactive implications. Despite the fact that some downward movement in policy premiums was observed in the last quarter of 2016, reflecting recent actions taken by the Treasury in an attempt to protect the rights of policyholders and also provide some capital relief to the insurers, 73% annual increase in this line which accounts for a significant portion of the Non-Life premiums, was indeed an important development which had substantial influence on the outlook and profitability of the industry.

As a result of the considerable increase in Land Vehicles Liability premiums, the volume of Fire and Natural Disasters in Non-Life premiums moved down to a lower level compared to the previous year and realized as 13.6%. A modest 10% year-on-year growth in this line was actually an indication of its weaker performance in 2016. The contraction in real terms in industrial and commercial risks, which constitute nearly half Fire and Natural Disasters premiums not only emanated from the continued competitive pricing in these lines, but was also due to the repercussions of the slowdown in investments on Fire insurance. Consequently, the main driver of the sluggish growth in Fire and Natural Disasters premiums was residential risks, which performed largely in line with the developments in construction industry being one of the key sectors facilitating expansion in the country's economy.

Land Vehicles, being the second largest contributor in Non-Life premium production with a share of 17.4%, has grown modestly, only by 11% compared to the previous year, as it is among the lines which are most susceptible to price-oriented competition. Nonetheless, Land Vehicles continues to grow consistently every year, reflecting developments in automotive industry.

General Damages comprises of Engineering, Agriculture, Plate Glass and Theft insurances. In 2016, 91% of its premium originated from Engineering and Agriculture. The main source of 17.5% annual growth in this line which accounts for roughly 10% of Non-Life premiums is Agriculture, where some important developments have taken place. Slowdown in large-scale investment projects which has had adverse impact on premium levels in Construction and Erection All Risks, affects the overall performance of Engineering in a similar way and continues to suppress premium income in this line. On the other hand, Agriculture premium continues to grow constantly every year in line with increased insurance penetration mainly owing to accelerated loss activity in consequence with climate change. In view of these developments, Agriculture premiums continued to grow robustly, by 35% in 2016.

Overview of the Turkish Insurance Industry in 2016

Marine, consisting of Cargo and Hull, hardly accounted for more than 3% of the total Non-Life premiums in the Turkish market for years. As it is directly related with the economic performance of the country, premium level in this line has contracted in real terms given the adverse developments in economy during 2016. Cargo premiums increasing by 3% and constituting 73% of Marine, is the only source of the 3% growth in this line.

Although the share of General Liability in Non-Life premiums is merely 2.3%, it is among most critical lines of business in the insurance industry. 87% of the premium is generated by sub-classes such as Employers Liability, General Third Party Liability and Professional Indemnity. Premium increase in this line has remained limited at 7.7% in 2016 which translates into a contraction in real terms, thus indicating that premium levels are expected to remain short of continuously escalating liabilities in this long-tail line of business and General Liability results will have even more drastic impact on equities of companies in the following years.

Life generated TL 5 billion premium in 2016. In spite of the significant 34% increase in premiums on an annual basis, because of the more striking upward movement in Land Vehicles Liability premiums the share of this line in total industry premium did not show a meaningful change, remaining at 12% as in previous years. Life business is expected to grow further in the coming years, in line with the anticipated expansion in individual life insurances linked to personal loans, increased efficiency in the sale of products other than bancassurance products by utilizing alternative distribution channels and developments in participation banking.

The fact that most of Non-Life and Life is produced by top ten companies has become a structural feature of the Turkish insurance industry for some years. In 2016, 73% of Non-Life, 85% of Life and roughly 64% of total premiums have been generated by the top ten players which is an indicator of the extent of concentration, making it increasingly difficult for smaller companies to operate in the market. On the other hand, following the surge in investments and important transactions in previous years, interest of international capital in the Turkish market continued to remain limited in 2016 as it did in 2015.

Adverse results especially in Land Vehicles Liability, together with the newly introduced regulations which continue escalating liabilities of insurers, make it increasingly difficult to obtain adequate reinsurance protection in this line and puts growing pressure on companies in their operations, particularly in the context of capital adequacy requirements. Downward movement in policy premiums starting with the last quarter of 2016 and the expectation of this trend to continue throughout 2017, signals a greater challenge for the companies in terms of their technical results in the forthcoming period.

Premium Income of the Market

Lines	2015 Premium Income (TL)	Share (%)	2016 Premium Income (TL)	Share (%)	Change (%)
Casualty	1,196,577,633	4.39	1,431,582,588	4.04	19.64
Health/Sickness	3,436,530,446	12.60	4,226,078,010	11.92	22.98
Land Vehicles	5,551,397,549	20.36	6,170,691,462	17.41	11.16
Railway Vehicles	16,835	0.00	11,068	0.00	(34.26)
Air Vehicles	75,365,723	0.28	105,544,386	0.30	40.04
Sea Vehicles	176,889,820	0.65	177,523,623	0.50	0.36
Transport	534,078,929	1.96	549,455,622	1.55	2.88
Fire and Natural Disasters	4,391,225,608	16.11	4,827,636,262	13.62	9.94
General Damages	2,978,132,377	10.92	3,498,930,670	9.87	17.49
Land Vehicles Liability	7,486,398,536	27.46	12,931,210,415	36.48	72.73
Air Vehicles Liability	123,098,712	0.45	128,611,351	0.36	4.48
Sea Vehicles Liability	16,758,157	0.06	22,117,064	0.06	31.98
General Liability	758,010,417	2.78	816,065,370	2.30	7.66
Credit	185,239,267	0.68	171,623,322	0.48	(7.35)
Fidelity Guarantees	29,154,217	0.11	30,392,023	0.09	4.25
Financial Losses	226,583,127	0.83	234,860,838	0.66	3.65
Legal Protection	95,863,842	0.35	123,119,421	0.35	28.43
Support	3,165,708	0.01	2,535,191	0.01	(19.92)
Total Non-Life	**27,264,486,899**	**87.88**	**35,447,988,684**	**87.55**	**30.02**
Life	**3,761,410,730**	**12.12**	**5,038,808,257**	**12.45**	**33.96**
General Total	**31,025,897,629**	**100.00**	**40,486,796,941**	**100.00**	**30.49**

Source: Insurance Association of Turkey

Global Reinsurance Market Outlook in 2016

Global Reinsurance capital is USD 595 billion at the end of 3rd quarter 2016.

Soft market conditions prevailing in recent years continued across most classes and geographies. However there was considerable slowdown in rate reductions in January 2017 renewals, as most reinsurers were no longer willing to be as flexible as in previous years due to continuously deteriorating profit margins. Shortfalls in placement and re-pricing of firm order terms to finalize placements were not uncommon and some reinsurers refused to quote below risk adjusted flat pricing.

Reinsurance capital including alternative capital provided in the form of cat bonds, side-cars and ILWs, has reached an historical record of USD 595 billion at end of third quarter 2016, up by more than 5% from the year-end 2015. Traditional reinsurance capital grew by 4.7%, reflecting still solid earnings and unrealized gains on bond portfolios as well as new capital provided by recent entrants from rapidly developing markets like China and India. The main driver for the increase in alternative capital which stood roughly at USD 78 billion at the end of September 2016 was the notable growth in collateralized reinsurance. On the other hand, there was virtually decline in capital from cat bonds.

Overall demand for reinsurance also showed growth, though remaining limited with certain regions and lines of business. It was mainly in the US and Europe, where a number of insurers increased their property catastrophe purchase to have greater capital relief under new regulatory requirements and rating agency thresholds while terms and conditions were still favorable. There was an increase in multi-year deals as well, reflecting the tendency of buyers and sellers to lock capacity against future market developments. Other lines, where demand showed growth were mortgage, cyber liability and retroactive covers, largely driven by insurers' aim to increase capital efficiency and protect earnings.

The pace of M&A activity slowed down significantly in the first nine months of 2016, but picked up strongly in the last quarter. Consolidations announced in 2016 were AmTrust Financial acquiring ANV Holdings and Canada Pension Plan Investment Board buying Ascot, both deals being completed in November 2016; followed by Sompo Holdings acquiring Endurance, Shenzhen Holdings acquiring Asia Capital Re, Argo Group buying Ariel Re, Liberty Mutual purchasing Ironshore and Fairfax acquiring Allied World; all transactions expected to close in the first half of 2017. M&A activity is likely to continue as companies increasingly feel the need to improve their earnings, capital utilization and operational efficiency by means of increasing scale and establishing stronger client relationships through diversified products, channels and geography.

After a few benign years in a row, natural catastrophe losses in 2016 made it the sixth costliest year on record. Insured cat losses reached circa USD 50 billion with 35% increase compared to the previous year, while economic losses are estimated to be around USD 175 billion.

Costliest events of 2016 were the Kumamoto Earthquake occurring in Japan in April and floods in China in June and July, each resulting USD 38 billion and USD 20 billion economic losses. However given lower penetration in Asia, insured amounts remained relatively small at USD 5.5 billion and USD 400 million respectively.

The US and Canada also experienced above average nat cat activity. The most significant insured loss in the US was Hurricane Matthew, being the costliest US hurricane since Sandy. With overall losses totaling USD 10.2 billion, expected cost to insurance is estimated around USD 4 billion. Hailstorm affecting Texas in April generated around USD 3.5 billion economic and USD 3 billion insurance loss. Another major US event was the Louisiana Floods in August resulting with USD 10 billion loss, circa USD 2 billion of which was covered by insurance. Historic Fort McMurray wildfires in Canada in May destroying nearly 10% of the city generated an overall economic loss of USD 4 billion and the estimated insured loss is USD 2.8 billion.

Storm systems Elvira and Friederike effecting Europe in May and early June, resulting with flash floods in Germany and France caused around USD 6 billion economic loss, around half of which was insured.

On the other hand, the impact of the 7.8 magnitude earthquake on New Zealand's South Island in November on insurance industry is expected to exceed USD 2 billion.

With the current level of reinsurance capacity, uptick in demand, increased loss activity which had only localized impact and still positive but slightly deteriorating results of reinsurers, terms and conditions continued to soften albeit at a notably slower pace. Price reductions remained restricted in the US this renewal given the capital intensive nature of some classes and substantial rate declines in previous years. Rates for international business were generally more competitive, although pricing behavior showed great variations depending on territory, loss experience, line of business and clients. Major reinsurers were inclined to focus on their core clients and increasingly implemented client specific solutions and pricing to remain preferred partners in the current competitive environment.

For the US property cat following previous years' compound rate reductions, risk adjusted premium reductions were very limited, only at lower single digits, and rates were more or less flat in Florida renewals. Due to regulatory requirements and rating agency thresholds, there was growing demand for higher top end limit in existing programs and mostly larger reinsurers were able to benefit from these additional capacity purchases by their core clients. Loss-free cat program rates were between flat to 5% down, per risk covers also showing a similar trend, whereas loss impacted programs experienced 5% to 15% rate increases. Pro-rata treaty commissions were flat to 2% down.

2016 was an active year for Canada in terms of nat cat losses, especially emanating from non-modelled perils. Nonetheless rate increases on loss impacted layers were mitigated by overcapacity. Loss-free cat program and also per risk cover rates were between flat to 5% down. Rates were up by 15% to 30% in loss impacted risk or cat programs. Additional top end limit purchases continued in Canada with companies making gradual increases until reaching a 1 in 500 year earthquake PML before 2022 in line with regulatory requirements.

Global Reinsurance Market Outlook in 2016

There was slowdown in rate reductions across most classes and geographies in January 2017 renewals.

Interest of capacity providers and reinsurers in Latin America persisted leading to continuation of downward pressure on rates especially in cat Programs. Pro-rata capacity was also abundant. While cat rates declined by 5% - 12.5%, commissions in pro-rata treaties were stable to 2 points up.

In Europe, property cat rates continued to decline, although at a slower pace. Buyers with Solvency II, rating agency and/or capital efficiency considerations tended to buy top end protections, fill coverage gaps or opt for multi-year deals or retrospective covers. There were differing views of risk, with some reinsurers reducing and others gaining larger market share resulting with a greater fragmentation in pricing. Generally Cat XL Program rates showed reductions by 4% to 6% on risk adjusted basis, while Risk XL Programs were flat to 5% down. Pro-rata commissions largely depended on individual treaty performance.

There was further broadening in terms and conditions in Middle East and North Africa. Pro-rata treaties remained attractive as reinsurers wanted to maintain and increase their premium volume from these markets. Commissions were up by 1% to 2.5%. Property cat rates were down by 10% in loss free and up by 10% in loss impacted Programs, while Risk XL pricing depending on the claims experience ranged between 5% up to 5% down.

In Australia and New Zealand, rate reductions and softening of conditions were dependent on perception of pricing adequacy and loss experience. Nonetheless there was an oversupply of capacity which was also exacerbated by consolidations on the primary side Loss-free Cat XL Programs saw risk adjusted premium reductions of 2.5% to 7.5%, whereas loss impacted Programs experienced increases up to 15%. There was still a demand for multi-year capacity as well as additional natural catastrophe covers due to the regulatory requirements to purchase vertical coverage up to 200 year return period in Australia and up to 1000 year return period in New Zealand from 2017 onwards. Pro-rata commission rates were flat to 1 point up.

Pricing was inconsistent in Asia Pacific depending on territory and client and also on the strategies of reinsurers. Pro rata capacity was tighter in 2017 with flat commission levels and increased event limits in treaties. There was abundant capacity for XL Programs which were largely over-placed.

Retrocession pricing was comparably firmer with limited new capacity and larger demand from buyers for additional capacity especially for tail risk. There was increased concern on non-modelled perils following Fort McMurray wildfires. Loss-free Cat Program rates were flat to 5% down, while loss impacted Programs saw 7.5% to 10% rate increases. Pure Risk XL rates were more competitive and pro rata terms were generally stable.

Turkish Reinsurance Market and Milli Re in 2016

Absence of significant losses combined with positive technical results from reinsurance treaties facilitated smooth renewals for 2017.

2017 renewal of proportional and non-proportional reinsurance agreements of insurance companies operating in Turkey were completed smoothly.

Insured global catastrophe losses reached roughly USD 50 billion in 2016, showing a significant increase when compared to the USD 37 billion level in 2015 and were recorded as the highest insured loss figure since 2012. Although they still remain well below the figure of 2011 (USD 134 billion), increased loss activity in 2016 led to a relative slowdown in ongoing rate reductions in catastrophe pricing.

Despite the notable slowdown, terms and conditions continued to soften on a global scale due to still ample reinsurance capacity against slightly higher demand from buyers trying to benefit from prevailing soft market conditions by buying more reinsurance in 2016, as well as continued positive results of reinsurers. These developments were also prevalent in the Turkish market impacting the behavior of reinsurance buyers and had positive implications on the amount of cover purchased as well as the related cost.

A noteworthy development in our market was the change in the reinsurance structure of an insurance company that switched from proportional to non-proportional in respect of its risk-based protection in 2017. Accordingly, total number of companies protecting their risk portfolios by means of non-proportional Programs increased to 6 from 5 last year. On the other hand, rest of the players in the market continued to protect their risk portfolios by proportional bouquet treaties in 2017.

Absence of significant risk or cat losses in 2016 as well as positive technical results from proportional and non-proportional treaties were main factors facilitating placements of reinsurance Programs. Milli Re participated in proportional bouquet treaties of 21 insurance companies, leading 15, with a market share of 27% in 2017. Milli Re has continued to participate in the Programs of 4 companies, obtaining their risk protections via Excess of Loss agreements as last year.

There was no significant change in the composition of premium generated by proportional and non-proportional reinsurance agreements which Milli Re participated in 2017. The split by lines was as follows; Fire (51.5%), Marine (7.5%), Accident (11%), Engineering (28%) and Land Vehicles and Land Vehicles Liability (2%). Premium volume from proportional and non-proportional reinsurance agreements is expected to increase by about 15% in 2017.

In view of the factors indicated above, the market confronted with no difficulty during 2017 renewal of Cat XL Programs, which are purchased for the protection of risks retained under Fire and Engineering accounts against natural catastrophes such as earthquakes, flood, and storms. Vertical limits of these agreements are determined on the basis of earthquake exposure of companies in Istanbul, Key Earthquake Zone. Given around 16% increase in the retained earthquake aggregates of companies in this zone compared to 2016 and the change of one company's risk protection from proportional to non-proportional, total Cat XL cover for the Turkish market increased to Euro 5.9 billion, while total premium paid in return for this cover was Euro 98 million. Accordingly, some risk-adjusted reduction was observed in the cost of Catastrophe Excess of Loss Programs.

Milli Re's average share in 2017 Catastrophe Excess of Loss Programs is around 7%.

Financial Strength Figures

Financial Ratios (%)	2012	2013*	2014*	2015	2016
1. Capital Adequacy Ratios					
Gross Premiums/Shareholders' Equity	157	109	104	84	70
Shareholders' Equity/Total Assets	37	43	42	45	47
Shareholders' Equity/Net Technical Provisions	64	80	79	92	96
2. Asset Quality and Liquidity Ratios					
Liquid Assets/Total Assets	59	55	57	56	53
Liquidity Ratio**	157	152	156	150	150
Current Ratio	117	119	118	118	120
Premium and Reinsurance Receivables/Total Assets	10	9	8	7	6
3. Operational Ratios					
Retention Ratio	90	86	86	88	89
Paid Claims/Paid Claims+Outstanding Claims	53	47	44	43	36
4. Profitability Ratios					
Gross					
Loss Ratio	70	69	69	81	74
Expense Ratio	26	29	28	28	31
Combined Ratio	96	98	97	109	105
Net					
Loss Ratio	76	78	78	88	79
Expense Ratio	28	33	32	32	34
Combined Ratio	104	111	110	120	113
Profit Before Tax/Gross Written Premiums	10	18	3	13	14
Gross Financial Profit/Gross Written Premiums	-	17	3	16	7
Technical Profit/Gross Written Premiums	10	1	-	(3)	7
Profit Before Tax/Average Total Assets	6	9	1	5	5
Profit Before Tax/Average Shareholders' Equity (Except Profit)	19	25	4	15	11

* 2013 and 2014 are restated.
** Due to the change in calculation methodology for Liquidity Ratio, ratios calculated for 2012-2014 have been revised.

Assessment of Financial Strength, Profitability and Solvency

Milli Re generated TL 930 million of premium in 2016, with year-on-year decrease of 6.7%. Paid claims declined by TL 92 million and amounted to TL 572 million.

Company's Cash and Financial Assets correspond to 53% of Total Assets. Owing to its strong liquidity, and the balanced maturity distribution of invested assets, Milli Re fulfilled all of its legal and commercial obligations without confronting any financial difficulty.

Details on technical results are presented in the "Milli Re Technical Results in 2016" section.

Assessment of the Company Capital

Company's capital adequacy is calculated in accordance with the principles set out in the "Regulation on the Measurement and Evaluation of Capital Adequacy of Insurance, Reinsurance and Pension Companies" published in the Official Gazette issue 29454 dated 23 August 2015.

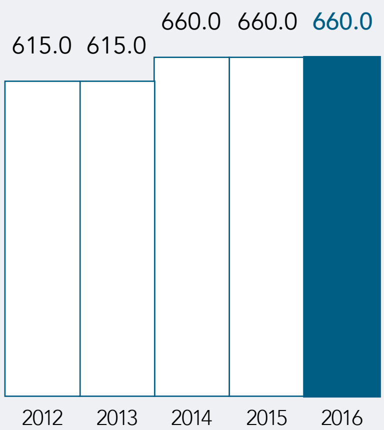
According to the calculation based on the principles specified by the Regulation, Milli Re had a surplus of TL 728.5 million as at end of 2016.

The Company has sufficient shareholders' equity to cover liabilities that might result from its existing and potential risks.

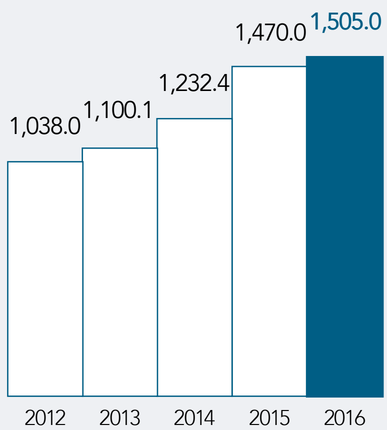
Capital Adequacy (TL million)	2014*	2015	2016
Required Capital	319.7	342.8	366.0
Available Capital	652.9	920.8	1,094.5
Capital Adequacy Result	333.2	578.0	728.5

* Capital Adequacy for 2014 is recalculated.

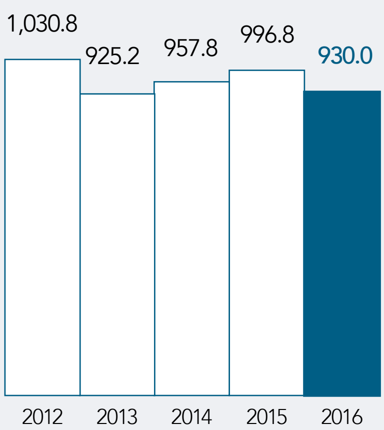
Paid-up Capital (TL million)



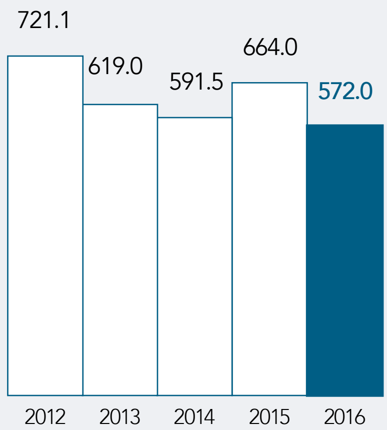
Liquid Assets (TL million)



Premium Income (TL million)



Paid Claims (TL million)



Milli Re Technical Results in 2016

Milli Re's premium production decreased by 6.7% to circa TL 929,965,931 in 2016. 75% of the total premium was generated from local business and 25% from international operations. There was no significant change in the composition of the portfolio, when compared with 2015, whereby the corresponding ratios were 74% and 26%.

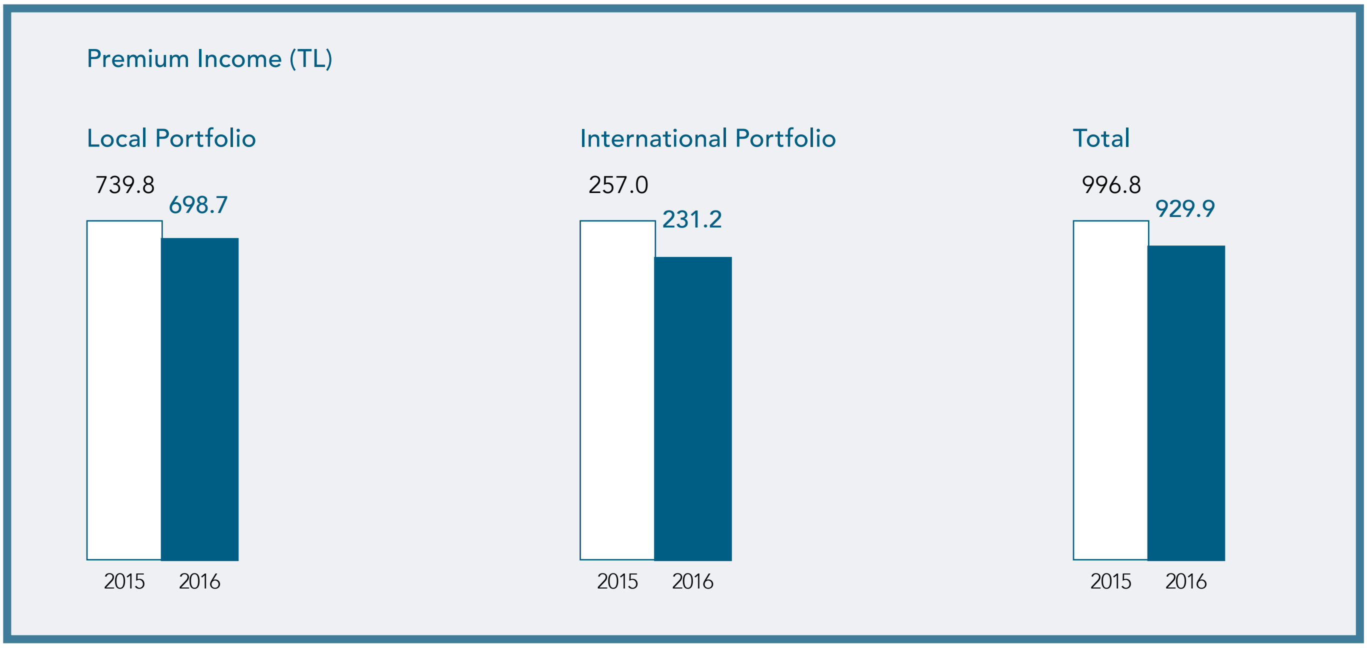
Milli Re's premium income from local operations decreased by 5.6% on an annual basis, as a result of a number of factors including the Company's discontinuation of its reinsurance relationship with a few companies due to various reasons, the decision to significantly reduce involvement in the reinsurance Program for TARSIM (Agricultural Insurance Scheme), negative impact of ongoing price reductions in Cat XL reinsurance Programs of Turkish insurance market players and cancellation of some excess of loss agreements provided for Land Vehicles Liability reflecting reduced appetite for this line of business.

Premium from the international portfolio decreased by 10% due to prevailing soft market conditions as well as some changes in the structure of this portfolio.

Milli Re's technical operations in 2016 yielded a profit of TL 66.3 million, due to a number of factors including reduction in paid claims, improvement in net loss ratio as a result of the change in the provision for unearned premiums, as well as the positive impact of investment income transferred from non-technical accounts.

Gross Premium Income and Branchwise Breakdown (TL)

Branches	2015	Share (%)	2016	Share (%)	Change (%)
Casualty	32,371,002	3.31	43,111,183	4.73	33.18
Health/Sickness	18,321,685	1.88	7,535,875	0.83	(58.87)
Land Vehicles	15,688,267	1.61	16,656,530	1.83	6.17
Railway Vehicles					
Air Vehicles	303,658	0.03	564,684	0.06	85.96
Sea Vehicles	30,893,622	3.16	28,387,945	3.12	(8.11)
Transport	46,311,839	4.74	35,634,493	3.91	(23.06)
Fire and Natural Disasters	435,561,347	44.58	440,311,195	48.36	1.09
General Damages	318,608,928	32.61	252,815,768	27.76	(20.65)
Land Vehicles Liability	24,446,055	2.50	37,555,722	4.12	53.63
Air Vehicles Liability	-	-	-	-	-
Sea Vehicles Liability	51,035	0.01	18,874	0.00	(63.02)
General Liability	52,634,513	5.39	46,549,782	5.11	(11.56)
Credit	67,721	0.01	979	0.00	(98.55)
Fidelity Guarantee	629,517	0.06	553,433	0.06	(12.09)
Financial Losses	1,005,424	0.10	955,021	0.10	(5.01)
Legal Protection	106,919	0.01	104,392	0.01	(2.36)
Total Non-Life	977,001,532	100.00	910,755,876	100.00	(6.78)
Total Non-Life	**977,001,532**	**98.02**	**910,755,876**	**97.93**	**(6.78)**
Life	**19,755,698**	**1.98**	**19,210,055**	**2.07**	**(2.76)**
General Total	**996,757,230**	**100.00**	**929,965,931**	**100.00**	**(6.70)**



Premium Income (TL)

Branches	2012	2013	2014	2015	2016
Casualty	20,232,092	22,937,900	25,697,737	32,371,002	43,111,183
Health/Sickness	49,617,380	24,283,988	20,497,465	18,321,685	7,535,875
Land Vehicles	69,215,017	16,693,706	13,663,229	15,688,267	16,656,530
Railway Vehicles	-	-	-	-	-
Air Vehicles	547,007	914,270	587,311	303,658	564,684
Sea Vehicles	33,509,000	26,903,870	25,923,816	30,893,622	28,387,945
Transport	41,531,057	41,088,970	40,866,724	46,311,839	35,634,493
Fire and Natural Disasters	390,629,537	420,382,014	423,759,684	435,561,347	440,311,195
General Damages	300,549,820	269,552,559	293,964,844	318,608,928	252,815,768
Land Vehicles Liability	60,708,247	32,664,040	42,190,723	24,446,055	37,555,722
Air Vehicles Liability	-	-	-	-	-
Sea Vehicles Liability	108,210	71,286	55,132	51,035	18,874
General Liability	40,386,247	44,643,344	44,554,626	52,634,513	46,549,782
Credit	201,612	103,791	171,372	67,721	979
Fidelity Guarantee	1,320,041	484,452	499,932	629,517	553,433
Financial Losses	1,582,337	2,600,254	1,186,278	1,005,424	955,021
Legal Protection	155,754	83,403	119,530	106,919	104,392
Total Non-Life	**1,010,293,358**	**903,407,847**	**933,738,403**	**977,001,532**	**910,755,876**
Life	**20,487,622**	**21,743,651**	**24,082,962**	**19,755,698**	**19,210,055**
General Total	**1,030,780,980**	**925,151,498**	**957,821,365**	**996,757,230**	**929,965,931**

Milli Re Technical Results in 2016

Technical Profitability (TL)

Branches	2012	2013	2014	2015	2016
Casualty	(968,668)	1,641,447	2,306,221	9,803,094	27,027,266
Health/Sickness	6,424,875	3,409,797	1,815,894	(6,434,021)	(647,733)
Land Vehicles	(3,176,588)	(7,139,051)	1,040,497	(4,432,171)	2,717,711
Railway Vehicles	-	-	-	-	-
Air Vehicles	1,290,563	714,229	715,726	(415,726)	847,538
Sea Vehicles	6,221,438	6,795,787	(12,072,728)	1,645,617	6,389,882
Transport	14,011,402	2,475,216	13,430,888	1,801,192	12,583,486
Fire and Natural Disasters	32,994,001	23,478,949	100,962,221	40,114,600	79,364,312
General Damages	27,479,708	2,823,727	30,852,994	(17,015,577)	2,945,551
Land Vehicles Liability	10,660,977	(34,975,758)	(69,278,192)	(52,580,639)	(31,423,695)
Air Vehicles Liability	-	(2,256)	615	-	-
Sea Vehicles Liability	(101,791)	66,778	21,020	31,147	(449,017)
General Liability	3,345,969	5,708,723	(72,961,039)	(5,228,951)	(30,331,283)
Credit	(126,106)	(36,838)	(959,123)	336,636	(50,491)
Fidelity Guarantee	687,052	(124,846)	(220,253)	(2,144,703)	(979,520)
Financial Losses	(225,347)	935,782	1,428,883	370,538	(283,632)
Legal Protection	(184,522)	526,506	115,171	86,918	79,424
Total Non-Life	**98,332,963**	**6,298,192**	**(2,801,205)**	**(34,062,046)**	**67,789,799**
Life	**6,769,639**	**4,420,486**	**5,329,457**	**2,716,662**	**(1,499,935)**
General Total	**105,102,602**	**10,718,678**	**2,528,252**	**(31,345,384)**	**66,289,864**

Technical Profitability Ratios (%)

	2012	2013	2014	2015	2016
Gross					
Loss Ratio	70	69	69	81	74
Expense Ratio	26	29	28	28	31
Combined Ratio	96	98	97	109	105
Net					
Loss Ratio	76	78	78	88	79
Expense Ratio	28	33	32	32	34
Combined Ratio	104	111	110	120	113

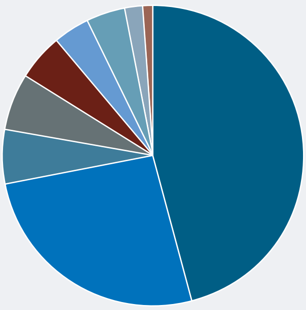
Local Portfolio

Turkish insurance industry produced nearly TL 40.5 billion premium in 2016, with a year-on-year growth of 30.5%. Land Vehicles Liability was the main driver in Non-Life with a premium increase of 73%. Life premiums also showed a robust 34% growth, indicating that 2016 was a positive year for the whole industry in respect of premium income.

The composition of Milli Re's local portfolio is strikingly different from the premium split of the market. Whilst 88% of market premium is generated by Non-Life and the remaining 12% from Life, 98% of Milli Re's local premium income is from Non-Life and only 2% from Life.

Accordingly, it is more appropriate to make an assessment on Milli Re's premium income within the context of its own strategy rather than on the basis of developments within the industry. Milli Re's premium income from the local portfolio decreased by 5.6% in 2016, due to some factors including the termination of relationship with a number of companies following the cancellation of their license by the Treasury, discontinuation of reinsurance relationship with a few companies, decision to significantly reduce involvement in the reinsurance Program for TARSIM (Agricultural Insurance Pool), cancellation of some excess of loss agreements provided for Land Vehicles Liability and the negative impact of ongoing price reductions in Cat XL reinsurance Programs of Turkish insurance market players which protect net retentions of insurance companies in Fire and Engineering.

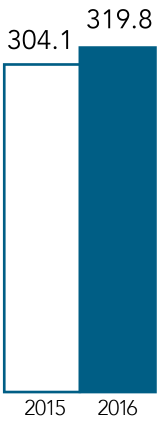
Breakdown of Local Premium (%)



Local Portfolio	2012	2013	2014	2015	2016
Premium (TL)	782,190,454	703,516,548	721,053,209	739,801,769	698,726,549
Share in Total Premium (%)	75.9	76.0	75.3	74.2	75.1

Local Portfolio

Premium Income (TL mn)



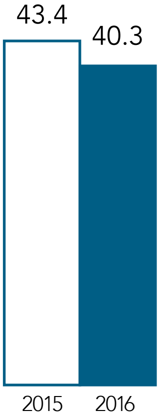
Fire

Fire has the highest share in Milli Re's local premium income. Accounting for 41% and 46% of total local premium in 2015 and 2016, respectively, it has shown a modest 5% year-on-year growth. Although share of Fire in Company's overall premiums has shown an increase, the production in this line fell short of expectations; not only reflecting the market trend, but also the Company's strategy to discontinue its reinsurance relationship with a few cedants due to various reasons and the continued negative impact of price reductions in Cat XL reinsurance Programs of Turkish insurance market players which protect net retentions of insurance companies against natural catastrophes.

Technical profit in this line increased from TL 17.6 million to TL 91.9 million as a result of the decrease in paid claims, the reduction in the cost of retrocession as well as the positive impact of investment income transferred from non-technical accounts.

The Company generated 72.5% of its total premium in Fire from local business.

Profitability Ratios in Fire (%)	2015	2016
Gross		
Loss Ratio	59	52
Expense Ratio	26	27
Combined Ratio	85	79
Net		
Loss Ratio	73	56
Expense Ratio	31	32
Combined Ratio	104	88
Technical Profit/Loss (TL mn)	**17.6**	**91.9**



Marine

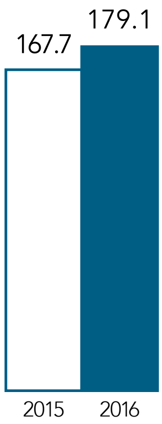
Marine, comprised of Cargo and Hull, accounted for 6% of the Company's local premium income, with no change in its share in the overall premium compared to the previous year. 7% decrease in the premium income from this line is a reflection of the scanty 2% market growth directly related with the economic performance of the country.

In spite of reduced premium income, technical profitability improved by 25% and profit from this line materialized as TL 15.6 million, due to improved loss ratio reflecting the positive impact of outstanding claim and unearned premium reserves brought forward and the contribution of investment income transferred from non-technical accounts.

63% of the Company's total premium in this line was generated from local business.

Profitability Ratios in Marine (%)	2015	2016
Gross		
Loss Ratio	55	40
Expense Ratio	34	32
Combined Ratio	89	72
Net		
Loss Ratio	48	43
Expense Ratio	37	35
Combined Ratio	85	78
Technical Profit/Loss (TL mn)	**12.4**	**15.6**

Premium Income
(TL mn)



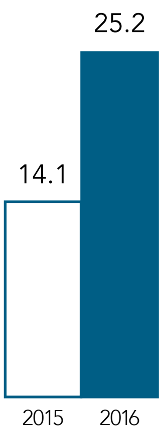
Engineering

Premium production in Engineering, the second largest line which accounts for 26% of the local premium income, increased by 7% in contrast with the Turkish market where there was no growth. Nearly 25% decline in market premium from Contractors All Risks / Erection All Risks reflecting the slowdown in investments and lack of large projects had little effect on Engineering treaties Milli Re participated, as these high sum insured risks which require substantial reinsurance capacity from international markets are predominantly ceded away on facultative basis. On the other hand, with the contribution of premium generated from hydroelectric power plants and windfarms which are becoming increasingly widespread, Machinery Breakdown and Electronic Equipment, together accounting for 75%, were able to grow notably in 2016. Since reinsurance requirement can easily be fulfilled by the local market, there is no need for reinsurance capacity from international markets for these segments. Therefore, market developments were more readily translated into treaties and Milli Re's premium income in general has shown a better trend when compared to the market.

Engineering recorded TL 24.2 million profit in 2016 in contrast with the loss figure of TL 6.8 million in 2015, as a result of more favorable impact of investment income transferred from non-technical accounts, as well as the decrease in paid claims and the reduction in the cost of retrocession.

90.6% of the Company's total premium in this line was generated by local portfolio.

Profitability Ratios in Engineering (%)	2015	2016
Gross		
Loss Ratio	63	58
Expense Ratio	30	29
Combined Ratio	93	87
Net		
Loss Ratio	77	67
Expense Ratio	37	34
Combined Ratio	114	101
Technical Profit/Loss (TL mn)	**(6.8)**	**24.3**



Land Vehicles Liability

Land Vehicles Liability, increasing its share from 2% to 4% in Milli Re's local premiums, generated TL 25 million premium income, with a growth rate of 78% compared to last year. The main reason for the upsurge in premiums in this line was the base effect due the substantial drop of premium from TL 32.2 million in 2014 to TL 14.1 million in 2015. In addition to this, although the Company cancelled a number of excess of loss agreements provided for Land Vehicles Liability in 2016, additional premiums charged in 2016 in respect of previous years also made some contribution to the increase in premiums in this line.

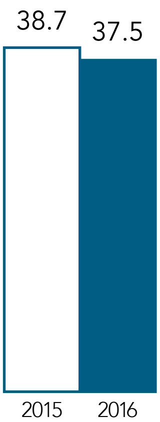
TL 56 million technical loss figure of the previous year came down substantially to TL 41 million in 2016 as a consequence of the improvement in the loss ratio and the positive impact of the change in the calculation of unexpired risk reserve in accordance with the "Circular Letter regarding the Reserve for Unexpired Risks" published by the Treasury on 11 November 2016.

67% of the Company's total premium production in Land Vehicles Liability emanates from local business.

Profitability Ratios in Land Vehicles Liability (%)	2014	2015
Gross		
Loss Ratio	494	291
Expense Ratio	1	11
Combined Ratio	495	302
Net		
Loss Ratio	492	291
Expense Ratio	1	11
Combined Ratio	493	302
Technical Profit/Loss (TL mn)	**(56.0)**	**(41.0)**

Local Portfolio

Premium Income
(TL mn)



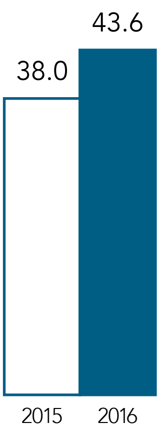
General Liability

General Liability premium decreased by 3% in 2016, although its share in Milli Re's total local premium income remained unchanged at 5% vis-à-vis 2015. Reduction in the premium from this line was an expected development given the modest 6% market growth and the measures taken by Milli Re in urging insurance companies to retain more in this segment.

Despite the decrease in paid claims compared to the previous year, outstanding loss reserves from General Liability, which constitute 27% of the total outstanding loss reserves of the Company, increased by 31% and resulted with a technical loss of TL 34.6 million in 2016.

The Company generated 80.7% of its total premium production in General Liability from its local operations.

Profitability Ratios in General Liability (%)	2015	2016
Gross		
Loss Ratio	137	173
Expense Ratio	35	38
Combined Ratio	172	211
Net		
Loss Ratio	133	168
Expense Ratio	35	38
Combined Ratio	168	206
Technical Profit/Loss (TL mn)	**(10.1)**	**(34.6)**



Accident (Excluding General Liability And Land Vehicles)

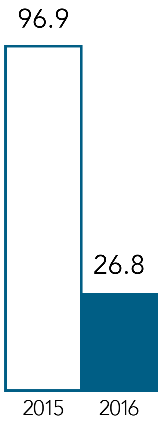
Comprised of segments like Personal Accident, Compulsory Personal Accident for Buses, Theft and Glass Breakage, premium production of this line grew by 15% compared to the previous year and its share in local premiums increased from 5% to 6%. Market premium from these lines also showed a similar trend over 2016 and grew by 15%.

The main reason for the considerable improvement in technical profit is the positive impact of the technical provisions brought forward on the loss ratio.

The Company generated 65.4% of its total premium production in Accident (Excluding General Liability and Land Vehicles) from local business.

Profitability Ratios in Accident (Excluding General Liability and Land Vehicles) (%)	2015	2016
Gross		
Loss Ratio	72	50
Expense Ratio	32	35
Combined Ratio	104	85
Net		
Loss Ratio	71	51
Expense Ratio	32	35
Combined Ratio	103	86
Technical Profit/Loss (TL mn)	**5.5**	**18.8**

Premium Income
(TL mn)



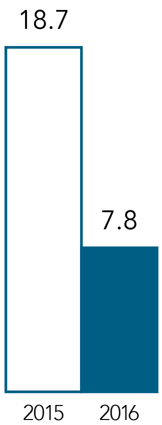
Agriculture

Following the Company's decision to substantially reduce its involvement in the reinsurance agreement of TARSIM (Agricultural Insurance Pool) which accounts for nearly all of its agriculture premium, income from this line declined by 72% in 2016. Consequently the share of agriculture in the local portfolio declined to 4% from 13% of the year before.

Although reduced share in the reinsurance agreement of TARSIM had a mitigating effect on both premiums and paid losses in 2016, loss ratio in this line was higher than the previous year due to some 257% increase in the outstanding loss reserve reflecting the adverse impact of IBNR. In addition to this, due to the negative movement in the investment income transferred from non-technical accounts, technical loss in this line was TL 12.6 million.

81.5% of the Company's total premium production in Agriculture was generated from the local portfolio.

Profitability Ratios in Agriculture (%)	2015	2016
Gross		
Loss Ratio	79	101
Expense Ratio	24	47
Combined Ratio	103	148
Net		
Loss Ratio	79	101
Expense Ratio	24	47
Combined Ratio	103	148
Technical Profit/Loss (TL mn)	**3.8**	**(12.6)**



Health/Sickness

Health and Sickness is a line where Milli Re's has limited appetite in view of the negative results in the past. In 2016, there was no change in this strategy and the expiring portfolio was maintained. Premium production in this line decreased by 58% compared to the year and the share in the Company's total local premium income of business was 1%.

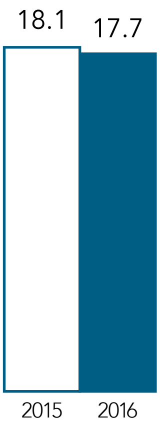
Technical result in this line was positive this year due to improved loss ratio as a result of the positive of outstanding loss and unearned premium reserves brought forward, despite the increase in expense ratio due to the application of provisional commission.

All Health/Sickness premium was generated by local operations.

Profitability Ratios in Health/Sickness (%)	2015	2016
Gross		
Loss Ratio	125	86
Expense Ratio	7	27
Combined Ratio	132	113
Net		
Loss Ratio	125	86
Expense Ratio	7	27
Combined Ratio	132	113
Technical Profit/Loss (TL mn)	**(5.1)**	**0.1**

Local Portfolio

Premium Income (TL mn)



Life

Premium production in Life, constituting nearly 2% of Milli Re's local premium income, decreased by 2.4% in 2016 and was realized at TL 17.6 million. As a consequence of the increase in paid and outstanding losses related to unemployment insurance, as well as the adverse effect of foreign exchange movements on loss reserves, Life registered TL 2 million technical loss.

Local business accounted for 92.1% of the Company's total premium production in Life.

Profitability Ratios in Life (%)	2015	2016
Gross		
Loss Ratio	40	65
Expense Ratio	48	51
Combined Ratio	88	116
Net		
Loss Ratio	39	64
Expense Ratio	52	54
Combined Ratio	91	118
Technical Profit/Loss (TL mn)	**2.2**	**(2.0)**

International Portfolio

Milli Re started to take more active role in international reinsurance markets since 2006 with the aim to add diversity to the portfolio in line with the strategy of sustainable growth with focus on profitability.

A significant portion of the developing international portfolio is made up of business from countries that fall under the scope of FAIR Reinsurance Pool which has been managed by Milli Re since its establishment in 1974. Additionally, having started its operations in 2008, Milli Re Singapore Branch continues to work efficiently in the Far East, a region which represents significant potential.

On the other hand, Milli Re has further enhanced diversification and geographical expansion in the international portfolio by providing reinsurance capacity to a number of Continental European players and Lloyd's Syndicates which participate in the retrocession Programs of the Company.

Overseas business is generally underwritten by five main units:

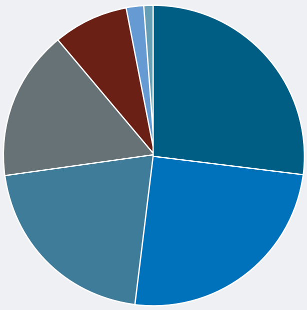
- Business from emerging markets (General Acceptances)
- Business from developed markets (Special Acceptances)
- Singapore Branch business
- FAIR/ECO/TRP business
- Business from Turkish Republic of Northern Cyprus (TRNC)

Line of Business Breakdown of International Premiums (%)

International Portfolio	2012	2013	2014	2015	2016
Premium (TL)	248,590,527	221,634,950	236,768,156	256,955,461	231,239,381
Share in Total Premium (%)	24.1	24.0	24.7	25.8	24.9

International Portfolio

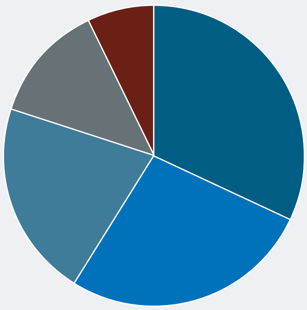
Geographic Breakdown of International Premium by Location of Ceding Companies (%)



Western Europe	27
Middle East	25
Far East	21
Eastern Europe	16
Asia	8
Africa	2
Latin America	1

*Business from Turkish Republic of Northern Cyprus (TRNC) is included in Eastern Europe.

Breakdown of International Premium by Source of Production (%)



Business from emerging markets (General Acceptances)	32
Business from developed markets (Special Acceptances)	27
Singapore Branch	21
TRNC	13
FAIR/ECO/TRP	7

Developed Markets

As part of international expansion strategy, starting from 2007, Milli Re began writing business from a few global reinsurers and select Lloyd's syndicates. This part of the portfolio corresponds to 26.5% of total international premium generated in 2016. Prevailing soft market condition and change in the portfolio structure, combined with disciplined underwriting strategies of clients under this portfolio resulted with reduction in premium. However this was to some extent offset by the dominant market position and efficiency of the ceding companies in cycle management. Although insured global catastrophe losses were significantly above the previous year, given greater contribution of losses from perils that result in lower cessions and the limited impact of these losses on reinsurance market, results from this portfolio were profitable in 2016 as well.

Common characteristics of emerging markets and developments in these markets

Emerging markets play a substantial role in Milli Re's international portfolio and share some common features including rapid economic growth, heavy investments in infrastructure, low insurance penetration and density, dominance of Non-Life business in companies' portfolios and intensive competition. Meanwhile low retention levels, widespread use of proportional reinsurance and continuous growth in available capacity are the main factors characterizing reinsurance markets in this part of the portfolio.

Some important features and developments in key emerging markets during 2016 are given below:

Middle East/North Africa

MENA (Middle East and North Africa) continues to maintain its significant position in the plans of reinsurers who want to diversify their portfolios. The potential in the region is expected grow further as the sanctions imposed to Iran are lifted gradually. 2015 data indicate that the region's insurance industry recorded an annual growth of 5.1% and reached circa USD 43 billion, which accounts for 5% of total global premium.

On the other hand, abundant reinsurance capacity reflecting increased appetite for the region stands as an obstacle against improvement in terms and conditions in favor of reinsurers. It was predominantly large claims experienced in the region over the last 2 years that prevented the situation worsening for reinsurers to some extent.

"Address Hotel" claim, which occurred in December 2015 was considered as one of the largest losses in the MENA region and was instrumental in urging leading reinsurers to take a number of remedial measures in reinsurance treaties, particularly in the United Arab Emirates. The most important change imposed was the increase in retention levels which would elevate cedants participation in claims and is expected to force them to be more selective in their underwriting. Additionally, existing PML calculations were replaced with more reliable methods and risk definitions as well as categories have been reviewed. However, these measures were not widely accepted by the market as some companies with no exposure to the loss showed considerable resistance and a number of cedants eventually changed their treaty leaders. Nonetheless, the loss formed a general consensus across the market that the rates for some risks are indeed very low and should therefore be corrected.

In Saudi Arabia, the second largest market in the region, the Monetary Agency (SAMA) has been making important revisions in the regulations for Fire, Engineering, Motor and Health in the last 3 years following the loss activity in previous years. As a result of these revisions, there was decline in loss frequencies and increase in premium volume, especially in Motor and Health, resulting technical profit in these lines in 2015. At the end of 3rd quarter 2016, profit margins almost doubled in comparison with the previous period.

Volatility in oil prices over the last few years as well as the impact of the war in Yemen influenced whole Middle East in general, but caused considerable slowdown in the Saudi Arabia's economy in particular as is heavily dependent on oil prices. The situation brought on-going projects to halt and hindered any new ones, adversely affecting the insurance market as well.

International Portfolio

Gradual withdrawal of sanctions starting in 2016 and expected to continue has made Iran an important potential in the region once again. However, the fact that the sanctions have not been removed completely, currently poses great uncertainty on potential investments in the country. In the coming years following the complete removal of sanctions, considerable increase in reinsurance demand is expected from the Iranian market.

Another significant development in the Middle East is constantly expanding M&A activity. Following the acquisition of First Insurance (Jordan) by Solidarity Group (Bahrain) in 2015, First Insurance acquired Yarmouk Insurance (Jordan) in order to obtain license for life insurance in 2016. Solidarity Group (Bahrain) bought another insurance company in Bahrain, Al Ahlia Insurance, in 2016. The latest transaction was by Arabia Insurance acquiring Falcon Insurance in Oman.

Algeria, Tunisia and Morocco continue to attract global reinsurers with their relatively higher insurance penetration and density ratios in the North Africa region. 2016 was another quiet year in respect of catastrophic losses and there was also lower risk loss activity in these markets. Consequently rates for loss-free Programs decreased by 5% to 10% across the region. In Tunisia and Morocco, even loss-impacted risk Programs saw rate declines up to 5%. In Algeria, the top premium producer in the region, there has been an increase in the frequency of risk losses in the last few years. Therefore, although 2016 was a benign year in general, rates of loss-impacted Programs increased by 10%.

In addition to rate reductions, treaty conditions also continued to change in favor of ceding companies in the region. Better reinstatement conditions, multi-year Programs and increased profit commissions were widespread. With continued pressure on the pricing of XL Programs, reinsurers strived to increase their shares in proportional reinsurance treaties in order to attain their premium targets. Lastly, although still limited in volume, there was increased number of takaful companies being established in the region.

Indian Sub-Continent

India is a very attractive market for insurance and reinsurance companies with its fast growing economy, dynamic and supportive regulators and low penetration level. There are a number of anticipated changes in the market on regulations allowing international reinsurers to open up branch offices in India following the approval of the bill to increase foreign direct investment shares in Indian companies. Following the approval of this regulation, the country's Insurance Supervision and Development Authority (IRDAI) has given clearance to Munich Re, Swiss Re, Hannover Re, SCOR and RGA to open up their branches.

Even though the latest developments are expected to induce capital flow to the country and provide expertise and practices from different parts of the world, thereby contribute to the sophistication of the market, they also cause numerous concerns and controversies. It is largely believed that the regulations allowing global reinsurers to set up branches in India and be given priority in the placement, would provide undue advantage to global players eventually leading to anti-competitive and monopolistic practices and disrupt the market.

In addition to these changes, IRDAI has also given license to the operation of ITI Re, the first private reinsurance company of India. The company is expected to start writing business starting from February 2017.

Climate change is still a major challenge for insurers and reinsurers although the market has evolved drastically in the last 10 years. Atmospheric disturbances over the last 5 years have caused serious damage to the economy and as well as the insurance market. As a result of this increase in the frequency of losses; Uttrakhand Flood in 2013, Hud-Hud and J&K Floods in 2014, Chennai Flood in 2015 and finally Vardah Cyclone in 2016 in succession, insurance companies were compelled to increase the rates for residential, commercial and industrial risks which are located in regions prone to climate losses. Especially following Chennai Floods which affected most of the Programs, whole market responded with price increases.

Pakistan being the second largest economy of the region is a very promising insurance market with its large population and circa USD 2.2 billion premium. Pakistan has recently been able to restore political stability and has not faced any large loss after the Karachi Airport terrorism attack. In 2016, a new bill on insurance law has been drafted and passed to the parliament. The proposal consists of several changes in micro insurance, takaful and regulations regarding operation of local and international reinsurers in the market.

Eastern Europe/Russia

While Eastern European economies generally continued to grow, this was not translated to the purchasing power of the population. Consequently the increase in Property and Casualty premium remained short of expectations and competitive pressures on pricing prevailed. Motor, being the main driver of premium production across the region, boosted on the contrary due to the growth in auto sales as well as the increase of Compulsory Motor Third Party Liability rates in countries such as Albania, Romania and Hungary. In 2016, there was no significant cat loss affecting the region resulting with up to 5% declines in loss-free nat cat Programs. On the other hand individual risk losses continued but with lower frequency. Rates in loss-affected risk Programs increased by up to 10% while loss-free risk Programs saw rate reductions up to 5% across the region.

Large European groups continued to dominate the region. In 2016 these groups took new steps to further grow and diversify their portfolios in the region as a remedy for the ongoing economic stagnation in the European Union; most significant developments being Axa selling its subsidiaries in Serbia and Romania to VIG Group while acquiring Liberty Mutual's Polish Property & Casualty operations in Poland, Ergo Group, following its acquisition of Credit Europe insurance company in Romania, also buying Ate insurance company in Greece - a move making Ergo Group the largest Property and Casualty insurer in the country and regional groups like PZU, Sava and VIG engaging in new M&A activities in the region.

Solvency II regulations effective in EU since 1 January 2016 have forced some insurers operating in the member countries to increase their capital levels, while authorizing regulators to follow up insurance industries more closely. This development had little impact on large insurers, but posed greater challenges for smaller insurance companies. A number of cedants were compelled to revise their reinsurance Programs, particularly increasing their vertical limits for cat risks. In addition to this, capital adequacy considerations started to affect cedants' decisions on their security, creating reluctance in maintaining reinsurers not compliant with the relevant regulations. New regulations introduced in Poland, Germany and Austria in this context has ceased almost all business with non-European Union reinsurers.

In Russia, market premium increased by 13.9% in the first half year of 2016 when compared to the same period in 2015, mainly due to two consecutive rate increases in Compulsory Motor Third Party Liability during 2015. On the other hand, severe price competition in the market, especially in Fire and Engineering continued in 2016 as well. Despite the increase in the frequency of risk losses in these lines, there was virtually no improvement in pricing with ongoing rate reductions even in loss-impacted Programs.

Due to new solvency criteria being implemented in the country lately, a large number of smaller insurers face the risk of closing down or being acquired by larger groups. In this context, the number of insurers operating in the Russian market decreased from 372 in 2015 to 257 at the end of the first 8 months of 2016 and this number is expected to fall to around 100-150 in the near future. As a result of this consolidation, nearly 70% (2014: 59%) of total insurance premium is produced by the top 10 companies in the market.

International Portfolio

Sanctions being imposed by the US and European Union resulted many players revising their reinsurance panels by including Russian and Asian reinsurers. However, more pressing was the challenge they have faced in finding reinsurance coverage for sanctioned risks. As a result, compulsory reinsurance cession became an option for the market in 2015 and thereafter, the first national reinsurance company in Russia, National Re, was established in October 2016. According to the related regulation, all companies operating in the Russian insurance market are obliged to offer minimum 10% of their reinsurance agreements to the local reinsurer and National Re is obliged to accept minimum 10% from sanctioned risks whereas it holds the right to reject non-sanctioned risks.

Far East

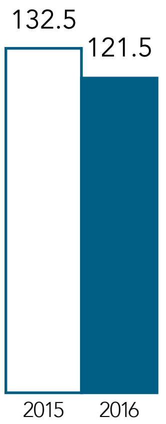
Natural catastrophes started early with the Taiwan Meinong Earthquake in February 2016 in the district of Kaoshiung, Southern Taiwan. Total insured loss is estimated at USD 780 million mainly due to high-tech companies located at the Tainan Science Park.

Subsequently, Kumamoto Earthquake in April resulted with estimated economic loss of USD 38 billion while insured losses remained around USD 5.5 billion. Majority of the claims were covered by the residential earthquake scheme which was fully reinsured domestically by the Japan Earthquake Reinsurance Company.

In September, the strongest typhoon of the year, Typhoon Meranti made landfall in Xiamen, China after passing Taiwan. Displacing 33 million people, it reportedly damaged 1,600 homes. The insured loss is estimated to exceed USD 1 billion.

Prevailing soft market conditions and slowdown in the economies, combined with increased cat activity pose even greater challenges in the region. Abundant reinsurance capacity is another factor making it more difficult for reinsurers. It has been observed that proportional treaties are no longer able to meet premium income targets and results in general continue to deteriorate.

Premium Income
(TL mn)



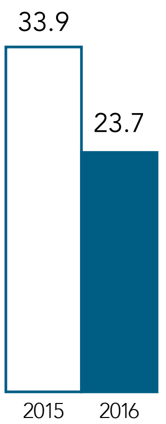
Fire

Fire premium from the international portfolio showed an 8% year-on-year reduction and was TL 121.5 million in 2016, as a result of soft market conditions as well as the impact of share reductions in existing contracts.

Although there was no significant change in paid claims and outstanding claim reserves in original currencies in comparison with the previous year, the impact of exchange rate movements particularly on outstanding claim reserves, combined with reduced premium income in this line resulted with a technical loss of TL 12.8 million.

The Company generated 27.5% of its total Fire premium from international portfolio.

Profitability Ratios in Fire (%)	2015	2016
Gross		
Loss Ratio	90	93
Expense Ratio	27	30
Combined Ratio	117	123
Net		
Loss Ratio	93	96
Expense Ratio	30	34
Combined Ratio	123	130
Technical Profit/Loss (TL mn)	**22.9**	**(12.8)**



Marine

Due to continuing soft market conditions and share reductions in a number of contracts, Marine premium from the international book decreased to TL 23.7 million in 2016.

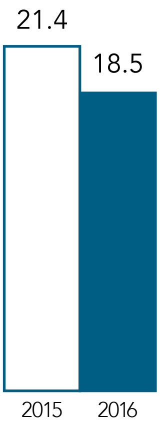
With circa 20% decline in paid claims and the positive effect of technical reserves carried forward to 2016, net loss ratio reduced to 69% and the line generated technical profit of TL 2.9 million.

37% of the Company's total Marine premiums were generated from international business.

Profitability Ratios in Marine (%)	2015	2016
Gross		
Loss Ratio	125	71
Expense Ratio	27	34
Combined Ratio	152	105
Net		
Loss Ratio	117	69
Expense Ratio	28	36
Combined Ratio	145	105
Technical Profit/Loss (TL mn)	**(8.9)**	**2.9**

International Portfolio

Premium Income
(TL mn)



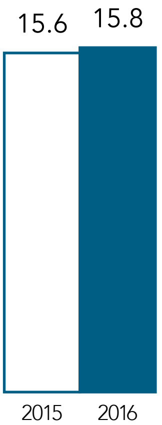
Engineering

The Company's premium production in Engineering from the international portfolio was TL 18.5 million in 2016, showing nearly 14% year-on-year reduction.

Some 15-point-improvement in the net loss ratio was the result of the decline in paid claims and also the absence of the adverse impact of Unearned Premium Reserves on technical results experienced in the previous year. Consequently technical loss in this line reduced slightly, to TL 6.3 million in 2016.

9.4% of the Company's total Engineering premium originated from international business.

Profitability Ratios in Engineering (%)	2015	2016
Gross		
Loss Ratio	104	93
Expense Ratio	33	42
Combined Ratio	137	135
Net		
Loss Ratio	122	107
Expense Ratio	38	49
Combined Ratio	160	156
Technical Profit/Loss (TL mn)	**(7.8)**	**(6.3)**



Land Vehicles (Own Damage)

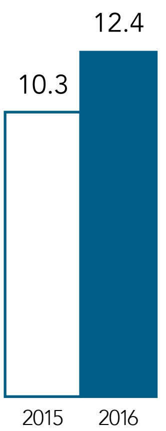
There was no major change in the premium from Land Vehicles (Own Damage) from international operations which remained at around TL 15.8 million in 2016.

As a result of the Company's gradual cut-back of reinsurance capacity in respect of poor performing lines from the local market and minimizing this portfolio, premium generated by international operations accounted for 94.7% in this line.

Technical profit of TL 2.7 million reflected the year-on-year reduction in operating expenses which led to an improvement in expense ratio and also the decline in the loss ratio in 2016.

Profitability Ratios in Land Vehicle (Own Damage) (%)	2015	2016
Gross		
Loss Ratio	77	64
Expense Ratio	46	30
Combined Ratio	123	94
Net		
Loss Ratio	75	63
Expense Ratio	49	31
Combined Ratio	124	94
Technical Profit/Loss (TL mn)	**(3.0)**	**2. 7**

Premium Income
(TL mn)



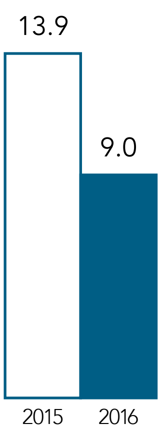
Land Vehicles Liability

Premium in this line which mainly consists of business from the Turkish Republic of Northern Cyprus grew by 20% reflecting the developments in this market.

Due to the positive impact of the Unexpired Risk Reserves carried forward, technical profit showed a year-on-year improvement and reached TL 9.6 million in 2016.

The Company generated 33% of its total Land Vehicles Liability premium from the international portfolio.

Profitability Ratios in Land Vehicles Liability (%)	2015	2016
Gross		
Loss Ratio	43	51
Expense Ratio	29	27
Combined Ratio	72	78
Net		
Loss Ratio	43	51
Expense Ratio	29	27
Combined Ratio	72	78
Technical Profit/Loss (TL mn)	**3.4**	**9.6**



General Liability

Due to decreased share in various treaties and the change in the portfolio structure, premium declined to TL 9 million in 2016.

Net loss ratio reduced to 24% in this line due to lower paid claims and the positive impact of the technical reserves carried forward to 2016. Technical profit was TL 4.3 million.

19.3% of the Company's total General Liability premium was generated from international business.

Profitability Ratios in General Liability (%)	2015	2016
Gross		
Loss Ratio	103	35
Expense Ratio	21	50
Combined Ratio	124	85
Net		
Loss Ratio	85	24
Expense Ratio	24	56
Combined Ratio	109	80
Technical Profit/Loss (TL mn)	**4.9**	**4.3**

International Portfolio

Premium Income (TL mn)

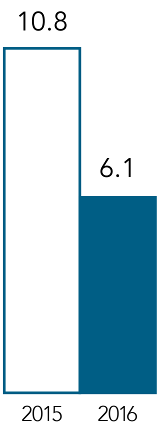
Accident (Excluding General Liability and Land Vehicles Own Damage)

Premium production in Accident from the international portfolio rose by 33% year-on-year to TL 23 million in 2016.

Despite an upward movement in paid claims in 2016, net loss ratio declined to 67% due to the increase in premium. Combined with the positive impact of exchange rate movements, technical profit in this line increased from TL 1.7 million in 2015 to TL 7.2 million in 2016.

The Company generated 34.6% of its total Accident premiums from the international portfolio.

Profitability Ratios in Accident (Excluding General Liability and Land Vehicles Own Damage) (%)	2015	2016
Gross		
Loss Ratio	85	67
Expense Ratio	33	29
Combined Ratio	118	96
Net		
Loss Ratio	85	67
Expense Ratio	34	29
Combined Ratio	119	96
Technical Profit/Loss (TL mn)	**1.7**	**7.2**



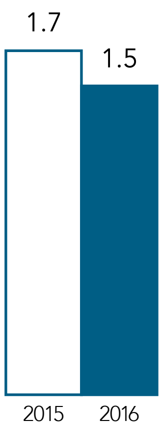
Agriculture

Although Agriculture premium from the international book decreased by 44%, there was improvement in the net loss ratio, reflecting 33% reduction in the paid claims along with the positive effect of technical reserves carried forward to 2016 and also exchange rate movements. Consequently, technical loss in this line declined to TL 1.4 million.

The Company derived 18.5% of its total Agriculture premium from the international portfolio.

Profitability Ratios in Agriculture (%)	2015	2016
Gross		
Loss Ratio	175	82
Expense Ratio	34	68
Combined Ratio	209	150
Net		
Loss Ratio	191	91
Expense Ratio	38	81
Combined Ratio	229	172
Technical Profit/Loss (TL mn)	**(5.7)**	**(1.4)**

Premium Income
(TL mn)



Life

Life premiums in the international book, which entirely consist of business from the Turkish Republic of Northern Cyprus, showed no significant change vis-à-vis the previous year and stood at TL 1.5 million in 2016.

Despite the increase in the loss ratio due to the negative impact of outstanding claims reserves and the revision in the portfolio that led to a decline in earned premium, the reduction in the expenses resulted with a technical profit of TL 0.5 million.

7.9% of the Company's total premium in Life was generated by the international book.

Profitability Ratios in Life (%)	2015	2016
Gross		
Loss Ratio	14	21
Expense Ratio	77	69
Combined Ratio	91	90
Net		
Loss Ratio	12	17
Expense Ratio	75	70
Combined Ratio	87	87
Technical Profit/Loss (TL mn)	**0.5**	**0.5**

Internal Audit Practices

Internal audit is an independent, objective assurance and consulting activity, which seeks to improve an organization's operations and add value to them. Internal audit helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

In this context, the primary functions of internal audit include constant auditing of all business and transactions of the Company in terms of their compliance with the related regulations, as well as the Company's internal guidelines, its management strategy and policies; detection and prevention of any irregularities, mistakes or fraud, and assurance of the efficiency and adequacy of internal control and risk management systems.

In conjunction with the above, another important aspect of the Department's functions is to provide opinions and suggestions for efficient and productive use of resources to improve and add value to the Company's operations.

The Internal Audit Department of Milli Re was established as of 1 January 2005 and started operating on 1 April 2005. Internal audit operations are carried out in compliance with the "Regulation on Internal Systems of Insurance and Reinsurance Companies" published in the Official Gazette No. 26913 dated 21 June 2008.

In order to allow an independent and objective assessment, the Internal Audit Department reports directly to the Board of Directors. The conclusions reached as a result of the audit activities, are submitted to the Board of Directors through the Board Member responsible for Internal Systems.

All employees of the Internal Audit Department comply with the code of ethics (integrity, objectivity, confidentiality, competence) stated in both the International Internal Audit Standards and Milli Re Internal Audit Charter. They demonstrate the necessary professional care when performing the audit activities.

Internal Audit Department carries out its activities with a risk-focused audit approach. This approach aims to increase the efficiency and effectiveness of internal audit by giving priority to the more risk bearing process and units. Every year in December, an Internal Audit Plan regarding the audit activities to be done the following year is prepared taking into account the date of the last inspection and risk assessments of the unit, and presented to the Board of Directors for approval.

In accordance with the Internal Audit Plan approved by the Board at the end of 2015, Internal Audit Department completed on-site inspection of all units, and the Company's Singapore Branch in 2016. During audit activities, it was determined whether the units' operations are carried out in compliance with their operational guidelines. Effectiveness of the implemented internal controls regarding the units' risks was tested and their adequacy was evaluated. Moreover, compliance with regulations, Company policies, limits, jurisdictions, and security measures was verified. Audit activities were performed using techniques such as enquiry, verification, examination, reperformance, recalculation and analytical reviews. During audits, no findings that might have an adverse impact on the Company's financial structure were detected.

Internal Audit Department keeps working towards the goal of improving the Company's operations and adding value to them, with the support of the management and with the cooperation of the employees.

Internal Control Practices

Internal control system has an important role in ensuring continuation of the Company's operations within the principles of efficiency, productivity, compatibility and reliability.

The purpose of the internal control system is to ensure that the Company assets are well protected; activities are carried out efficiently and effectively and in compliance with regulations, Company's internal guidelines and customary practices of insurance. Assurance of reliability and integrity of the accounting and financial reporting system and prompt accessibility of data are among the aims of the internal control system. In this context, internal control activities are designed to encapsulate transactions incorporating the Company's operations, communication channels, information systems, financial reporting system and compliance controls. Internal control operations are conducted in accordance with the provisions of the "Regulation in respect of Internal Systems of Insurance, Reinsurance and Pension Companies" No. 26913 published in the Official Gazette on 21 June 2008 as well as the related internal guidelines.

In addition to "Internal Control and Risk Management Department" and "Control Center" specifically established to perform internal control operations, a "Control Environment" was created by assigning staff from various units throughout the Company within the scope of these activities. The Control Group consists of 24 individuals, 4 of whom are members of the "Control Center" and 20 as part of the control environment.

Activities Conducted from Control Center

Work flows, duties and responsibilities, authorities and limits related to the Company activities are documented and communicated to the entire staff; they are reviewed and updated in line with changing conditions and risks. The staff has complete, accurate and up to date information associated with their duties and responsibilities.

Control activities cover entire business processes and operations of the Company. Business processes, processes related to information technologies and risks associated with these processes are documented and related controls for the identified risks are established. Control operations are carried out on the basis of the recurrence of business processes and with the principles set out in the annual Internal Control Plan. Findings after the controls, assessments on the findings and recommendations for actions to be taken to eliminate the findings are reported to the General Manager by the Internal Control and Risk Management Unit through "Internal Control Reports" on monthly basis. Internal control activities and the outcome of actions taken are also examined by the Board of Directors on regular basis.

Authorities of system users are defined in accordance with the principle of segregation of duties. Actions of users within these authorizations, log records of actions related to critical transactions are controlled through reports received from log management system instantly and on daily basis, and conformity to the principle of segregation of duties is reviewed systematically. Moreover, operational authority requests of users are also assessed and approved by Internal Control and Risk Management Unit following the approval of the relevant business unit in the context of the mentioned principle.

System development and change requests from users in line with their job requirements or demands for improvements, changes or solutions for problems in the systems are followed through the "Help Desk" application and critical issues that may affect financial statements or cause legal risks have priority in the process.

For any adverse situation detected by the control operations, urgent action is taken in order to perform necessary adjustments and measures to prevent the recurrence of the situation.

Activities Conducted from the Control Environment

Control activities conducted within business units are based on control points identified in the flowchart of the relevant business unit and risk and control points determined by the Control Center. On the other hand, Control activities performed in IT Center are based on COBIT (Control Objectives for Information Related Technologies) standards.

In this context, transactions in respect of reinsurance operations, accounting, payments, legal obligations, debt collection, financial statements and reporting, marketing, reporting and information systems and all processes related to these transactions are controlled on the basis of the recurrence of related processes. Findings are reported to the Control Center by Risk Warning Reports. The process facilitating pre-emptive and complementary actions to be taken urgently ensures appropriate and feasible solutions that will improve processes and operations.

Affiliates

Anadolu Anonim Türk Sigorta Şirketi

Anadolu Anonim Türk Sigorta Şirketi (Anadolu Sigorta) is Turkey's first national insurance company, which was established on 1 April 1925. As one of the market leaders in premium production, the Company succeeded in being the first Turkish insurance company to exceed the USD 1 billion threshold in total premium production in 2007. The ISO 9001:2000 Quality Management System Certificate which was renewed with ISO 9001:2008 certificate in June 2010, validates the implementation of its quality management system according to the international standards. Anadolu Sigorta operates in all non-life insurance branches. Fitch Ratings confirmed Anadolu Sigorta's ratings for International Insurer Financial Strength as BBB-, for National Insurer Financial Strength as AA+ (tur), both with stable outlook.

Milli Re became the principal shareholder in Anadolu Sigorta with a shareholding of 57.31% in total, upon purchase of an additional 35.53% share on 30 September 2010. The remaining 42.69% of the Company's shares are publicly-traded.

Pursuant to the Communiqué on the Preparation of Consolidated Financial Statements of Insurance, Reinsurance and Pension Companies published in the Official Gazette issue 27097 dated 31 December 2008 and to the Turkish Accounting Standards 27, Milli Re consolidates the financial results of Anadolu Sigorta on a line-by-line basis since 30 September 2010.

www.anadolusigorta.com.tr

Miltaş Turizm İnşaat Ticaret A.Ş.

Miltaş Sports Complex has been serving the insurance market since 1986 with its facilities for various sports, particularly tennis and basketball. The Complex has been hosting the International Insurance Tennis Tournament every June since 1986, providing a unique environment that brings international reinsurers and brokers engaged in the Turkish insurance market together with local insurers. In addition to tennis and basketball courses organized every year for various age groups; private tennis lessons are also available at the Complex.

Milli Re has 77% share in Miltaş Turizm İnşaat Ticaret A.Ş. Within the context of the exception stipulated in the Communiqué on the Preparation of Consolidated Financial Statements of Insurance, Reinsurance and Pension Companies published in the Official Gazette issue 27097 dated 31 December 2008, Miltaş Turizm İnşaat Ticaret A.Ş., which is a subsidiary of the Company, is excluded from the scope of consolidation, due to the fact that the subsidiary's total assets correspond to less than 1% of the Company's total assets.

www.miltasturizm.com.tr

Issues Related to the General Assembly

The announcement on the meeting including the venue, date, time, agenda, and a specimen of a proxy statement is published within the legal terms in the Turkish Trade Registry Gazette and on Company's official website for notifying the public. Every year the Annual Report is prepared in alignment with the relevant legislation and presented for the information and analysis of shareholders preceding the General Assembly meeting.

Annual General Assembly meeting was held on 25 March 2016. All of the resolutions by the General Assembly of Shareholders have been fulfilled during 2016 and the targets set in the prior period have been achieved.

Annual General Meeting Agenda

1. Opening and formation of the Presiding Board,
2. Reading and discussion of the 2016 Activity Report drawn up by the Board of Directors,
3. Reading of the Statutory Auditors' report,
4. Reading, discussion and approval of the Company's Financial Statements for 2016,
5. Declaration of the Board of Directors,
6. Determination of the manner and date of distribution of profit,
7. Election for the seats on the Board of Directors,
8. Determination of Statutory Auditor,
9. Determination of the remuneration to be paid to the members of the Board of Directors,
10. Authorizing the Board of Directors to perform the transactions set out in Articles 395 and 396 of the Turkish Commercial Code.

Report by the Board of Directors

Distinguished Shareholders,

We respectfully present the balance sheet, income statement, profit distribution chart, statement of changes in equity, and the cash flow statement showing the results achieved in 2016 marking the Company's 88th year of operation for the perusal and approval of the Esteemed Assembly. These documents are prepared in line with the provisions of applicable legislation and the principles and guidelines set out by the Undersecretariat of the Turkish Treasury.

United Kingdom's decision to leave European Union (Brexit), presidential elections in the United States, rising political risks and expansionist monetary policies implemented in advanced economies, resulted with the continued deceleration in global economy in 2016. Despite the positive impact of the recovery in commodity, especially oil prices on emerging economies exporting commodities particularly in the second half of the year, predominantly due to the slowdown in advanced economies, the failure in generating global economic growth has continued. These circumstances not only restricted global demand but also hampered the recovery of international trade.

Following the global financial crisis, majority of advanced countries implemented significant expansionary monetary policies in order to boost their economies which were unable to grow. Rising political uncertainties in Europe also exerted pressure on economies. Central Banks of Japan and Euro Zone where there was virtually no growth opted for negative interest rate policies. Brexit, increasing uncertainties in the global economic outlook, was one of the reasons for the Central Bank of the United States (Fed) to postpone the increase in the interest rates. Volatilities in risk perception due to Fed's not keeping up with the increases made in early 2016 and holding the interest rates unchanged until the close of the year, led to increased fluctuations in exchange rates, drifts in global fund flows and heightened instability. In addition to this, escalating conflicts in the Middle East and global terrorism resulted with loss of confidence and reduced spending. On the other hand, the economic growth in the United States began to accelerate starting from mid-2016, with indicators on employment and inflation giving positive signs. In view of these developments, Fed increased the policy interest rates by 25 basis points in December.

Our economy under the influence of the global conjuncture and significant domestic risks downsized in the third quarter of 2016 with growth rate falling to 2.2% over the first 9 months. Factors including deterioration of political climate and intensified geopolitical risks adversely affected demand and expenditure. There was also drastic drop in tourism revenues. Regional instabilities caused substantial reduction in foreign trade volume. Inflation targets were not achieved; with inflation rate based on consumer price index (CPI) increasing to 8.53% and domestic producer price index (D-PPI) to 9.94%.

Despite the fact that reinsurance capital reached its historical high with USD 595 billion at the end of third quarter 2016, reinsurers were clearly less flexible with terms and conditions in 2017 renewals in consequence of 50% annual increase in insured cat losses, deteriorating profit margins resulting from persistent soft market conditions over the last few years and marginal investment income. M&A activity continued to provide an important option for companies facing competitive pressures albeit less intensive this year, to improve their capital utilization and profit by means of increasing scale and diversity.

Following a number of benign years in a row in terms of catastrophe losses, economic losses resulting from catastrophic events occurring in 2016 totaled circa USD 175 billion with insured losses amounting to circa USD 50 billion.

Major economic losses accounted in 2016 originated from Kumamoto Earthquake occurred in Japan in April with USD 38 billion and from China floods in June and July with USD 20 billion. Hurricane Matthew, which swept through the Caribbean and southeast of the United States, causing the insurance market a loss of USD 4 billion, was recorded as the deadliest event of the year.

Among the natural catastrophes occurring in 2016, highest losses for the insurance market were caused by the storms Elvira and Friederike that occurred in Germany and France resulting with USD 3.4 billion in total insured losses and hailstorms in Texas amounting to USD 3 billion of insured losses. Additionally, the damage arising from wildfires in Canada that started in May, totaling USD 2.8 billion was the costliest insured loss for the Canadian insurance market. The fact that the loss was caused by a non-modelled peril was a noteworthy development for the industry.

According to data released by the Insurance Association of Turkey, total premium production in the Turkish Market grew by more than 30% in nominal terms and by 20% in real terms in 2016 compared to the previous year and reached circa TL 40.5 billion. The main driver was the 73% growth in Motor Third Party Liability, having a 36.5% share in total non-life premiums, reflecting price corrections by insurers. Growth rates in other lines significant in the total premium were: 23% for Health/Sickness, 17.5% for General Damages, 19.6% for Accident, 11.2% for Land Vehicles, 9.9% for Fire/Natural Disaster, and 7.7% for General Liability.

Writing business from the Turkish insurance market since 1929, Milli Re began to focus on international markets in 2006 in line with its strategy of international expansion, and Singapore Branch, which was established as part of this strategy, started its operations in 2008.

With the extensive knowledge and experience in the local market, its excellent reputation in international markets and its strong financial structure, Milli Re participates in reinsurance contracts of a great majority of insurance companies, that operate in the Turkish insurance market and most of which are backed by international capital, and leads proportional reinsurance bouquets of 15 out of 21 companies.

Milli Re generated total premium of TL 929.9 million in 2016. TL 698.7 million accounting for 75% originated from local business, while TL 231.2 million corresponding to 25% was from international operations. Taking in to account investment income and expenses transferred from the non-technical section, the technical profit was TL 63.3 million and the financial profit was TL 62.9 million, yielding a net profit of TL 129.2 million for the year. The Company's paid-up capital stands at TL 660 million. Total assets increased to TL 2,882.5 million and shareholders' equity to TL 1,335.9 million by the end of 2016. As it has done until today, The Company aims to maintain its current leading position as well as market share in the local reinsurance market and attain consistent development in the international portfolio in the years to come.

We would like to extend our thanks to our esteemed shareholders for providing the greatest contribution to our Company to maintain its prestige and reliability acquired during these 88 years of operation, and to continue its efforts to be a preferred business partner with its robust financial structure, and to our employees for executing their duties with dedication.

BOARD OF DIRECTORS

Information on the Company's Activities

Repurchased own shares by the Company
None.

Disclosures concerning special audit and public audit during the reporting period
Our Company was not subject to public audit in 2016.

Lawsuits filed against the Company and the members of the governing body and potential results
There are no lawsuits brought against the Company and the members of the governing body, which are of a nature that might affect the Company's financial standing and its activities.

There are no administrative or judicial sanctions imposed against the Company or the members of the governing body on account of any practice violating the provisions of legislation.

Extraordinary General Meetings held during the reporting period
The Company held two Extraordinary General Meetings during 2016.

- Further to the Extraordinary General Meeting held on 27 June 2016, own shares were decided to be repurchased by the Company.

- Article no.7 with the heading of Founder Shares of the Company's Articles of Association, was abolished and article no. 8 with the heading of Transfer of Shares and article no.27 on Dividend Distribution were revised, pursuant to the decision of the General Assembly convened on 30 November 2016.

Expenses incurred in the reporting period in relation to donations, grants, and social responsibility projects
Company's donations under this heading amounted to TL 313,000 in 2016.

Relations with the controlling company or an affiliate thereof
Between our Company and our controlling shareholder İşbank and other Group Companies affiliated to İşbank, there is no:

- Transfer of receivables, payables or assets,
- Legal transaction creating liability such as providing surety ship, guarantee or endorsement,
- Legal transaction that might result in transfer of profit.

All commercial transactions the Company realized with its controlling shareholder and with the Group Companies affiliated thereto during 2016 were carried out on an arm's length basis, according to the terms and conditions known to us, related counter performances have been carried out, and the Company did not register any loss on account of any such transaction.

Corporate Social Responsibility

Milli Re Art Gallery

The story of the Milli Re Art Gallery started in 1994 when Milli Re reserved a section of its business building in Teşvikiye for artistic and cultural activities, and designed a library, an auditorium and a gallery in this section.

During the twenty two years since its debut, Milli Re Art Gallery organized various exhibitions, which were widely acclaimed in art circles and followed with interest. The gallery has published numerous books and publications, with texts by eminent authors and art critics, most of which are referenced in the art literature.

Some of the exhibitions put on display at the Milli Re Art Gallery are also displayed in other countries, including, among others, Germany, France, Sweden, Denmark, Estonia, Slovenia, Bosnia-Herzegovina, Georgia and Finland. Besides the "Rural Architecture in the Eastern Black Sea Region" exhibition displayed at many universities and international museums both in Turkey and abroad since 2005, "Mylasa Labraunda/ Milas Çomakdağ" exhibition received invitations from major museums and universities abroad and exhibited in several countries and cities. The gallery, hosting projects varying from art to design, had a special place within its field. Not only in the area of basic arts such as painting and sculpture, the Gallery also hosts plenty of projects including photography, architectural, graphical design, thematic, historical and documentary qualified conceptual exhibitions. Milli Re Art Gallery has gained the distinction of being a space for artists and art lovers with the original works created over the years, and is known for its uncompromising artistic identity.

All details on exhibitions and publications are available on **www.millireasuranssanatgalerisi.com**.

Milli Re Chamber Orchestra

Milli Re Chamber Orchestra, established in 1996, performed numerous successful concerts with local and international well-known conductors and soloists.

Milli Re Chamber Orchestra having performed its first concert on 10 April 1996, presents universal polyphonic music, which enriches our cultural life, to music-lovers through concerts and recitals. The Orchestra performs at the concert hall in the Milli Re building from September through May every year. In addition to the regular concerts series, the Orchestra takes part in various national and international festivals. The Milli Re Chamber Orchestra also released two CDs, titled "Romantic Era Strings Music" and "Şensoy Plays Tura".

Milli Re continued to extend support to art through sponsorship of the International İstanbul Music Festivals, held in 2006, 2008, 2010, 2012 and 2014.

Milli Re Chamber Orchestra celebrated its 20th anniversary with "Dalaras&Milli Reasürans Sinfonietta at its 20th Anniversary" concert organized at Zorlu Peformance Center on 23 March 2016.

Milli Re Library

Milli Re Library is a specialized library in which publications, periodicals and other materials concerning the insurance industry and related topics are collected, organized and presented to users with a modern information and document management approach.

The Milli Re Library is the market's most extensive library in terms of books and periodicals. By donation of books and periodicals, the library also supports the libraries of Insurance Vocational Schools of Higher Education, which were established or are in the process of being established in Turkey.

The Library is open from 09:00 until 12:00 and from 13:00 until 17:00 hours on weekdays, and the catalogues of available publications can be accessed at **www.kutuphane.millire.com.**

Corporate Social Responsibility

Reasürör Magazine

Quarterly published since 1991, the Reasürör Magazine is a scientific resource with full academic content on re/insurance, including compilations, translations, interviews, and statistical data on various lines. The Reasürör Magazine, which published its 100th issue in 2016, serves as a valuable scientific resource for use by the industry technicians and students pursuing their studies at various levels in insurance education.

All issues of the Reasürör Magazine can be accessed at the addresses **www.millire.com** and **www.millire.com.tr**.

Miltaş Sports Complex

Miltaş Sports Complex has been serving the insurance market since 1986 with its facilities in various sports, particularly tennis and basketball. In addition to tennis and basketball courses organized every year for various age groups, private tennis lessons are available in the Complex.

The Complex has been hosting the International Insurance Tennis Tournament, every year in June since 1986 which celebrated its 30th Anniversary in 2016, provides a unique environment that brings together foreign reinsurers and brokers engaged in the Turkish insurance market with the insurers.

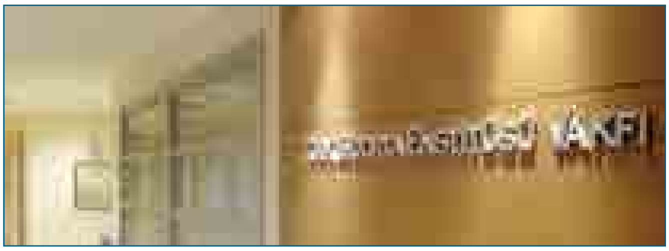
Turkish Insurance Institute Foundation (TII)

The Turkish Insurance Institute Foundation (TII) was established jointly by Milli Re and the Insurance Association of Turkey in 1970. Continuing its training and consulting services for the insurance industry since then, the TII organizes training programs for institutions and organizations on insurance technology, law and administrative issues.

The purpose of the Foundation is to increase the insurance awareness in Turkey, develop the insurance business, train staff for the insurance sector, identify, investigate, prepare informative broadcasts, and review economic, legal and technical matters and issues in all insurance branches including social insurance.

The "Basic Insurance Training Program", organized since the establishment of the Foundation has the distinction of being one of the most comprehensive training programs in the field of insurance. A total of 2,700 participants have graduated from the program to date. In addition, "Advanced Insurance Training Programs" are the only project and practice-oriented training programs in the market.

Besides, TII provides actuarial training programs, short-term training programs in accordance with the market's current needs, as well as promotional, consultancy and corporate exams based on companies' requirements.

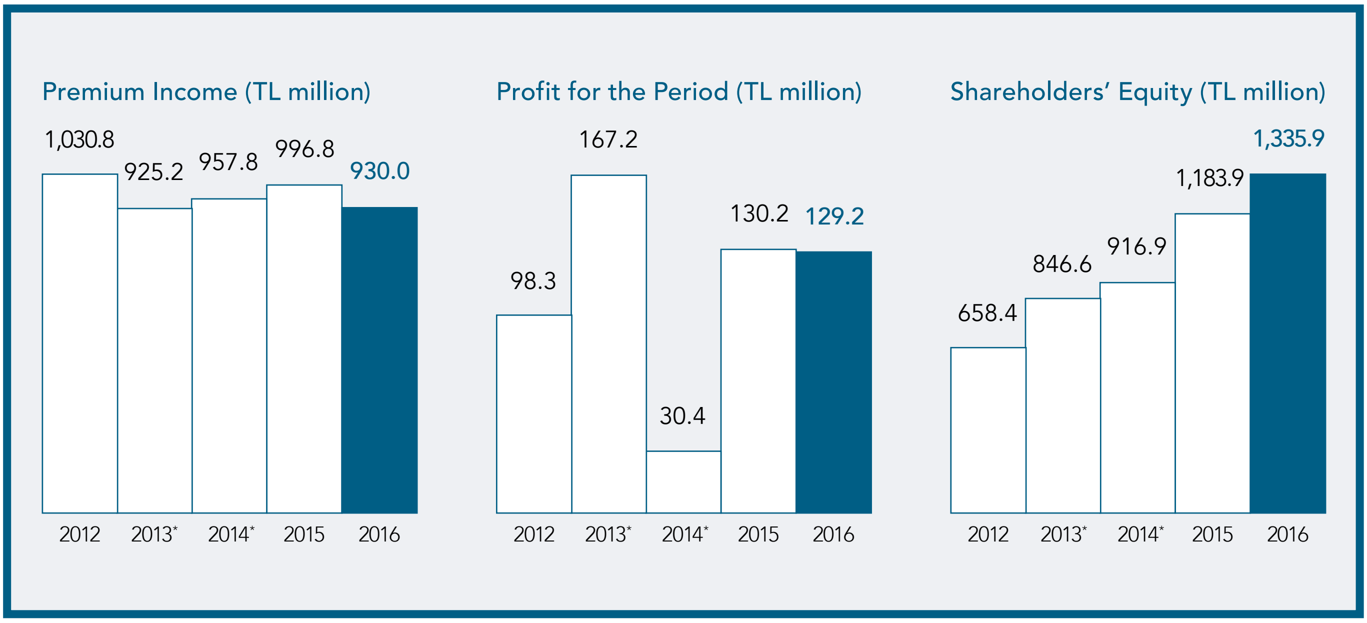


Financial Status

Key Financial Indicators

Financial Results (TL million)	2015	2016	Change (%)
Total Assets	2,647.8	2,822.5	6.6
Shareholders' Equity	1,183.9	1,335.9	12.8
Technical Income	2,359.2	2,463.0	4.4
Technical Profit/Loss	(31.4)	66.2	+
Financial Income	194.4	109.8	(43.5)
Financial Profit/Loss	161.6	63.0	(61.0)
Profit/Loss for the Period	130.2	129.2	(0.8)

Ratios (%)	2015	2016
Liquid Assets/Total Assets	56	53
Gross Written Premiums/Shareholders' Equity	84	70
Profit Before Tax/Gross Written Premiums	13	14
Shareholders' Equity/Total Assets	45	47
Profit Before Tax/Average Shareholders' Equity (Excluding profit)	15	11
Profit Before Tax/Average Total Assets	5	5
Net Loss Ratio	88	79



* 2013 and 2014 are restated.

Key Financial Figures

Assets (TL)	2012	2013*	2014*	2015	2016
Cash and Cash Equivalents	677,226,863	603,582,774	742,193,459	991,998,486	1,125,225,034
Securities	360,820,842	497,248,099	490,228,721	477,908,745	379,491,869
Affiliates	330,278,828	381,857,848	407,993,857	445,245,371	551,268,910
Fixed Assets	45,615,896	195,869,451	215,502,409	426,968,376	490,521,070
Doubtful Receivables (Net)	0	0	0	0	0
Total Assets	1,763,913,538	1,991,784,422	2,167,578,400	2,647,784,232	2,822,479,662
Liabilities					
Technical Provisions	1,026,897,719	1,056,899,201	1,164,240,501	1,288,838,393	1,386,959,568
Shareholders' Equity**	658,397,986	846,566,588	916,933,700	1,183,898,933	1,335,906,619
Income and Expense Items					
Technical Income	2,266,964,100	2,109,803,536	2,185,963,569	2,359,174,044	2,462,937,828
Technical Expenses	2,161,861,498	2,099,084,858	2,183,435,317	2,390,519,428	2,396,647,963
Technical Profit/Loss	105,102,602	10,718,678	2,528,252	(31,345,384)	66,289,865
Financial Income	44,254,248	195,734,639	58,307,722	194,375,685	109,833,292
Financial Expenses	43,718,498	33,909,941	20,897,332	24,961,583	37,930,995
General Expenses	7,289,532	5,343,785	9,512,740	7,825,311	8,948,929
Financial Profit/Loss	(6,753,784)	156,480,913	27,897,650	161,588,791	62,953,368
Profit/Loss for the Period	98,348,818	167,199,591	30,425,902	130,243,407	129,243,233

* 2013 and 2014 are restated.

** Including Profit/Loss for the Period

An Evaluation of 2016 Financial Results

The Company's financial investments are made in accordance with the Asset Investment Guidelines, which was formulated under the provisions of the "Regulation Amending the Regulation on the Financial Structures of Insurance, Reinsurance and Pension Companies" published in the Official Gazette issue 27877 dated 17 March 2011.

The Company prefers to invest in financial investment instruments offering a high yield and liquidity, involving minimum risk. Part of our portfolio is managed by İş Portföy Yönetimi A.Ş. (İş Asset Management). The Company's financial results are presented in detail below.

Investment Income

In comparison with the previous year, the majority of the Company's invested assets comprised of time deposits and particularly with the impact of interest income accrued in this context, income from financial assets rose by 9.4%.

Income from disposal of financial assets reduced by 53.6% in spite of the significant increase in income from sale of investment funds under the securities portfolio. This decrease in 2016 was basically due to the absence of the sale income obtained from the sale of a subsidiary under the available-for-sale financial asset portfolio - which was a one-off transaction last year.

Valuation of financial assets increased, reflecting the increase in accrual of interest related to time deposits.

The Company registered a 26.9% increase in foreign exchange gains due to the increase in the income obtained from evaluation transactions of Company's foreign currency assets reflecting the movements in rates of exchange during the reporting period.

Income from subsidiaries and joint ventures decreased, as unlike the previous year, there was no dividend distribution by the subsidiary during the current year.

There was considerable appreciation in investment property in 2015 reflecting the shift in the accounting policy to fair value method. As a result of lower rise in value in the current year, there was a decrease in income from property, plant and equipment during the reporting period.

Milli Re's investment income decreased by 10.6% in and 2016 totaled TL 261,178,363.

(TL)	2015	2016	Change (%)
Investment Income	**292,239,946**	**261,178,363**	**(10.63)**
Income from Financial Assets	105,821,748	115,793,940	9.42
Income from Disposal of Financial Assets	46,261,965	21,471,729	(53.59)
Valuation of Financial Assets	(1,047,109)	3,530,869	+
Foreign Exchange Gains	39,769,808	50,478,175	26.93
Income from Subsidiaries and Joint Ventures	12,039,179	3,251	(99.97)
Income from Property, Plant and Equipment	89,172,855	69,788,799	(21.74)
Income from Derivative Transactions	66,500	0	-
Other Investments	155,000	111,600	(28.00)

Investment Expenses

There was an increase in investment management expenses due to the interest expense paid for repurchase agreement and losses from the disposal of financial assets due to losses arising from sales of bonds.

Investment income transferred to non-life technical account increased by 47.2% due to higher technical provisions as at 31.12.2016.

Evaluation transactions produced a negative result due the movements in rates of exchange, resulting with an increase in foreign exchange losses.

There was an increase of 44.6% in the Company's investment expenses in 2016.

(TL)	2015	2016	Change (%)
Investment Expenses	**(121,243,981)**	**(175,258,106)**	**44.55**
Investment Management Expenses – (Incl. Interest)	(2,121,010)	(3,874,438)	82.67
Loss from Disposal of Financial Assets	(1,410,932)	(1,964,332)	39.22
Investment Income Transferred to Non-Life Technical Account	(100,911,677)	(148,513,629)	47.17
Loss from Derivative Transactions	-	-	-
Foreign Exchange Losses	(6,826,180)	(11,234,726)	64.58
Depreciation and Amortization Expenses	(1,543,485)	(1,716,887)	11.23
Other Investment Expenses	(8,430,697)	(7,954,094)	(5.65)

Income and Expenses from Other and Extraordinary Operations

Negative balance of the income and expenses from other operations and extraordinary operations aggravated compared to the previous year. Whilst the tax provision set aside during the previous year was accounted as income in 2015, the absence of this income during the reporting period and the provision set aside for the impairment on securities caused the increase in provision expenses. Since previous year's tax loss was offset during the reporting period, there is tax obligation for the Company.

(TL)	2015	2016	Change (%)
Income and Expenses From Other and Extraordinary Operations	**(9,407,174)**	**(19,408,045)**	**106.31**
Provisions	(19,376)	(10,907,174)	56,192.19
Rediscounts	(458,919)	550,110	+
Deferred Taxation (Deferred Tax Assets)	-	-	-
Deferred Taxation (Deferred Tax Liabilities)	(9,045,756)	(9,677,726)	6.99
Other Income	1,927,908	683,078	(64.57)
Other Expenses and Losses	(1,811,031)	(56,333)	(96.89)

As a result, the Company's total assets increased by 6.6% year-on-year and reached TL 2,822,479,662. The Company posted a net profit of TL 129,243,232 in 2016, in line with its strategy and projections.

Dividend Distribution Policy

Maintaining a balance between the Company's interests, shareholders' expectations and the Company's profitability are the main factors taken into consideration in relation to dividend distribution.

Dividend distribution principles that are determined within the framework of the applicable legislation and the Company's articles of association are presented below:

Profit distribution of the Company is decided by the General Assembly of Shareholders based on the proposal set forth by the Board of Directors in view of the provisions of the Turkish Commercial Code and other applicable legislation governing the Company.

The Company's net profit consists of the revenues generated up until the end of a fiscal year less general expenses, depreciation, all reserves deemed necessary, taxes and similar legal and financial obligations, along with previous years' losses, if any.

Net profit, which is calculated as mentioned above, is allocated and distributed in the order written below:

a) An amount equal to 5% of the net annual profit is set aside as general legal reserves every year until such reserves reach 20% of the paid-in capital.

b) Once the legal limit is reached, the amounts stipulated by Article 519/2 (a) and (b) of the Turkish Commercial Code are added to the general legal reserves.

c) A first dividend equal to 10% of the remaining net profit is distributed to shareholders.

d) In the event that the Company has repurchased its own shares, reserves equal to the amount that would cover the acquisition costs will be set aside pursuant to Article 520 of the Turkish Commercial Code.

e) A natural disaster and catastrophe fund may be set aside from the remaining amount, if deemed necessary, of amounts to be determined upon the proposal set forth by the Board of Directors and based on the resolution passed by the General Assembly.

f) From the balance that remains after setting aside the legal reserves, first dividends and funds mentioned above from the net profit, a proportion up to 3% is paid out to employees, provided that the amount does not exceed three times' the recipients' salaries.

g) From the amount remaining after the above mentioned allocations and distributions, without prejudice to the provisions of the applicable legislation, a second dividend is paid to shareholders upon the proposal set forth by the Board of Directors and based on the resolution passed by the General Assembly.

h) In pursuance with the provision of Article 519/2 (c) of the Turkish Commercial Code, 10% of the total amount to be distributed to those who will receive a share of the profit will be added to legal reserves.

i) The balance will be utilized in a form and manner to be determined by the General Assembly.

Provisions of Article 519/3 of the Turkish Commercial Code are reserved.

Unless and until the reserves that are legally required to be set aside and the first dividends determined for shareholders in the Articles of Incorporation are set aside, no decision may be taken to set aside further reserves, to carry forward profit to the following year or to distribute any share of the profit to the employees.

The distribution of the cash dividend must be realized by the end of the second month following the date of the Annual General Meeting in which the profit distribution decision was passed. The distribution of a dividend in the form of dematerialized shares is carried out upon receipt of legal permissions.

Dividend Distribution Proposal

Out of TL 135,640,914	that constitutes the pretax profit reported in the 2016 balance sheet,
Less TL 3,558,844	to be set aside as provision for taxes provided that there is a balance after accrual of taxes, such balance will be added to legal reserves;
Yielding TL 132,082,070.00	which is the pretax profit reported in the 2016 balance sheet,
TL 6,604,104	which is 5% pretax profit, set aside for legal reserves as per section 27/a of the Articles of Association;
from the remaining amount of TL 125,477,966	
TL 12,547,797	which is 10% of pretax profit, be distributed to shareholders as first dividend, as per section 27/c of the Articles of Association,
from the remaining amount of TL 112,930,169	
TL 2,915,128	for distribution to personnel, as per section 27/f of the Articles of Association,
from the remaining amount of TL 110,015,041 less	
a total of TL 37,452,203	be set aside for second dividend, as per section 27/g of the Articles of Association,
from the remaining amount of TL 72,562,838 less	
TL 1,991,513	be set aside as statutory reserves as per Article 519/2 (c) of the Turkish Commercial Code
the entirety of the remaining amount of TL 70,571,325	be transferred to legal reserves.

Provided that the proposal presented above is approved by your Esteemed Assembly, profit share distribution will take place on 30 March 2017. We extend our thanks to our business partners and our employees who contributed to the positive results achieved in 2016.

BOARD OF DIRECTORS

Risks and Assessment of the Governing Body

Risk Management Practices

Given the risk-focused nature of insurance business, insurance and reinsurance companies establish risk management systems and processes, and systematically monitor risk exposure, as part of their primary activities. Therefore, our Company has been implementing risk management techniques for many years; development of these techniques has gained even greater importance due to the adverse developments in the Turkish and worldwide financial markets during the recent years, as well as because of the unforeseen natural disasters that occurred.

The aim of the risk management system is to define the risks arising from Company's activities, to determine related limits, to measure, monitor, control the risks effectively, to take necessary precautions and to do the necessary reporting to related authorities, as well as to protect Milli Re's reputation and to ensure that liabilities to insurance companies are fulfilled completely and in a timely manner.

The function of the Risk Committee, established to determine risk management strategies and policies that the Company will follow and submit them to the Board of Directors for approval, is to evaluate the risk management activities of the Internal Control and Risk Management Directorate in accordance with the related procedures and to monitor the implementations in respect of risk management function throughout the Company.

The "Risk Catalogue", which aims to form a common terminology within the Company and in which possible risks are classified and defined by examples, is updated in accordance with changing conditions and approved by the Board of Directors.

Moreover, the measurement methods of the risks that the Company is/may be exposed to, risk tolerance, duties and responsibilities related to risk measurement, risk limits, determination methods of these limits, action plans in case of limit violations, duties and responsibilities related to limits, and situations that necessitate approval and confirmation are detailed in the "Application Principles in Respect of Risk Limits", which is approved by the Board of Directors and updated in accordance with changing conditions.

The risk management duties and responsibilities of the Internal Control and Risk Management Directorate, which is a separate body organized independently from the Company's executive functions, are as follows:

- To determine, define, measure, monitor and control risks,
- To determine the risk management policies predicated on risk management strategies and to submit them to the Risk Committee,
- To declare risk management principles, procedures and policies throughout the Company,
- To provide the implementation of risk management policies and compliance with them,
- To develop risk management techniques and methods, to ensure that risks are within determined limits and to monitor limit violations, if any,
- To carry out reporting and announcement activities in respect of risk management,
- To follow-up developments in respect of capital adequacy applications prominent in international markets and conduct studies in this regard.

Basic Risks and Measurement Methods

Risks that the Company is and/or may be exposed to are classified under two headings: financial and non-financial risks. Definitions of basic risks and their assessment methods are stated below.

Risk Management Practices

Financial Risks

Underwriting Risk
This risk arises from the inaccurate and inefficient application of reinsurance techniques in the process of making profit by underwriting and retrocession activities.

When measuring underwriting risk, it is reviewed whether underwriting is carried out within predefined limits and principles, and whether Company's retention limits and reinsurance protection limits are in compliance with the criteria set out in the "Application Principles in Respect of Risk Limits".

Company's capital structure, market conditions, underwriting limits in respect of the lines of business which will be subject to retrocession contracts, risk profiles, loss experience, accumulations that may occur in the event of a catastrophe risk, event limits, and modeled losses information if applicable, are taken into consideration during determining limits and structures of retrocession contracts which cover the liabilities arising from underwritten business.

Credit Risk
This risk expresses the probability of loss arising from the full or partial default of the counterparties (security issuers, insurance/reinsurance companies, other debtors) with which the Company has a business relationship.

Credit risk is measured by both quantitative and qualitative methods. The key criteria in the selection of reinsurers, participating in the retrocession contracts arranged for covering Company's liabilities arising from business acceptances in various lines of business, is the credit ratings of reinsurers. On the other hand, the payment performance and financial condition of counterparties are also taken into account.

In order to assess the concentration risk arising from the transfer of the risk to one or several specific reinsurers, premiums ceded to reinsurers are taken into consideration and multiplied by the factors that are defined based on whether reinsurers are licensed in Turkey or not, whether they take place in the list of companies formed by P.M. Undersecretariat of Treasury according to financial and technical adequacy criteria, and also whether risk is transferred to a group company or not. Premium transfers that exceed the limits stated by P.M. Undersecretariat of Treasury are considered as concentration, and are included in the capital adequacy calculation by being multiplied by risk factors defined by the said authority.

Moreover, doubtful receivables, distribution of the Company's investment portfolio in terms of counterparties, and the ratings of bond issuers of private bonds that take place in the portfolio, are monitored quarterly in accordance with the principles defined in Company's Investment Policy.

Asset-Liability Management Risk
This risk expresses the potential loss that may arise from the inefficient and inaccurate management of Company assets without considering the characteristics of the Company's liabilities and optimizing the risk-return balance.

This risk, which is measured by quantitative methods, includes all other financial risks of the Company with the exception of underwriting and credit risk. The components of the risk are described below:

a- Market Risk
This risk expresses the probability of loss because of the interest rate risk, rate of exchange risk and equity position risk occurring in the financial position of the Company due to the interest, rate of exchange, equity, commodity and option price changes arising from volatilities in financial markets.

When determining market risk exposure of the Company, Value at Risk (VaR) method, which measures the maximum loss that may occur at a definite confidence level in value of investment portfolio held for a definite time period, due to volatilities in risk factors is used. VaR is calculated by using the "Historical Simulation Method" where different scenarios are created by taking into consideration the historical data. Calculations are based on 250 working days, 99% confidence level and 1 day holding period.

In addition to the daily calculated VaR, following tests are applied:

- Back Testing
- Stress Tests
- Scenario Analysis

These tests are used to support the VaR method in calculating the loss in portfolio value due to unexpected and extraordinary circumstances and intend to test the accuracy of the measurement results and monitor the sensitivity of the portfolio to changes in the basic risk factors by creating different scenarios.

Market risk limits are set out in "Application Principles in Respect of Risk Limits", while limits and application principles in respect of investment portfolio are set out in "Derivatives Policy", "Macro Asset Investment Policy", "Investment Policy" and "Alternative Investment Plan" of the relevant year. Mentioned limits are checked regularly.

b- Structural Interest Rate Risk
This risk expresses the negative impact of possible changes in interest rates on balance sheet assets and liabilities which are not subject to trading.

Receivables from reinsurance operations and payables arising from reinsurance operations are discounted by using LIBOR rates in respect of related currencies and maturities and these figures take place in financial statements, accordingly they are subject to structural interest rate risk. Upward and downward shocks are applied to LIBOR rates that are used in discounting process every three months and possible changes in values of receivables and payables are calculated.

c- Liquidity Risk
This risk denotes the mismatch between the Company's cash outflows and inflows in terms of maturity and volume.

This risk is measured using quantitative methods, and any liquidity deficit is observed via maturity analysis of assets and liabilities in the balance sheet. Moreover, level of liquid assets covering liabilities is monitored by using the liquidity ratio and assessed within the defined limit.

d- Capital Investment Risk
This risk expresses the loss that may arise in the value of capital investments or dividend income due to general market conditions and/or to the problems in managerial or financial structure of the invested companies.

Market values of the equities followed-up under financial assets held for trading account and under available-for-sale financial assets and subsidiaries accounts are evaluated on the basis of Borsa İstanbul (BİST) data. Decisions of capital investments in capital market instruments which are unquoted are subject to the approval of the Board of Directors.

e- Real Estate Investment Risk
This risk expresses the negative impact on assets which are sensitive to real estate prices, due to adverse movements or excessive volatilities in real estate prices or the sale of the real estates under actual value.

Real Estate Investment Risk is monitored in accordance with valuation reports which are to be prepared in accordance with the related provisions of the legislation and taking into consideration the Company's requirements and investment policies. Besides, by applying a defined downward stress on the expertise values, loss amount in the value of real estates and shareholders' equity is monitored.

Risk Management Practices

Non-Financial Risks

Operational Environment Risk
This risk is defined as the risk of negative impact of external factors (political, economic, demographic etc.) of the Company's operating environment, on the operational ability of the Company.

Qualitative methods are used to measure this risk. The underwriting portfolio is monitored on country basis to see if there are any business acceptances from countries that are defined as "unapproved" due to political or economic conditions and also credit ratings of countries, generating the highest share of estimated premium income in respect of developing market acceptances are analyzed.

Strategy Risk
This risk arises due to the inefficient managerial and organizational structure of the Company, inability of the management to develop effective strategies or non-disclosure and/or lack of implementation of these strategies, erroneous business decisions, and improper application of decisions or noncompliance with the changing market dynamics.

Qualitative methods are used to measure the level of this risk. On the basis of "Self-Assessment Methodology", "Questionnaire" and/or "Interview" methods are used to determine the impact and probability level of the risk as "High", "Acceptable" or "Low".

Model Risk
This risk expresses the probability of loss that may occur if the models that the Company uses within risk measurement processes are inappropriately designed or not properly implemented.

In measurement and assessment process of Model Risk, "Questionnaire" and/or "Interview" methods are used on the basis of "Self-Assessment Methodology", to determine the impact and probability level of the risk as "High", "Acceptable" or "Low".

Operational Risk
This risk expresses the probable losses arising from inappropriate or inoperative business processes, human errors, technological or infrastructural interruptions, changes in management or processes, inaccurate internal/external reporting or external factors occurring while Company conducts its vital functions necessary for the continuation of business, and inability to secure low cost and high efficiency as a result of business interruption due to disasters.

Qualitative and quantitative methods are used together in measuring the operational risk. Factor Based Standard Approach, which is developed under Solvency II framework, is applied as a quantitative method. In this method, the required capital for operational risks is calculated by multiplying gross technical provisions and gross earned premiums by the factors in respect of the relevant lines of business.

"Self-Assessment Methodology", which allows determination of the risks related to activities conducted with the involvement of staff performing such activities, is applied as a qualitative method for operational risk. The level of the operational risk that the Company is exposed to is subsequently classified as "High", "Acceptable" or "Low" depending on the result of the assessments.

Reputation Risk
This risk can be defined as the probable loss due to loss of confidence of the Company or damage to the "Company Reputation" resulting from failures in operations or noncompliance with current regulations.

Qualitative methods are used to measure the level of the risk. On the basis of "Self-Assessment Methodology", "Questionnaire" and/or "Interview" methods are used to determine the impact and probability levels of the risk as "High", "Acceptable" or "Low".

Information Technologies Risk
This risk expresses the probable losses arising in Information Technology (IT) processes, assets and resources that constitute the entire hardware, applications and communication channels used in operations, due to internal and external problems occurring in operations and processes such as strategy management, cost management,

human resources management, risk management, incident and problem management, information security, back up process, procurement process, supplier selection and assessment, user identification and access management, critical resources management, data security, integrity and availability, acquisition and modification of software and hardware, test and version management, service quality and continuity, business continuity, disaster and configuration management, environmental and physical factors management.

Risks related to Company's information technologies are measured and assessed based on Control Objectives for Information and Related Technologies (COBIT), which is an international framework for IT management, as well as other internationally accepted practices, in accordance with the provisions stated in Information Technology Risk Management Application Principles.

On the other hand, Disaster Management process, defined with the purpose of governing and monitoring sub-risks in relation to Business Continuity and IT Continuity, is carried out in accordance with the provisions of related legislation. An internal training is organized and a test study is performed annually within the context of Disaster Management. In this regard, for business processes and information systems a test study was performed in Disaster Office on 10th December, 2016, providing connections through the Company's servers located in Disaster Center located outside of Istanbul. According to the results of this study which was performed by displaying and entering the data, it was confirmed that IT resources related to critical processes and data stored in these resources were accessible in conformity with recovery point objectives.

All findings obtained as a result of measurement of the above mentioned risks, analyses and assessments in respect of these findings are regularly reported by Internal Control and Risk Management Directorate to General Manager, Risk Committee and Board of Directors, as well as to Directorate of Subsidiaries of İşbank.

If the impact and probability levels of the risks are found "High", the Board of Directors determines an action plan regarding the necessary actions.

Assessment of Capital Adequacy

The Company's capital adequacy is measured according to the provisions of "Regulation in Respect of Measurement and Assessment of Capital Adequacy of Insurance, Reinsurance and Pension Companies", which was published by Republic of Turkey P.M. Undersecretariat of Treasury and assessments regarding the results are submitted to the Risk Committee, Board of Directors and Directorate of Subsidiaries of İşbank via the "Risk Assessment Report".

The factor-based method, used according to the aforementioned regulation, is a method which determines the amount of capital required for each type of risk, and thus allows the calculation of the total required capital.

Transactions Carried out with Milli Re's Risk Group

Being a member of İşbank group, Milli Re carries out its relations with its risk group on an arm's length basis.

Relations with group companies are concentrated mostly in reinsurance, banking, portfolio management, information technologies services and risk management.

Risk management activities are carried out in compliance with Consolidated Risk Policies of the risk group. Possible risks and findings obtained as a result of measurement are regularly monitored through reporting systems set up within the group.

Detailed information on the Company's transactions with its risk group is presented in the notes to the Financial Statements.

The Annual Reports of the Parent Company in the Group of Companies

The Annual Reports of the Parent Company in the Group of Companies

a- The Parent Company Milli Re holds shares representing 57.31% of the capital of Anadolu Anonim Türk Sigorta Şirketi directly, and 1% and 20% of the capital of Anadolu Hayat ve Emeklilik A.Ş. directly and indirectly, respectively.

b- Enterprises that belong to the Group do not hold shares in the capital of the Parent Company, Milli Re.

c- The Company's Consolidated and Unconsolidated Internal Audit and Risk Management Policies are formulated within the frame of the relevant consolidated policies of the group of companies to which the Company is affiliated, and covers the Company's subsidiaries subject to consolidation on a line-by-line basis. These are based on the operating principles of Türkiye İş Bankası A.Ş.

Millî Reasürans Türk Anonim Şirketi

31 December 2016 Unconsolidated Financial Statements together with Independent Auditors' Report Thereon

(Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)

Independent Auditor's Report

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah.
Kavak Sok. No: 3
Beykoz 34805 İstanbul

Telephone +90 (216) 681 90 00
Fax +90 (216) 681 90 90
İnternet www.kpmg.com.tr

To the Board of Directors of Milli Reasürans Türk Anonim Şirketi

Report on the Financial Statements

We have audited the accompanying unconsolidated balance sheet of Milli Reasürans Türk Anonim Şirketi ("the Company") as at 31 December 2016 and the related unconsolidated statement of income, changes in equity and unconsolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the "Insurance Accounting and Reporting Legislation" which includes the accounting principles and standards, in force as per the insurance legislation, and the requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to error and/or fraud.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our audit was conducted in accordance with audit standards in force as per insurance legislation and Independent Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement and provide a true and fair view of the Company.

An audit involves performing independent audit procedures to obtain independent audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessments, the Company's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Company and its internal control system. An audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying unconsolidated financial statements present fairly, in all material respects, the financial position of Milli Reasürans Türk Anonim Şirketi as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with the Insurance Accounting and Reporting Legislation.

Independent Auditor's Report

Report on Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code No. 6102 ("TCC"); no significant matter has come to our attention that causes us to believe that for the period 1 January - 31 December 2016, the Company's bookkeeping activities are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

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

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member of KPMG International Cooperative

Alper Güvenç
Partner

17 February 2017
İstanbul, Turkey

Additional paragraph for convenience translation to English:

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Financial Statements as at and For the Year Ended 31 December 2016

We confirm that the unconsolidated financial statements and related disclosures and footnotes as at 31 December 2016 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, 17 February 2017

Şule SOYLU Assistant General Manager	Kemal ÇUHACI Assistant General Manager	Hasan Hulki YALÇIN General Manager	Ertan TAN Actuary Registration No: 21

Contents

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Balance Sheet
As At 31 December 2016

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

ASSETS

I- Current Assets	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
A- Cash and Cash Equivalents	14	1,125,225,034	991,998,486
1- Cash	14	17,446	34,971
2- Cheques Received	14	1,950,000	--
3- Banks	14	1,123,257,588	991,963,515
4- Cheques Given and Payment Orders		--	--
5- Bank Guaranteed Credit Card Receivables With Maturity Less Than Three Months		--	--
6- Other Cash and Cash Equivalents		--	--
B- Financial Assets and Financial Investments with Risks on Policyholders	11	379,491,869	477,908,745
1- Available-for-Sale Financial Assets	11	386,347,109	477,908,745
2- Held to Maturity Investments		--	--
3- Financial Assets Held for Trading		--	--
4- Loans and Receivables		--	--
5- Provision for Loans and Receivables		--	--
6- Financial Investments with Risks on Life Insurance Policyholders		--	--
7- Company's Own Equity Shares		--	--
8- Diminution in Value of Financial Investments	11	(6,855,240)	--
C- Receivables from Main Operations	12	162,954,919	181,305,786
1- Receivables from Insurance Operations		--	--
2- Provision for Receivables from Insurance Operations		--	--
3- Receivables from Reinsurance Operations	12	112,405,704	117,776,513
4- Provision for Receivables from Reinsurance Operations		--	--
5- Cash Deposited to Insurance & Reinsurance Companies	12	50,549,215	63,529,273
6- Loans to the Policyholders		--	--
7- Provision for Loans to the Policyholders		--	--
8- Receivables from Private Pension Operations		--	--
9- Doubtful Receivables from Main Operations	4.2,12	6,275	12,133
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(6,275)	(12,133)
D- Due from Related Parties		--	--
1- Due from Shareholders		--	--
2- Due from Associates		--	--
3- Due from Subsidiaries		--	--
4- Due from Joint Ventures		--	--
5- Due from Personnel		--	--
6- Due from Other Related Parties		--	--
7- Rediscount on Receivables from Related Parties		--	--
8- Doubtful Receivables from Related Parties		--	--
9- Provision for Doubtful Receivables from Related Parties		--	--
E- Other Receivables	12	1,663,239	605,367
1- Finance Lease Receivables		--	--
2- Unearned Finance Lease Interest Income		--	--
3- Deposits and Guarantees Given	4.2,12	248,885	210,429
4- Other Miscellaneous Receivables	4.2,12	1,414,354	394,938
5- Rediscount on Other Miscellaneous Receivables		--	--
6- Other Doubtful Receivables	12	53,177	63,177
7- Provision for Other Doubtful Receivables	4.2,12	(53,177)	(63,177)
F- Prepaid Expenses and Income Accruals		100,306,186	111,793,456
1- Deferred Acquisition Costs	17	92,601,447	100,548,550
2- Accrued Interest and Rent Income		--	--
3- Income Accruals	4.2	7,029,475	10,785,341
4- Other Prepaid Expenses		675,264	459,565
G- Other Current Assets		10,962,956	11,835,658
1- Stocks to be Used in the Following Months		46,641	41,277
2- Prepaid Taxes and Funds	12	10,488,911	11,292,292
3- Deferred Tax Assets		--	--
4- Job Advances	12	--	2,042
5- Advances Given to Personnel		--	--
6- Inventory Count Differences		--	--
7- Other Miscellaneous Current Assets		427,404	500,047
8- Provision for Other Current Assets		--	--
I- Total Current Assets		1,780,604,203	1,775,447,498

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Balance Sheet
As At 31 December 2016

(Currency: Turkish Lira (TL))

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

ASSETS			
II- Non-Current Assets	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
A- Receivables from Main Operations		--	--
1- Receivables from Insurance Operations		--	--
2- Provision for Receivables from Insurance Operations		--	--
3- Receivables from Reinsurance Operations		--	--
4- Provision for Receivables from Reinsurance Operations		--	--
5- Cash Deposited for Insurance and Reinsurance Companies		--	--
6- Loans to the Policyholders		--	--
7- Provision for Loans to the Policyholders		--	--
8- Receivables from Individual Pension Business		--	--
9- Doubtful Receivables from Main Operations	4.2,12	16,858,335	14,221,013
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(16,858,335)	(14,221,013)
B- Due from Related Parties		--	--
1- Due from Shareholders		--	--
2- Due from Associates		--	--
3- Due from Subsidiaries		--	--
4- Due from Joint Ventures		--	--
5- Due from Personnel		--	--
6- Due from Other Related Parties		--	--
7- Rediscount on Receivables from Related Parties		--	--
8- Doubtful Receivables from Related Parties		--	--
9- Provision for Doubtful Receivables from Related Parties		--	--
C- Other Receivables		--	--
1- Finance Lease Receivables		--	--
2- Unearned Finance Lease Interest Income		--	--
3- Deposits and Guarantees Given		--	--
4- Other Miscellaneous Receivables		--	--
5- Rediscount on Other Miscellaneous Receivables		--	--
6- Other Doubtful Receivables		--	--
7- Provision for Other Doubtful Receivables		--	--
D- Financial Assets	9	551,268,910	445,245,371
1- Investments in Equity Shares		--	--
2- Investments in Associates		--	--
3- Capital Commitments to Associates		--	--
4- Investments in Subsidiaries	9	551,268,910	445,245,371
5- Capital Commitments to Subsidiaries		--	--
6- Investments in Joint Ventures		--	--
7- Capital Commitments to Joint Ventures		--	--
8- Financial Assets and Financial Investments with Risks on Policyholders		--	--
9- Other Financial Assets		--	--
10- Impairment in Value of Financial Assets		--	--
E- Tangible Assets	6	476,051,637	419,380,392
1- Investment Properties	6,7	326,090,000	270,568,050
2- Impairment for Investment Properties		--	--
3- Owner Occupied Property	6	147,915,000	147,116,950
4- Machinery and Equipments		--	--
5- Furniture and Fixtures	6	5,578,940	4,955,519
6- Motor Vehicles	6	1,113,102	1,239,468
7- Other Tangible Assets (Including Leasehold Improvements)		--	--
8- Tangible Assets Acquired Through Finance Leases		--	--
9- Accumulated Depreciation	6	(4,645,405)	(4,499,595)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		--	--
F- Intangible Assets	8	14,469,433	7,587,984
1- Rights	8	5,405,787	4,448,929
2- Goodwill		--	--
3- Pre-operating Expenses		--	--
4- Research and Development Costs		--	--
5- Other Intangible Assets		--	--
6- Accumulated Amortization	8	(3,319,811)	(2,399,309)
7- Advances Paid for Intangible Assets	8	12,383,457	5,538,364
G- Prepaid Expenses and Income Accruals		85,479	122,987
1- Deferred Acquisition Costs		--	--
2- Income Accruals		--	--
3- Other Prepaid Expenses		85,479	122,987
H- Other Non-Current Assets		--	--
1- Effective Foreign Currency Accounts		--	--
2- Foreign Currency Accounts		--	--
3- Stocks to be Used in the Following Years		--	--
4- Prepaid Taxes and Funds		--	--
5- Deferred Tax Assets		--	--
6- Other Miscellaneous Non-Current Assets		--	--
7- Amortization on Other Non-Current Assets		--	--
8- Provision for Other Non-Current Assets		--	--
II- Total Non-Current Assets		1,041,875,459	872,336,734
TOTAL ASSETS		2,822,479,662	2,647,784,232

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Balance Sheet As At 31 December 2016

(Currency: Turkish Lira (TL))

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

LIABILITIES			
III- Short-Term Liabilities	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
A- Financial Liabilities		--	86,678,332
1- Borrowings from Financial Institutions		--	--
2- Finance Lease Payables		--	--
3- Deferred Leasing Costs		--	--
4- Current Portion of Long Term Debts		--	--
5- Principal Installments and Interests on Bonds Issued		--	--
6- Other Financial Assets Issued		--	--
7- Valuation Differences of Other Financial Assets Issued		--	--
8- Other Financial Liabilities		--	86,678,332
B- Payables Arising from Main Operations	19	36,432,984	44,146,054
1- Payables Arising from Insurance Operations		--	--
2- Payables Arising from Reinsurance Operations		35,487,143	43,014,872
3- Cash Deposited by Insurance and Reinsurance Companies		945,841	1,131,182
4- Payables Arising from Pension Operations		--	--
5- Payables Arising from Other Operations		--	--
6- Discount on Payables from Other Operations		--	--
C-Due to Related Parties	19	80,030	66,378
1- Due to Shareholders	45	66,287	53,738
2- Due to Associates		--	--
3- Due to Subsidiaries		--	--
4- Due to Joint Ventures		--	--
5- Due to Personnel		--	--
6- Due to Other Related Parties	45	13,743	12,640
D- Other Payables	19	2,941,103	2,229,087
1- Deposits and Guarantees Received		1,950,000	--
2- Payables to Social Security Institution Related to Treatment Expenses		--	--
3- Other Miscellaneous Payables	19,4.2	991,103	2,229,087
4- Discount on Other Miscellaneous Payables		--	--
E-Insurance Technical Provisions	17	1,341,749,642	1,265,406,202
1- Reserve for Unearned Premiums - Net	17	371,110,571	396,032,867
2- Reserve for Unexpired Risks- Net	17	11,121,932	27,889,285
3- Life Mathematical Provisions - Net	17	165,157	491,937
4- Provision for Outstanding Claims - Net	17	959,351,982	840,992,113
5- Provision for Bonus and Discounts - Net		--	--
6- Other Technical Provisions - Net		--	--
F- Provisions for Taxes and Other Similar Obligations	19	1,453,431	1,673,213
1- Taxes and Funds Payable		1,321,251	1,528,221
2- Social Security Premiums Payable		132,180	144,992
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		--	--
4- Other Taxes and Similar Payables		--	--
5- Corporate Tax Payable	35	3,558,844	--
6- Prepaid Taxes and Other Liabilities Regarding Current Year Income	35	(3,558,844)	--
7- Provisions for Other Taxes and Similar Liabilities		--	--
G- Provisions for Other Risks			--
1- Provision for Employee Termination Benefits		--	--
2- Provision for Pension Fund Deficits		--	--
3- Provisions for Costs		--	--
H- Deferred Income and Expense Accruals	19	4,778,313	3,518,287
1- Deferred Commission Income	10,19	449,504	362,614
2- Expense Accruals	19	4,165,628	2,989,356
3- Other Deferred Income	19	163,181	166,317
I- Other Short Term Liabilities		--	--
1- Deferred Tax Liabilities		--	--
2- Inventory Count Differences		--	--
3- Other Various Short Term Liabilities		--	--
III - Total Short Term Liabilities		1,387,435,503	1,403,717,553

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Balance Sheet
As At 31 December 2016

(Currency: Turkish Lira (TL))

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

LIABILITIES

IV- Long-Term Liabilities	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
A- Financial Liabilities		--	--
1- Borrowings from Financial Institutions		--	--
2- Finance Lease Payables		--	--
3- Deferred Leasing Costs		--	--
4- Bonds Issued		--	--
5- Other Financial Assets Issued		--	--
6- Valuation Differences of Other Financial Assets Issued		--	--
7- Other Financial Liabilities		--	--
B- Payables Arising from Operating Activities		--	--
1- Payables Arising from Insurance Operations		--	--
2- Payables Arising from Reinsurance Operations		--	--
3- Cash Deposited by Insurance and Reinsurance Companies		--	--
4- Payables Arising from Pension Operations		--	--
5- Payables Arising from Other Operations		--	--
6- Discount on Payables from Other Operations		--	--
C- Due to Related Parties		--	--
1- Due to Shareholders		--	--
2- Due to Associates		--	--
3- Due to Subsidiaries		--	--
4- Due to Joint Ventures		--	--
5- Due to Personnel		--	--
6- Due to Other Related Parties		--	--
D- Other Payables		--	--
1- Deposits and Guarantees Received		--	--
2- Payables to Social Security Institution Related to Treatment Expenses		--	--
3- Other Miscellaneous Payables		--	--
4- Discount on Other Miscellaneous Payables		--	--
E-Insurance Technical Provisions	17	45,209,926	23,432,191
1- Reserve for Unearned Premiums - Net		--	--
2- Reserve for Unexpired Risks - Net		--	--
3- Life Mathematical Provisions - Net		--	--
4- Provision for Outstanding Claims - Net		--	--
5- Provision for Bonus and Discounts - Net		--	--
6- Other Technical Provisions - Net	17	45,209,926	23,432,191
F-Other Liabilities and Relevant Accruals		--	--
1- Other Liabilities		--	--
2- Overdue, Deferred or By Installment Taxes and Other Liabilities		--	--
3- Other Liabilities and Expense Accruals		--	--
G- Provisions for Other Risks	23	36,887,730	35,008,709
1- Provisions for Employment Termination Benefits	23	7,202,618	6,649,770
2- Provisions for Pension Fund Deficits	22,23	29,685,112	28,358,939
H-Deferred Income and Expense Accruals	19	--	43,333
1- Deferred Commission Income		--	--
2- Expense Accruals		--	--
3- Other Deferred Income	19	--	43,333
I- Other Long Term Liabilities	21	17,039,884	1,683,513
1- Deferred Tax Liabilities	21	17,039,884	1,683,513
2- Other Long Term Liabilities		--	--
IV - Total Long Term Liabilities		99,137,540	60,167,746

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Balance Sheet
As At 31 December 2016

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

EQUITY

V- Equity	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
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 Capital Restatement Differences		--	--
4- Negative Capital Restatement Differences (-)		--	--
5- Unregistered Capital		--	--
B- Capital Reserves	15	121,258,386	102,768,415
1- Share Premiums		--	--
2- Cancellation Profits of Equity Shares		--	--
3- Profit on Sale Assets That Will Be Transferred to Capital	15	23,723,323	--
4- Currency Translation Adjustments	15	(26,027,092)	(19,573,401)
5- Other Capital Reserves	15	123,562,155	122,341,816
C- Profit Reserves		259,066,470	139,649,789
1- Legal Reserves	15	55,535,403	49,622,694
2- Statutory Reserves	15	--	--
3- Extraordinary Reserves	15	15,545,335	12,899
4- Special Funds		--	--
5- Revaluation of Financial Assets	11,15	189,009,992	90,674,929
6- Other Profit Reserves	15	(1,024,260)	(660,733)
D- Retained Earnings		166,338,531	163,931,907
1- Retained Earnings		166,338,531	163,931,907
E- Accumulated Losses		--	(12,694,585)
1- Accumulated Losses		--	(12,694,585)
F-Net Profit/(Loss) for the Year	15	129,243,232	130,243,407
1- Net Profit for the Year		129,243,232	106,520,084
2- Net Loss for the Year		--	--
3- Net Profit for the Period not Subject to Distribution	15	--	23,723,323
V- Total Equity		1,335,906,619	1,183,898,933
TOTAL EQUITY AND LIABILITIES		2,822,479,662	2,647,784,232

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Statement of Income
For the Year Ended 31 December 2016

(Currency: Turkish Lira (TL))

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

I-TECHNICAL SECTION	Note	Audited Current Period 1 January- 31 December 2016	Audited Prior Period 1 January 31 December 2015
A- Non-Life Technical Income		1,052,100,689	1,006,724,212
1- Earned Premiums (Net of Reinsurer Share)		855,212,905	840,267,533
1.1- Written Premiums (Net of Reinsurer Share)	17	812,947,965	862,688,148
1.1.1- Written Premiums, gross	17	910,755,876	977,001,532
1.1.2- Written Premiums, ceded	10, 17	(97,807,911)	(114,313,384)
1.1.3- Written Premiums, SSI share		--	--
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17, 29	25,497,587	(35,680,159)
1.2.1- Reserve for Unearned Premiums, gross	17	27,459,609	(37,430,378)
1.2.2- Reserve for Unearned Premiums, ceded	10,17	(1,962,022)	1,750,219
1.2.3- Reserve for Unearned Premiums, SSI share		--	--
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		16,767,353	13,259,544
1.3.1- Reserve for Unexpired Risks, gross		16,864,912	14,148,426
1.3.2- Reserve for Unexpired Risks, ceded		(97,559)	(888,882)
2- Investment Income - Transferred from Non-Technical Section		148,513,629	100,911,676
3- Other Technical Income (Net of Reinsurer Share)		48,374,155	65,545,003
3.1- Other Technical Income, gross		48,374,453	65,545,003
3.2- Other Technical Income, ceded		(298)	--
4. Accrued Salvage and Subrogation Income		--	--
B- Non-Life Technical Expense		(984,310,890)	(1,040,786,258)
1- Incurred Losses (Net of Reinsurer Share)		(662,110,757)	(740,930,585)
1.1- Claims Paid (Net of Reinsurer Share)	17, 29	(546,199,418)	(640,661,376)
1.1.1- Claims Paid, gross	17	(563,756,303)	(657,489,735)
1.1.2- Claims Paid, ceded	10, 17	17,556,885	16,828,359
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17, 29	(115,911,339)	(100,269,209)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(132,937,317)	(108,990,658)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10, 17	17,025,978	8,721,449
2- Change in Provision for Bonus and Discounts (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
2.1- Provision for Bonus and Discounts, gross		--	--
2.2- Provision for Bonus and Discounts, ceded		--	--
3- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(21,194,150)	(728,774)
4- Operating Expenses	32	(301,261,561)	(298,871,321)
5- Change in Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)		255,578	(255,578)
5.1- Mathematical Provisions		255,578	(255,578)
5.2- Mathematical Provisions, ceded		--	--
6- Other Technical Expense		--	--
6.1- Other Technical Expense, gross		--	--
6.2- Other Technical Expense, ceded		--	--
C- Net Technical Income-Non-Life (A - B)		67,789,799	(34,062,046)
D- Life Technical Income		19,687,077	19,541,877
1- Earned Premiums (Net of Reinsurer Share)		17,549,152	17,904,430
1.1- Written Premiums (Net of Reinsurer Share)	17	18,124,443	18,297,354
1.1.1- Written Premiums, gross	17	19,210,055	19,755,699
1.1.2- Written Premiums, ceded	10, 17	(1,085,612)	(1,458,345)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17, 29	(575,291)	(392,924)
1.2.1- Reserve for Unearned Premiums, gross	17	(502,515)	84,139
1.2.2- Reserve for Unearned Premiums, ceded	10, 17	(72,776)	(477,063)
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
1.3.1- Reserve for Unexpired Risks, gross		--	--
1.3.2- Reserve for Unexpired Risks, ceded		--	--
2- Investment Income		2,049,914	1,466,954
3- Unrealized Gains on Investments		--	--
4- Other Technical Income (Net of Reinsurer Share)		88,011	170,493
4.1- Other Technical Income, gross		185,899	59,603
4.2- Other Technical Income, ceded		(97,888)	110,890
5- Accrued Salvage and Subrogation Income		--	--

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Statement of Income
For the Year Ended 31 December 2016

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

I-TECHNICAL SECTION	Note	Audited Current Period 1 January- 31 December 2016	Audited Prior Period 1 January- 31 December 2015
E- Life Technical Expense		(21,187,012)	(16,825,215)
1- Incurred Losses (Net of Reinsurer Share)		(10,454,943)	(6,575,473)
1.1- Claims Paid (Net of Reinsurer Share)	17,29	(8,006,413)	(6,111,970)
1.1.1- Claims Paid, gross	17	(8,664,622)	(6,492,393)
1.1.2- Claims Paid, ceded	10,17	658,209	380,423
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17,29	(2,448,530)	(463,503)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(2,730,793)	(828,662)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10, 17	282,263	365,159
2- Change in Provision for Bonus and Discounts (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
2.1- Provision for Bonus and Discounts, gross		--	--
2.2- Provision for Bonus and Discounts, ceded		--	--
3- Change in Life Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	71,202	131,983
3.1- Change in Mathematical Provisions, gross	29	71,202	131,983
3.1.1- Actuarial Mathematical Provisions	29	71,202	131,983
3.1.2- Profit Sharing Provisions (Provisions for Policies Investment Risks of Which Belong to Life Insurance Policyholders)		--	--
3.2- Change in Mathematical Provisions, ceded		--	--
3.2.1- Actuarial Mathematical Provisions, ceded		--	--
3.2.2- Profit Sharing Provisions, ceded (Provisions for Policies Investment Risks of Which Belong to Life Insurance Policyholders)		--	--
4- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(583,585)	(199,272)
5- Operating Expenses	32	(10,219,686)	(10,182,453)
6- Investment Expenses		--	--
7- Unrealized Losses on Investments		--	--
8- Investment Income Transferred to the Non-Life Technical Section		--	--
F- Net Technical Income- Life (D - E)		(1,499,935)	2,716,662
G- Pension Business Technical Income		--	--
1- Fund Management Income		--	--
2- Management Fee		--	--
3- Entrance Fee Income		--	--
4- Management Expense Charge in case of Suspension		--	--
5- Income from Private Service Charges		--	--
6- Increase in Value of Capital Allowances Given as Advance		--	--
7- Other Technical Expense		--	--
H- Pension Business Technical Expense		--	--
1- Fund Management Expense		--	--
2- Decrease in Value of Capital Allowances Given as Advance		--	--
3- Operating Expenses		--	--
4- Other Technical Expenses		--	--
I- Net Technical Income - Pension Business (G - H)		--	--

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Statement of Income For the Year Ended 31 December 2016

(Currency: Turkish Lira (TL))

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

II-NON-TECHNICAL SECTION	Note	Audited Current Period 1 January- 31 December 2016	Audited Prior Period 1 January- 31 December 2015
C- Net Technical Income - Non-Life (A-B)		67,789,799	(34,062,046)
F- Net Technical Income - Life (D-E)		(1,499,935)	2,716,662
I - Net Technical Income - Pension Business (G-H)		--	--
J- Total Net Technical Income (C+F+I)		66,289,864	(31,345,384)
K- Investment Income		261,178,363	292,239,946
1- Income from Financial Assets	4.2	115,793,940	105,821,748
2- Income from Disposal of Financial Assets	4.2	21,471,729	46,261,965
3- Valuation of Financial Assets	4.2	3,530,869	(1,047,109)
4- Foreign Exchange Gains	4.2	50,478,175	39,769,808
5- Income from Associates		--	--
6- Income from Subsidiaries and Joint Ventures	4.2	3,251	12,039,179
7- Income from Property, Plant and Equipment	7	69,788,799	89,172,855
8- Income from Derivative Transactions	4.2	--	66,500
9- Other Investments		111,600	155,000
10- Income Transferred from Life Section		--	--
L- Investment Expense		(175,258,106)	(121,243,981)
1- Investment Management Expenses (inc. interest)	4.2	(3,874,438)	(2,121,010)
2- Diminution in Value of Investments		--	--
3- Loss from Disposal of Financial Assets	4.2	(1,964,332)	(1,410,932)
4- Investment Income Transferred to Non-Life Technical Section		(148,513,629)	(100,911,677)
5- Loss from Derivative Transactions		--	--
6- Foreign Exchange Losses	4.2	(11,234,726)	(6,826,180)
7- Depreciation and Amortization Expenses	6,8	(1,716,887)	(1,543,485)
8- Other Investment Expenses		(7,954,094)	(8,430,697)
M- Income and Expenses From Other and Extraordinary Operations		(19,408,045)	(9,407,174)
1- Provisions	47	(10,907,174)	(19,376)
2- Rediscounts	47	550,110	(458,919)
3- Specified Insurance Accounts		--	--
4- Monetary Gains and Losses		--	--
5- Deferred Taxation (Deferred Tax Assets)		--	--
6- Deferred Taxation (Deferred Tax Liabilities)	21,35	(9,677,726)	(9,045,756)
7- Other Income		683,078	1,927,908
8- Other Expenses and Losses		(56,333)	(1,811,031)
9- Prior Year's Income		--	--
10- Prior Year's Expenses and Losses		--	--
N- Net Profit for the Year		129,243,232	130,243,407
1- Profit for the Year		132,802,076	130,243,407
2- Corporate Tax Provision and Other Fiscal Liabilities	35	(3,558,844)	--
3- Net Profit for the Year		129,243,232	130,243,407
4- Monetary Gains and Losses		--	--

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Statement of Changes in Equity
For the Year Ended 31 December 2016

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

Audited Changes in Equity - 31 December 2015

	Note	Paid-in capital	Own shares of the company	Revaluation of financial assets	Inflation adjustment	Currency translation adjustment
I - Balance at the end of the previous year - 31 December 2014		660,000,000	--	68,254,045	--	(11,907,682)
A- Capital increase		--	--	--	--	--
1- In cash		--	--	--	--	--
2- From reserves		--	--	--	--	--
B- Purchase of own shares		--	--	--	--	--
C- Gains or losses that are not included in the statement of income		--	--	--	--	--
D- Change in the value of financial assets	15	--	--	22,420,884	--	--
E- Currency translation adjustments		--	--	--	--	(7,665,719)
F- Other gains or losses		--	--	--	--	
G- Inflation adjustment differences		--	--	--	--	--
H- Net profit for the year		--	--	--	--	--
I - Other reserves and transfers from retained earnings	38	--	--	--	--	--
J- Dividends paid		--	--	--	--	--
II - Balance at the end of the year - 31 December 2015	15	660,000,000	--	90,674,929	--	(19,573,401)

Audited Changes in Equity - 31 December 2016

	Note	Paid-in capital	Own shares of the company	Revaluation of financial assets	Inflation adjustment	Currency translation adjustment
I - Balance at the end of the previous year - 31 December 2015		660,000,000	--	90,674,929	--	(19,573,401)
A- Capital increase		--	--	--	--	--
1- In cash		--	--	--	--	--
2- From reserves		--	--	--	--	--
B- Purchase of own shares	15	--	--	--	--	--
C- Gains or losses that are not included in the statement of income		--	--	--	--	--
D- Change in the value of financial assets	15	--	--	98,335,063	--	--
E- Currency translation adjustments		--	--	--	--	(6,453,691)
F- Other gains or losses		--	--	--	--	--
G- Inflation adjustment differences		--	--	--	--	--
H- Net profit for the year		--	--	--	--	--
I - Other reserves and transfers from retained earnings	38	--	--	--	--	--
J- Dividends paid		--	--	--	--	--
II - Balance at the end of the year - 31 December 2016	15	660,000,000	--	189,009,992	--	(26,027,092)

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

Legal reserves	Statutory reserves	Other reserves and retained earnings	Net profit for the year	Retained earnings	Total
49,622,694	--	(272,679)	30.425.902	120.811.420	916.933.700
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	121,966,661	--	--	121,966,661
--	--	--	--	--	22,420,884
--	--	--	--	--	(7,665,719)
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	130,243,407	--	130,243,407
--	--	--	(30,425,902)	30,425,902	--
--	--	--	--	--	--
49,622,694	--	121,693,982	130,243,407	151,237,322	1,183,898,933

Legal reserves	Statutory reserves	Other reserves and retained earnings	Net profit for the year	Retained earnings	Total
49,622,694	--	121,693,982	130,243,407	151,237,322	1,183,898,933
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	(27,166,000)	--	--	(27,166,000)
--	--	856,812	--	--	856,812
--	--	--	--	--	98,335,063
--	--	--	--	--	(6,453,691)
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	129,243,232	--	129,243,232
5,912,709	--	66,421,759	(87,435,677)	15,101,209	--
--	--	--	(42,807,730)	--	(42,807,730)
55,535,403	--	161,806,553	129,243,232	166,338,531	1,335,906,619

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Statement of Cash Flows
For the Year Ended 31 December 2016

(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
A. Cash flows from operating activities			
1. Cash provided from insurance activities		--	--
2. Cash provided from reinsurance activities		970,287,758	1,088,213,091
3. Cash provided from private pension business		--	--
4. Cash used in insurance activities		--	--
5. Cash used in reinsurance activities		(934,187,508)	(1,101,409,824)
6. Cash used in private pension business		--	--
7. Cash provided from operating activities		36,100,250	(13,196,733)
8. Interest paid		--	--
9. Income taxes paid		(10,488,911)	--
10. Other cash inflows		19,986,988	5,956,258
11. Other cash outflows		(20,601,323)	(6,134,078)
12. Net cash provided from operating activities		24,997,004	(13,374,553)
B. Cash flows from investing activities		--	
1. Proceeds from disposal of tangible assets		333,274	155,000
2. Acquisition of tangible assets	6, 8	(8,550,950)	(7,997,656)
3. Acquisition of financial assets	11	(441,427,489)	(555,614,361)
4. Proceeds from disposal of financial assets	11	558,559,879	601,245,811
5. Interests received		364,053,046	100,917,317
6. Dividends received		2,240,297	14,692,935
7. Other cash inflows		63,367,652	48,870,269
8. Other cash outflows		(27,497,837)	(302,288,624)
9. Net cash provided by/(used in) investing activities		511,077,872	(100,019,309)
C. Cash flows from financing activities		--	--
1. Equity shares issued		--	--
2. Cash provided from loans and borrowings		--	--
3. Finance lease payments		--	--
4. Dividends paid		(45,197,943)	--
5. Other cash inflows		--	86,678,332
6. Other cash outflows		(110,233,780)	--
7. Net cash provided by financing activities		(155,431,723)	86,678,332
D. Effect of exchange rate fluctuations on cash and cash equivalents		1,761	(451)
E. Net increase/(decrease) in cash and cash equivalents		380,644,914	(26,715,981)
F. Cash and cash equivalents at the beginning of the year	14	633,417,846	660,133,827
G. Cash and cash equivalents at the end of the year	14	1,014,062,760	633,417,846

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

Millî Reasürans Türk Anonim Şirketi

Unconsolidated Statement of Profit Distribution For the Year Ended 31 December 2016

(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period 31 December 2016 (*)	Audited Prior Period 31 December 2015
I. DISTRIBUTION OF THE PERIOD PROFIT			
1.1. PERIOD PROFIT (**)		135,640,914	130,243,407
1.2. TAXES AND DUTIES PAYABLE	35	(3,558,844)	--
1.2.1. Corporate Tax (Income Tax)	35	(3,558,844)	--
1.2.2. Income Tax Deductions		--	--
1.2.3. Other Taxes and Legal Duties		--	--
A. CURRENT PERIOD PROFIT (1.1 - 1.2)		132,082,070	130,243,407
1.3. ACCUMULATED LOSSES (-)		--	(12,694,585)
1.4. FIRST LEGAL RESERVES (-)		(6,604,104)	(4,491,275)
1.5. OTHER STATUTORY RESERVES (-)		--	(23,723,323)
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A - (1.3 + 1.4 + 1.5)]		125,477,966	89,134,224
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)		--	(8,913,422)
1.6.1. To owners of ordinary shares		--	(8,913,422)
1.6.2. To owners of privileged shares		--	--
1.6.3. To owners of redeemed shares		--	--
1.6.4. To holders profit sharing bonds		--	--
1.6.5. To holders of profit and loss sharing certificates		--	--
1.7. DIVIDENDS TO PERSONNEL (-)		--	(2,406,624)
1.8. DIVIDENDS TO FOUNDERS (-)		--	(2,807,728)
1.9. DIVIDENDS TO BOARD OF DIRECTORS (-)		--	--
1.10. SECOND DIVIDEND TO SHAREHOLDERS (-)		--	(31,086,578)
1.10.1. To owners of ordinary shares		--	(31,086,578)
1.10.2. To owners of privileged shares		--	--
1.10.3. To owners of redeemed shares		--	--
1.10.4. To holders profit sharing bonds		--	--
1.10.5. To holders of profit and loss sharing certificates		--	--
1.11. LEGAL RESERVES (-)		--	(1,221,435)
1.12. STATUTORY RESERVES(-)		--	--
1.13. EXTRAORDINARY RESERVES		--	(42,698,437)
1.14 OTHER RESERVES		--	--
1.15 SPECIAL FUNDS		--	--
II. DISTRIBUTION OF RESERVES		--	--
2.1. APPROPRIATED RESERVES		--	--
2.2. SECOND LEGAL RESERVES (-)		--	--
2.3. DIVIDENDS TO SHAREHOLDERS (-)		--	--
2.3.1. To owners of ordinary shares		--	--
2.3.2. To owners of privileged shares		--	--
2.3.3. To owners of redeemed shares		--	--
2.3.4. To holders of profit sharing bonds		--	--
2.3.5. To holders of profit and loss sharing certificates		--	--
2.4. DIVIDENDS TO PERSONNEL (-)		--	--
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)		--	--
III. EARNINGS PER SHARE		--	--
3.1. TO OWNERS OF ORDINARY SHARES		--	130,243,407
3.2. TO OWNERS OF ORDINARY SHARES (%)		--	19,7338
3.3. TO OWNERS OF PRIVILEGED SHARES		--	--
3.4. TO OWNERS OF PRIVILEGED SHARES (%)		--	--
IV. DIVIDEND PER SHARE		--	--
4.1. TO OWNERS OF ORDINARY SHARES		--	40,000,000
4.2. TO OWNERS OF ORDINARY SHARES (%)		--	6,0606
4.3. TO OWNERS OF PRIVILEGED SHARES		--	--
4.4. TO OWNERS OF PRIVILEGED SHARES (%)		--	--

(*) Since the profit distribution proposal for the year 2016 has not prepared by the Board of Directors, profit distribution table has not been filled yet.

(**) Reserve for personnel dividend amounting to TL 2,838,838 that recognized according to TMS 19 is included in period profit as of 31 December 2016.

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

1 General information

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

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 26 February 1929 and has been operating since in 19 July 1929.

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

The Company was registered in Turkey in 16 July 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 Business 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.

1.4 Description of the main operations of the Company

The Company conducts its operations in accordance with the Insurance Law No. 5684 ("the Insurance Law") issued in 14 June 2007 dated and 26552 numbered Official Gazette and the communiqués and other regulations in force issued by the Turkish Treasury based on the Insurance Law.

The 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.

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

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

	31 December 2016	31 December 2015
Senior managers	5	6
Managers	25	21
Officers	122	120
Contracted personnel	6	7
Other personnel	41	46
Total	199	200

(Currency: Turkish Lira (TL))

1.6 Wages and similar benefits provided to the senior management

For the year ended 31 December 2016, wages and similar benefits provided to the senior management including chairman, members of the board of the directors, general manager, general coordinator, and deputy general managers is amounting to TL 5,680,833 (31 December 2015: TL 5,362,547).

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

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

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 6 March 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 is distributed to the sub-branches in accordance with the percentage calculated by dividing "net cash flow" to the "total net cash flow", 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 only the unconsolidated financial information of the Company. As further discussed in note 2.2 - *Consolidation,* the Company has prepared consolidated financial statements as at 31 December 2016 separately.

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

There has been no change in the Company's operations, documentation and records or policies after the reporting date.

2 Summary of significant accounting policies

2.1 Basis of preparation

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

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

According to numbered 4th related law Accounting for subsidiaries, associates, joint ventures, consolidated financial statements, financial statements which disclosed public regulated by the Turkish Treasury.

The Company prepares its financial statements are regulated in form and content in order to compare the financial statements of prior period and with other companies according to "Communiqué on Presentation of Financial Statements " which is published in the Official Gazette dated 18 April 2008 and numbered 26851.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

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

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

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 at 31 December 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 4 April 2005 and numbered 19387, financial statements as of 31 December 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 15 January 2003 and numbered 25290. Inflation accounting is no longer applied starting from 1 January 2005, in accordance with the same declaration of the Turkish Treasury. Accordingly, as at 31 December 2016, non-monetary assets and liabilities and items included in shareholders' equity including paid-in capital recognized or recorded before 1 January 2005 are measured as restated to 31 December 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 1 January 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 31 December 2015 and nine-month results as at and for the period ended 30 September 2016 and accordingly related balance sheet balances as at 31 December 2016 do not reflect the actual position. According to the letter dated 31 August 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 Current and presentation currency

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

2.1.4 Rounding scale of the amounts presented in the financial statements

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

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

The accompanying financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2004, except for the financial assets held for trading, 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 2 August 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 12 August 2011 sent by the Turkish Treasury to the Company, prospective application as at 30 June 2011 effective from 1 January 2011 is allowed since retrospective application is impossible. Accordingly, financial statements prepared as at 31 December 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 1 January - 31 December 2016. The same ratio is used for unproportioned reinsurance treaties in accordance with the Communiqué released on 28 July 2010 and numbered 27655 "Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves". Distribution of commissions and claims between the fire and earthquake branches is parallel with the aforementioned method.

According to the letter dated 12 January 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 at 31 December 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, provision for outstanding claims 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.

According to 16th article of "Circular on Actuarial Chain Ladder Method (2010/12)" dated 20 September 2010 and announced by Turkish Treasury, ACML calculation should be made through main branches. However, as at 31 December 2012, the Company has calculated ACML reserve for General Damages main branch as two separate sub branches namely agriculture and non agriculture branches. Because, Agriculture and Engineering sub branches 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 17 January 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 separately. Turkish Treasury has given permission the Company in order to calculate IBNR reserve for General Damages within two sub branches with the letter dated 28 January 2013 and numbered 24179134. As at 31 December 2016, 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 - *Critical accounting estimates and judgments in applying accounting policies.*

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.

In this context, Company's associate; Anadolu Anonim Türk Sigorta Şirketi ("Anadolu Sigorta") has been consolidated in the consolidated financial statements that are prepared separately.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

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 31 December 2016 and 2015.

In the 12 August 2008 dated and 2008/36 numbered "Sector Announcement Related to the Accounting of Subsidiaries, Associates and Joint Ventures in the Stand Alone Financial Statements of Insurance, Reinsurance and Individual Pension Companies" of the Turkish Treasury, it is stated that although insurance, reinsurance and individual pension companies are exempted from TAS 27 - *Consolidated and Separate Financial Statements*, subsidiaries, associates and joint-ventures could be accounted in accordance with TAS 39 - *Financial Instruments: Recognition and Measurement* or at cost in accordance with TAS 27 - *Consolidated and Separate Financial Statements.* Parallel to the related sector announcements mentioned above, as at the reporting date the Company has accounted for its associate at fair value based on quoted market price.

2.3 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. As at 31 December 2016, the Company 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 Company's functional currency. Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date and all exchange differences, except for those arising on the translation of the fair value change of available-for-sale financial assets, are offset and are recognized as foreign exchange gains or losses.

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 equity.

2.5 Tangible assets

Except self-used buildings, tangible assets are recorded at their historical costs that have been adjusted according to the inflation rates until the end of 31 December 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 31 December 2004. Tangible assets that have been purchased after 1 January 2005 have been recorded at their costs excluding their exchange rate differences and finance expenses less impairment losses if any.

The Company has changed historical cost basis method with revaluation method for self-used buildings. Fair values of self-used buildings have been reflected in the financial statements instead of historical cost values since third quarter of 2015.

The fair values of self-used buildings were provided by CMB licensed real estate companies. The fair values excluding the accumulated depreciation are reflected in the financial statements.

Increase arising from the revaluation of self-used buildings is 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 lives. Tangible assets are depreciated on a straight-line basis over their estimated useful lives (3-15 years) over the cost of the asset and 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.

(Currency: Turkish Lira (TL))

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 since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Depreciation rates and estimated useful lives are as follows:

Tangible assets	Estimated useful lives (years)	Depreciation rates (%)
Self-used buildings	50	2.0
Machinery and equipment	3 - 15	6.7 - 33.3
Vehicles	5	20.0
Other tangible assets (includes leasehold improvements)	5	20.0

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 reclassificated as a tangible asset.

2.7 Intangible assets

The Company's intangible assets consist of computer software.

Intangible assets are recorded at cost in compliance with the "TAS 38 - Accounting for intangible assets". The cost of the intangible assets purchased before 31 December 2004 are restated from the purchasing dates to 31 December 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 Company and will probably provide more economic benefits than costs in one year are recognized as intangible assets. Costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding three years).

2.8 Financial assets

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

Securities are recognized and derecognized at the date of settlement.

Financial assets are classified in four categories; as financial assets at fair value through profit or loss, available-for-sale financial assets, held to maturity financial assets, and loans and receivables.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

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.

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 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.

Subsidiaries are the entities that the Company has the power to govern the financial and operating policies of those so as to obtain benefits from its activities. Subsidiaries, traded in an active market or whose fair value can be reliably measured, are recorded at their fair values. Subsidiaries that are not traded in an active market and whose fair value cannot be reliably set are reflected in financial statements at their costs after deducting impairment losses, if any.

2.9 Impairment on assets

Impairment on financial assets

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

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

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

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

Impairment on tangible and intangible assets

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

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

(Currency: Turkish Lira (TL))

2.10 Derivative financial instruments

As of the reporting date, the Company does not have any derivative financial instruments (31 December 2015: None). 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 Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

2.12 Cash and cash equivalents

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

2.13 Capital

The shareholder having direct or indirect control over the shares of the Company is İş Bankası Group by having 76.64% of the outstanding shares of the Company. As at 31 December 2016 and 2015, the share capital and ownership structure of the Company are as follows:

	31 December 2016		31 December 2015	
Name	Shareholding amount (TL)	Shareholding rate (%)	Shareholding amount (TL)	Shareholding rate (%)
Türkiye İş Bankası A.Ş.	505,810,925	76.64	505,810,925	76.64
Millî Reasürans T.A.Ş Mensupları Yardımlaşma Sandığı Vakfı (**)	69,604,854	10.55	69,585,028	10.54
Groupama Emeklilik A.Ş.	38,809,894	5.88	38,809,894	5.88
Ankara Doğal Elektrik Üretim ve Ticaret A.Ş. (*)	22,240,456	3.37	--	--
T.C. Ziraat Bankası A.Ş.	16,430,944	2.49	16,430,944	2.49
Others (**)	7,102,927	1.07	7,122,753	1.08
T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı	--	--	22,240,456	3.37
Paid in capital	660,000,000	100.00	660,000,000	100.00

(*) As of 11 March 2016, the Company has decided to transfer total amount of 3.37% shares with TL 22,240,456 nominal value owned by T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı which is one of the shareholders of the Company to Ankara Doğal Elektrik Üretim ve Ticaret A.Ş. and to record this transfer to the share ledger with the Board Decision numbered 1239 and dated 11 March 2016.

(**) The Company has decided to transfer total amount of 0.003004% Millî Reasürans T.A.Ş. shares with TL 19,826 nominal value owned by Fatma Ayşe Feyzioğlu Karakaş, Mevhibe Derya Feyzioğlu and Ali Zihni Feyzioğlu who are shareholders of the Company to Millî Reasürans T.A.Ş. Mensupları Yardımlaşma Sandığı Vakfı with the Board Decision numbered 1242 and dated 10 June 2016.

Sources of the capital increases during the year

None.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

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 27 June 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 30 November 2016.

Registered capital system in the Company

None.

Repurchased own shares by the Company

None.

2.14 Insurance and investment contracts - classification

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

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

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

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

2.15 Insurance contracts and investment contracts with discretionary participation feature

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

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

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

2.16 Investment contracts with DPF

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

2.17 Liabilities

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

2.18 Income taxes

Corporate tax

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

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

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

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. As at 31 December 2016, the Company does not have any deductible tax losses (31 December 2015: TL 50,197,498).

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.

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

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

Transfer pricing

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

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

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") 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 8 May 2008. Decree of the Council of Ministers about two years extending transfer duration, was published in the Official Gazette on 9 April 2011. Based on this, expiration date has been extended to 8 May 2013 from the expiration date on 8 May 2011. On 8 March 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 3 May 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 8 May 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 9 April 2011. Accordingly, the three-year period expired on 8 May 2011 was extended to the 8 May 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 23 April 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) subclause 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 9.80% 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.

Employee termination benefits

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

(Currency: Turkish Lira (TL))

The Company accounted for employee severance indemnities using actuarial method in compliance with the TAS 19 - *Employee Benefits*. After the revision of TAS 19, as the amount of actuarial gain and loss are presented under the other profit reserves, which were previously shown under the income statement. The major actuarial assumptions used in the calculation of the total liability as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Discount rate	4.25%	3.77%
Expected rate of salary/limit increase	6.00%	5.00%
Estimated employee turnover rate	2.00%	2.00%

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

Other benefits

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

2.20 Provisions

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

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

2.21 Revenue recognition

Written premiums

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

Claims paid

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

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 1 January 2008 and recognizing deferred commission income and deferred commission expense in the financial statements for the policies produced after 1 January 2008.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

Interest income and expenses

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

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

Trading income/expense

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

Dividends

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

2.22 Leasing transaction

As at the reporting date, there is no financial lease contract of the Company.

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

As a result of the General Assembly Meeting of the Company held on 25 March 2016, the Company has decided to distribute subsidiary sale exemption amounting to TL 23,723,323 to sales profits to be capitalized, TL 12,694,585 to accumulated losses as deducting from net profit for the year of 2015 amounting to TL 130,243,407 and after deducting legal reserves from remained amount, it has been decided to distribute TL 42,807,730 as cash dividend and TL 2,406,624 as personnel dividend and the remaining TL 42,698,436 as extraordinary reserves and the profit is distributed in the period.

2.24 Reserve for unearned premiums

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

- Reserve for unearned premiums are calculated on the basis of 1/8 for reinsurance and retrocession transactions that are not subject to basis of day or 1/24 due to application limitations,
- For commodity transportation policies with indefinite expiration dates, 50% of the remaining portion of the premiums accrued in the last three months, less any commissions is also provided as unearned premium reserves.

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

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

Since the Communiqué on Technical Reserves was effective from 1 January 2008, the Turkish Treasury issued 4 July 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 14 June 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 14 June 2007, while the Company had not calculated reserve for unearned premiums for the earthquake premiums written before 14 June 2007.

In previous years, the reserve for unearned premiums had been calculated after deducting commissions given and commissions received. In order to prevent possible problems during the transfer of the reserves calculated before 1 January 2008, on 28 December 2007 the Turkish Treasury issued "2007/25 Numbered Circular Related to the Calculation of the Reserve for Unearned Premiums and Accounts That Should Be Used for Deferred Commission Income and Expenses". In accordance with the related circular, the reserve for unearned premiums should be calculated by deducting commissions for the policies produced before 1 January 2008, but it should be calculated on gross basis for the policies produced after 1 January 2008.

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

2.25 Provision for outstanding claims

Claims are recorded in the year in which they occur, based on reported claims or on the basis of estimates when not reported. Provision for outstanding claims 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.

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 27655 numbered and 28 July 2010 dated Official Gazette according to the Communiqué on Technical Reserves, all expenses related to the claim files including calculated or expected expertise, consultant, lawsuit and communication expenses in the calculation of provision for outstanding claims. In these calculations salvage and subrogation income are not considered.

Except for the life branch, provision for outstanding claims 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.

5 December 2014 dated "Circular regarding Provision for Outstanding Claims (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".

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

The methods selected for each branch is provided in the following section. The Company has not perform big claim elimination by Box Plox method.

Branches	31 December 2016	31 December 2015
Fire and Natural Disasters	Standard Chain	Standard Chain
General Damages (*)	Standard Chain	Standard Chain
General Responsibility	Standard Chain	Standard Chain
Compulsory Traffic	Standard Chain	Standard Chain
Transportation	Standard Chain	Standard Chain
Water Vehicles	Standard Chain	Standard Chain
Land Vehicles	Standard Chain	Standard Chain
Accident	Standard Chain	Standard Chain
Health	Standard Chain	Standard Chain
Air Vehicles	Standard Chain	Standard Chain
Legal Protection	Standard Chain	Standard Chain
Water Vehicles Responsibility	Sector Average (Insurance Association of Turkey 09/2016)	Sector Average (Insurance Association of Turkey 09/2015)
Air Vehicles Responsibility	Sector Average (Insurance Association of Turkey 09/2016)	Sector Average (Insurance Association of Turkey 09/2015)
Indemnity	Sector Average (Insurance Association of Turkey 09/2016)	Sector Average (Insurance Association of Turkey 09/2015)
Financial Losses	Sector Average (Insurance Association of Turkey 09/2016)	Sector Average (Insurance Association of Turkey 09/2015)
Credit	Sector Average (Insurance Association of Turkey 09/2016)	Sector Average (Insurance Association of Turkey 09/2015)
Life	Sector Average (Insurance Association of Turkey 09/2016)	Sector Average (Insurance Association of Turkey 09/2015)

(*) Two separate calculation have been made as agriculture and non agriculture sub branches.

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 third party liability on air and water, guarantee, financial losses, credit 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 5 December 2014 dated "Circular regarding Provision for Outstanding Claims (2014/16)" of Turkish Treasury, the Company constitutes data by taking base of acceptance year rather than accident 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 Undersecretariat 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.

According to the letter dated 12 January 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 at 31 December 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, provision for outstanding claims 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 5 December 2014 dated and 2014/16 numbered "Circular for Provision for Outstanding Claims" of Turkish Treasury, ACML calculation should be on main branch. However, as at 31 December 2012, the Company has calculated ACML reserve for General Damages main branch as two separate sub branches namely agriculture and non agriculture branches. Because, Agriculture and Engineering sub branches 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 17 January 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 separately. Turkish Treasury has given permission the Company in order to calculate IBNR reserve for General Damages within two sub branches with the letter dated 28 January 2013 and numbered 24179134. As at 31 December 2016, the Company recognised the amount that arised due to change in calculation method for IBNR on General Damages branch.

As at 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 49,181,395 (31 December 2015: TL 52,091,457 negative IBNR) as provision for outstanding claims. As at the reporting date, TL 19,924,049 (31 December 2015: TL 26,507,042) of IBNR provision is recorded for Singapore branch.

2.26 Mathematical provisions

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

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

2.27 Reserve for unexpired risk

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

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 reserve for unexpired risk detailed in the above, gross reserve for unexpired risk is also calculated. The test is performed on main branch basis and in case where the net and gross expected claim/premium ratio is higher than 95%, reserve calculated by multiplying the exceeding portion of the expected claim/premium ratio with the reserve for unearned premiums of that main branch is added to the reserves of that branch. Difference between the gross and net amount is represents reinsurer's share. Premiums paid for non-proportional reinsurance agreements are considered as premiums ceded to the reinsurance firms.

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

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

According to the Turkish Treasury circular numbered 2016/37, reserve for unexpired risk for the branches of land vehicles, land vehicles responsibility and general responsibility may be calculated by the following calculation method in addition to the abovementioned calculation method.

Net and gross reserve for unexpired risk is calculated by multiplying the exceeding portion of the expected claim/premium ratio with the net and gross reserve for unearned premiums 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 accident 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 accident year for the calculation is not possible and demanded the following particulars;

- Calculation of reserve for unexpired risk on the basis of business year,
- Calculation of reserve for unexpired risk once a year and using the 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 30 December 2016 and numbered 38681552-306.99-E.36992.

As at the reporting date, the Company has provided net reserve for unexpired risk amounting to TL 11,121,932 in the accompanying unconsolidated financial statements (31 December 2015: TL 27,889,285).

2.28 Equalization provision

In accordance with the Communiqué on Technical Reserves put into effect starting from 1 January 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 premiums written in credit insurance and earthquake branches. In the calculation of net premiums, fees paid for non-proportional reinsurance agreements are considered as premiums ceded to the reinsurance firms. The companies should provide equalization 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 28 July 2010 and numbered 27655 "Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves", ceded premiums of earthquake and credit for non-proportional reinsurance contracts covered multiple branches should be calculated according to percentage of premiums of those branches within the total premiums unless the Company is determined any other methods. Share of earthquake and credit premium of written premiums for non-proportional reinsurance contracts is based on share of earthquake and credit premiums of proportional reinsurance contracts. In accordance with the Communiqué on Technical Reserves, the Company considers 11% of net death premium (including damage payments) as earthquake premium and 12% of that amount is calculated as equalization 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 unconsolidated financial statements. As at the reporting date, the Company has recognized equalization provision amounting to TL 45,209,926 (31 December 2015: TL 23,432,191).

As at 31 December 2016, the Company has deducted TL 4,475,777 (31 December 2015: TL 21,443,124) from equalization provision in consequence of realized earthquake losses.

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 Earning per share

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

2.31 Subsequent events

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

2.32 New standards and interpretations not yet 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, after the new standards and interpretations become in effect.

TFRS 9 - Financial Instruments - Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2018. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

International Financial Reporting Standards ("IFRS") 16 *Leases*

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

3 Critical accounting estimates and judgments in applying accounting policies

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

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

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

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

Note 4.1 - Management of insurance risk
Note 4.2 - Financial risk management
Note 7 - Investment properties
Note 9 - Investments in subsidiaries
Note 10 - Reinsurance assets/liabilities
Note 11 - Financial assets
Note 12 - Loans and receivables
Not 17 - Insurance liabilities and reinsurance assets
Not 17 - Deferred acquisition costs
Note 21 - Deferred income taxes
Note 23 - Other liabilities and cost provisions

4 Management of insurance and financial risk

4.1 Management of insurance risk

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

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

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

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

(Currency: Turkish Lira (TL))

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.

Sensitivity to insurance risk

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

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

Insurance risk concentrations

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

	31 December 2016		
Branches	Gross total claims liability (*)	Reinsurance share of total claims liability	Net total claims liability
Fire and natural disasters	231,230,393	(10,673,453)	220,556,940
General damages	155,785,882	(601,185)	155,184,697
Motor vehicles third party liability (MTPL)	70,358,154	(54,693)	70,303,461
General responsibility	24,894,269	(1,933,948)	22,960,321
Water vehicles	21,435,222	(1,871,925)	19,563,297
Accident	16,426,805	(4,777)	16,422,028
Transportation	16,567,880	(2,051,768)	14,516,112
Health	13,454,786	--	13,454,786
Motor vehicles	12,041,741	(363,747)	11,677,994
Life	8,664,622	(658,208)	8,006,414
Guarantee	671,676	(1,390)	670,286
Financial Losses	603,659	--	603,659
Air crafts	130,125	--	130,125
Credit	91,352	--	91,352
Water vehicles liability	64,364	--	64,364
Legal protection	(5)	--	(5)
Total	572,420,925	(18,215,094)	554,205,831

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

	31 December 2015		
Branches	Gross total claims liability (*)	Reinsurance share of total claims liability	Net total claims liability
Fire and natural disasters	257,562,428	(3,932,757)	253,629,671
General damages	205,986,129	(1,249,099)	204,737,030
Motor vehicles third party liability (MTPL)	65,973,000	(57,815)	65,915,185
General responsibility	34,082,624	(3,462,636)	30,619,988
Transportation	27,275,598	(3,987,289)	23,288,309
Health	18,518,721	--	18,518,721
Water vehicles	21,895,715	(3,746,793)	18,148,922
Accident	13,843,356	(33,066)	13,810,290
Motor vehicles	11,441,909	(358,391)	11,083,518
Life	6,492,393	(380,423)	6,111,970
Air crafts	448,125	--	448,125
Financial Losses	188,113	--	188,113
Guarantee	173,639	(513)	173,126
Credit	97,262	--	97,262
Water vehicles liability	2,811	--	2,811
Legal protection	305	--	305
Total	663,982,128	(17,208,782)	646,773,346

(*) 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.

4.2 Management of financial risk

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

The Company 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 Company's exposure to each of the above risks is assessed according to "Application Principles in Respect of Risk Limits".

The Company 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 Company'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.

(Currency: Turkish Lira (TL))

Credit risk

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

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.

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.

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

	31 December 2016	31 December 2015
Cash and cash equivalents *(Note 14)* (*)	1,125,207,588	991,963,515
Financial assets and financial investments with risks on policyholders *(Note 11)* (**)	295,264,884	390,407,868
Receivables from main operations *(Note 12)*	162,954,919	181,305,786
Reinsurer share in provision for outstanding claims *(Note 10), (Note 17)*	42,666,787	25,358,546
Prepaid taxes and funds *(Note 12)*	10,488,911	11,292,292
Income accruals	7,029,475	10,785,341
Other receivables *(Note 12)*	1,663,239	605,367
Other current asset *(Note 12)*	--	2,042
Total	1,645,275,803	1,611,720,757

(*) Cash on hands balance amounting to TL 17,446 are not included (31 December 2015: TL 34,971).

(**) Equity shares amounting to TL 84,226,985 are not included (31 December 2015: TL 87,500,877).

31 December 2016 ve 2015, the aging of the receivables from main operations and related provisions are as follows:

	31 December 2016		31 December 2015	
	Gross amount	Provision	Gross amount	Provision
Not past due	104,235,630	--	120,942,345	--
Past due 0-30 days	35,551,714	--	28,609,797	--
Past due 31-60 days	2,525,230	--	7,017,186	--
Past due 61-90 days	1,705,461	--	6,261,012	--
More than 90 days	35,801,494	(16,864,610)	32,708,592	(14,233,146)
Total	179,819,529	(16,864,610)	195,538,932	(14,233,146)

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

	31 December 2016	31 December 2015
Provision for receivables from insurance operations at the beginning of the year	14,233,146	11,705,111
Collections during the period *(Note 47)*	(2,409)	(1,206)
Foreign currency translation effect *(Note 47)*	2,633,873	2,529,241
Provision for receivables from insurance operations at the end of the year	16,864,610	14,233,146

Millî Reasürans Türk Anonim Şirketi
Notes to the Unconsolidated Financial Statements as at 31 December 2016
(Currency: Turkish Lira (TL))
(Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish, See Note 2.1.1)

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

	31 December 2016	31 December 2015
Provision for other receivables at the beginning of the year	63,177	63,177
Collections during the period *(Note 47)*	(10,000)	--
Impairment losses provided during the period *(Note 47)*	--	--
Provision for other receivables at the end of the year	53,177	63,177

Liquidity risk

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

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

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

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

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

Management of the liquidity risk

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

(Currency: Turkish Lira (TL))

Maturity distribution of monetary assets and liabilities:

31 December 2016	Carrying amount	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Cash and cash equivalents	1,125,225,034	1,033,684,553	55,925,440	27,840,976	7,774,065	--
Financial assets (*)	295,264,884	251,633,971	6,810,150	8,849,104	18,179,143	9,792,516
Receivables from main operations	162,954,919	100,667,420	15,386,367	3,592,463	43,308,669	--
Other receivables and current assets	19,181,625	18,932,740	--	--	248,885	--
Total monetary assets	1,602,626,462	1.404.918.684	78.121.957	40.282.543	69.510.762	9.792.516
Financial liabilities and other liabilities	2,941,103	991,103	--	--	1,950,000	--
Payables arising from main operations	36,432,984	33,813,924	2,619,060	--	--	--
Due to related parties	80,030	80,030	--	--	--	--
Insurance technical provisions (**)	959,351,982	--	--	--	--	959,351,982
Provisions for taxes and other similar obligations	1,453,431	1,453,431	--	--	--	--
Provisions for other risks and expense accruals	41,053,358	1,268,897	2,896,731	--	--	36,887,730
Total monetary liabilities	1,041,312,888	37,607,385	5,515,791	--	1,950,000	996,239,712

(*) Equity shares amounting to TL 84,226,985 are not included.
(**) Provision for outstanding claims not subject to consistent distribution is presented in the "over 1 year" column.

31 December 2015	Carrying amount	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Cash and cash equivalents	991,998,486	67,476,869	825,646,530	35,431,171	48,610,833	14,833,083
Financial assets (*)	390,407,868	167,645,284	8,222,052	10,189,134	24,271,704	180,079,694
Receivables from main operations	181,305,786	100,763,331	18,542,563	7,636,671	54,363,221	--
Other receivables and current assets	22,685,042	22,472,571	--	--	212,471	--
Total monetary assets	1,586,397,182	358,358,055	852,411,145	53,256,976	127,458,229	194,912,777
Other liabilities	88,907,419	2,229,087	86,678,332	--	--	--
Payables arising from main operations	44,146,054	37,689,786	2,256,879	4,199,389	--	--
Due to related parties	66,378	66,378	--	--	--	--
Insurance technical provisions (**)	840,992,113	--	--	--	--	840,992,113
Provisions for taxes and other similar obligations	1,673,213	1,673,213	--	--	--	--
Provisions for other risks and expense accruals	37,998,065	2,989,356	--	--	--	35,008,709
Total monetary liabilities	1,013,783,242	44,647,820	88,935,211	4,199,389	--	876,000,822

(*) Equity shares amounting to TL 87,500,877 are not included.
(**) Provision for outstanding claims not subject to consistent distribution is presented in the "over 1 year" column.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

Market risk

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

Foreign currency risk

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

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

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

31 December 2016	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	261,358,831	48,906	6,110,365	267,518,102
Receivables from main operations	41,778,437	16,788,756	75,343,961	133,911,154
Total foreign currency assets	303,137,268	16,837,662	81,454,326	401,429,256
Liabilities:				
Payables arising from main operations	(16,174,468)	(1,107,846)	(2,745,979)	(20,028,293)
Insurance technical provisions (*)	(131,716,322)	(98,324,735)	(118,623,919)	(348,664,976)
Total foreign currency liabilities	(147,890,790)	(99,432,581)	(121,369,898)	(368,693,269)
Net on-balance sheet position	155,246,478	(82,594,919)	(39,915,572)	32,735,987

31 December 2015	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	207,647,730	5,780,963	2,461,213	215,889,906
Receivables from main operations	33,916,936	12,488,931	98,595,107	145,000,974
Total foreign currency assets	241,564,666	18,269,894	101,056,320	360,890,880
Liabilities:				
Payables arising from main operations	(12,729,746)	(3,116,263)	(8,809,601)	(24,655,610)
Insurance technical provisions (*)	(124,218,422)	(82,928,141)	(99,396,067)	(306,542,630)
Total foreign currency liabilities	(136,948,168)	(86,044,404)	(108,205,668)	(331,198,240)
Net on-balance sheet position	104,616,498	(67,774,510)	(7,149,348)	29,692,640

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

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

(Currency: Turkish Lira (TL))

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

	At the end of the period		Average	
	US Dollar	Euro	US Dollar	Euro
31 December 2016	3,5192	3,7099	3,0208	3,3392
31 December 2015	2,9076	3,1776	2,7184	3,0175

Exposure to foreign currency risk

A 10 percent depreciation of the TL against the following currencies as at 31 December 2016 and 2015 would have increased or decreased equity and profit or loss (excluding tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. In case of a 10 percent appreciation of the TL against the following currencies, the effect will be in opposite direction.

	31 December 2016		31 December 2015	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	15,524,648	15,524,648	10,461,650	10,461,650
Euro	(8,259,492)	(8,259,492)	(6,777,451)	(6,777,451)
Others	(3,991,557)	(3,991,557)	(714,935)	(714,935)
Total, net	3,273,599	3,273,599	2,969,264	2,969,264

(*) 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.

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

	31 December 2016	31 December 2015
Financial assets		
Financial assets with fixed interest rates:	1,127,156,528	1,122,595,981
Cash at banks *(Note 14)*	1,115,405,612	984,451,410
Available for sale financial assets - Government bonds - TL *(Note 11)*	8,340,396	133,614,651
Available for sale financial assets - Private sector bonds - TL *(Note 11)*	3,410,520	4,529,920
Financial assets with variable interest rate:	31,124,758	84,618,013
Available for sale financial assets - Government bonds- TL *(Note 11)*	7,711,796	8,128,488
Available for sale financial assets - Private sector bonds - TL *(Note 11)*	23,412,962	76,489,525
Financial Liabilities:		
Financial liabilities with fixed interest rate:	--	86,678,332
Funds from repo transactions *(Note 20)*	--	86,678,332

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

Interest rate sensitivity of the financial instruments

Interest rate sensitivity of the statement of income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss and on the net interest income as at and for 31 December 2016 and 2015 of the floating rate non-trading financial assets and financial liabilities held at 31 December 2016 and 2015. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or Loss		Equity	
31 December 2016	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Available for sale financial assets	--	--	(481,922)	501,590
Total, net	--	--	(481,922)	501,590

	Profit or Loss		Equity	
31 December 2015	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Available for sale financial assets	--	--	(2,981,643)	2,981,643
Total, net	--	--	(2,981,643)	2,981,643

Fair value information

The estimated fair values of financial instruments have been determined using available market information, and where it exists, appropriate valuation methodologies.

The Company has classified its financial assets as whether held for trading purpose or available for sale. 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 unconsolidated financial statements.

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 Company. This distinction brings about a fair value measurement classification generally as follows:

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

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

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

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

(Currency: Turkish Lira (TL))

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

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Available for sale financial assets *(Note 11)* (*)	367,898,399	11,089,363	--	378,987,762
Subsidiaries *(Note 9)* (**)	550,176,203	--	--	550,176,203
Total financial assets	918,074,602	11,089,363	--	929,163,965

(*) As at 31 December 2016, securities that are not publicly traded amounting to TL 504,107 have been measured at cost.
(**) As at 31 December 2016, subsidiaries that are not publicly traded amounting to TL 1,092,707 have been measured at cost.

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Available for sale financial assets *(Note 11)* (*)	459,199,530	18,205,108	--	477,404,638
Subsidiaries *(Note 9)* (**)	444,152,664	--	--	444,152,664
Total financial assets	903,352,194	18,205,108	--	921,557,302

(*) As at 31 December 2015, securities that are not publicly traded amounting to TL 504,107 have been measured at cost.
(**) As at 31 December 2015, subsidiaries that are not publicly traded amounting to TL 1,092,707 have been measured at cost.

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 of changes in fair values of the associates and the available-for-sale financial assets on equity that is resulted from the fluctuations on index (all of the other variables are assumed to be fixed) are as follows as at 31 December 2016 and 2015.

	Change in index	31 December 2016	31 December 2015
Market price of equity	10%	63,389,908	53,165,354

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

Gain and losses from financial assets

Gains and losses recognized in the statement of income, net:	31 December 2016	31 December 2015
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15*)	1,852,412	3,198,617
Interest income from bank deposits	96,902,888	74,986,352
Interest income from debt securities classified as available-for-sale financial assets	14,973,147	20,457,518
Income from equity shares	8,334,581	10,368,915
Foreign exchange gains	50,478,175	39,769,808
Interest income from debt securities classified as held for trading financial assets	--	360,987
Income from investment funds	17,943,279	9,308,317
Interest income from repos	790,231	724,800
Income from derivative transactions	--	66,500
Income from subsidiaries	3,251	12,039,179
Other	--	31,631,098
Investment income	191,277,964	202,912,091
Loss from derivative transactions	--	--
Foreign exchange losses	(11,234,726)	(6,826,180)
Loss from disposal of financial assets	(1,964,332)	(1,410,932)
Investment management expenses (including interest)	(3,874,438)	(2,121,010)
Investment expenses	(17,073,496)	(10,358,122)
Investment income, net	174,204,468	192,553,969

Gains and losses recognized in the statement of equity, net:	31 December 2016	31 December 2015
Fair value changes in available for sale financial assets *(Note 15)*	100,187,475	25,619,501
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15)*	(1,852,412)	(3,198,617)
Total	98,335,063	22,420,884

Capital management

The Company's capital management policies include the following:

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

In accordance with the "Communiqué on Measurement and Assessment of Capital Adequacy for Insurance, Reinsurance and Individual Pension Companies" issued by Turkish Treasury on 23 August 2015 dated and 29454 numbered; the Company measured its minimum capital requirement as TL 366,047,998 as at 31 December 2016 (31 December 2015: TL 342,770,046). As at 31 December 2016 and 2015, the capital amount of the Company presented in the unconsolidated financial statements are TL 1,335,906,619 and TL 1,183,898,933 respectively and capital surplus of the Company is amounting to TL 728,518,441 according to the communiqué.

5 Segment reporting

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

As at 31 December 2016, the Company 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.

(Currency: Turkish Lira (TL))

6 Tangible assets

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

	1 January 2016	Additions	Foreign currency translation effect (*)	Disposals	Revaluation surplus	31 December 2016
Cost:						
Investment properties *(Note 7)*	270,568,050	--	--	--	55,521,950	326,090,000
Owner occupied land and buildings	147,116,950	90,773	--	--	707,277	147,915,000
Furniture and fixtures	4,955,519	525,382	135,757	(37,718)	--	5,578,940
Motor vehicles	1,239,468	510,108	110,615	(747,089)	--	1,113,102
	423,879,987	1,126,263	246,372	(784,807)	56,229,227	480,697,042
Accumulated depreciation:						
Self-used buildings	153,823	460,287	--	--	(577,291)	36,819
Furniture and fixtures	3,252,981	604,822	105,968	(36,146)	--	3,927,625
Motor vehicles	1,092,791	108,113	99,848	(619,791)	--	680,961
	4,499,595	1,173,222	205,816	(655,937)	(577,291)	4,645,405
Carrying amounts	419,380,392					476,051,637

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

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

	1 January 2015	Additions	Foreign currency translation effect (*)	Disposals	Revaluation surplus	31 December 2015
Cost:						
Investment properties *(Note 7)*	194,364,045	--	--	--	76,204,005	270,568,050
Owner occupied land and buildings (**)	31,962,582	--	--	--	115,154,368	147,116,950
Furniture and fixtures	3,925,734	1,039,060	125,653	(134,928)	--	4,955,519
Motor vehicles	1,312,210	--	106,473	(179,215)	--	1,239,468
	231,564,571	1,039,060	232,126	(314,143)	191,358,373	423,879,987
Accumulated depreciation:						
Self-used buildings	13,195,225	585,090	--	--	(13,626,492)	153,823
Furniture and fixtures	2,602,542	645,960	62,879	(58,400)	--	3,252,981
Motor vehicles	1,050,783	154,041	67,182	(179,215)	--	1,092,791
	16,848,550	1,385,091	130,061	(237,615)	(13,626,492)	4,499,595
Carrying amounts	214,716,021					419,380,392

(*) Foreign currency translation effect resulted from Singapore Branch.
(**) Self-used buildings have been presented with fair values in the financial statements starting from 30 September 2015, previously they were presented with their historical cost.

As of 31 December 2016 and 2015, self-used buildings are evaluated with their fair value. Appraisal reports were provided by CMB licensed real estate appraisal company at December 2016.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

As of 31 December 2016 and 2015, the fair values (excluding VAT) and net carrying values of self-used buildings are presented below:

Owner occupied land and buildings	Appraisal date	Appraisal value	Net Book Value (31 December 2016)	Net Book Value (31 December 2015)
Headquarter Building	December 2016	147,915,000	147,878,181	146,963,127
Total		147,915,000	147,878,181	146,963,127

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 31 December 2016 and 31 December 2015, there is no mortgage on Company's tangible assets.

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 presented by fair value method as of 31 December 2016 and 31 December 2015 on balance sheet and The Company's investment properties gained TL 55,521,950 amount of value in 2016 in the context of expertise report prepared by independent professional valuation specialists authorized by Capital Markets Board of Turkey. From investment property, TL 14,266,849 amount of rent income is obtained from investment properties in the current accounting period (31 December 2015: TL 12,968,850)

As at 31 December 2016, inflation adjusted cost and fair value amounts of the Company's investment properties are amounting to TL 326,090,000 (31 December 2015: TL 270,568,050).

Expertise reports regarding these properties is prepared by CMB licensed real estate appraisal companies. There is not any mortgage on related property.

As at 31 December 2016 and 2015, details of investment properties and the fair values are as follows:

	31 December 2016 Carrying amount	31 December 2015 Carrying amount	Date of expertise report	Value of expertise report
Çifteler Land	5,000	5,000	December 2016	5,000
Villa Office Block	42,800,000	39,000,000	December 2016	42,800,000
Suadiye Fitness Center	33,200,000	18,280,000	December 2016	33,200,000
Tunaman Garage	90,000,000	85,400,000	December 2016	90,000,000
Operating Center Rental Offices	160,085,000	127,883,050	December 2016	160,085,000
Carrying amounts	326,090,000	270,568,050		326,090,000

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.

(Currency: Turkish Lira (TL))

8 Intangible assets

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

	1 January 2016	Additions	Foreign currency translation effects (*)	Disposal	31 December 2016
Cost:					
Other intangible assets	4,448,929	579,594	377,264	--	5,405,787
Advances on intangible fixed assets (**)	5,538,364	6,845,093	--	--	12,383,457
	9,987,293	7,424,687	377,264	--	17,789,244
Accumulated amortization:					
Other intangible assets	2,399,309	543,665	376,837	--	3,319,811
	2,399,309	543,665	376,837	--	3,319,811
Carrying amounts	7,587,984				14,469,433

(*) Foreign currency translation effect resulted from Singapore Branch.
(**) Given referring to reinsurance computer software.

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

	1 January 2015	Additions	Foreign currency translation effects (*)	Disposal	31 December 2015
Cost:					
Other intangible assets	2,666,031	1,420,232	362,666	--	4,448,929
Advances on intangible fixed assets (**)	--	5,538,364	--	--	5,538,364
	2,666,031	6,958,596	362,666	--	9,987,293
Accumulated amortization:					
Other intangible assets	1,879,643	158,394	361,272	--	2,399,309
	1,879,643	158,394	361,272	--	2,399,309
Carrying amounts	786,388				7,587,984

(*) Foreign currency translation effect resulted from Singapore Branch.
(**) Given referring to reinsurance computer software.

9 Investments in associates

	31 December 2016		31 December 2015	
	Carrying value	Participation rate %	Carrying value	Participation rate %
Anadolu Sigorta	550,176,203	57.31	444,152,664	57.31
Miltaş Turizm İnşaat Ticaret Anonim Şirketi	1,092,707	77.00	1,092,707	77.00
Subsidiaries, net	551,268,910		445,245,371	
Financial asset total	551,268,910		445,245,371	

Name	Total assets	Shareholders' equity	Retained earnings	Profit for the year	Audited	Period
Subsidiaries:						
Miltaş Turizm Inşaat Ticaret AŞ	4,239,546	3,957,638	--	124,231	Not Audited	31 December 2016
Anadolu Sigorta (*)	5,720,082,153	969,089,194	70,926,240	102,118,697	Audited	31 December 2016

(*) Consolidated financial information as at 31 December 2016 of Anadolu Sigorta has been presented.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

10 Reinsurance assets and liabilities

As at 31 December 2016 and 2015, outstanding reinsurance assets and liabilities of the Company, as Reinsurance company in accordance with existing reinsurance contracts are as follows:

Reinsurance assets	31 December 2016	31 December 2015
Receivables from reinsurance companies *(Note 12)*	15,773,710	16,292,221
Cash deposited to reinsurance companies	19,134,057	16,987,330
Provision for outstanding claims, ceded *(Note 4.2), (Note 17)*	42,666,787	25,358,546
Reserve for unearned premiums, ceded *(Note 17)*	6,276,404	8,311,202
Total	83,850,958	66,949,299

There is no impairment losses recognized for reinsurance assets.

Reinsurance liabilities	31 December 2016	31 December 2015
Deferred commission income *(Note 19)*	449,504	362,614
Total	449,504	362,614

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

	31 December 2016	31 December 2015
Premiums ceded during the period *(Note 17)*	(98,893,523)	(115,771,729)
Reserve for unearned premiums, ceded at the beginning of the period *(Note 17)*	(8,311,202)	(7,038,046)
Reserve for unearned premiums, ceded at the end of the period *(Note 17)*	6,276,404	8,311,202
Premiums earned, ceded *(Note 17)*	(100,928,321)	(114,498,573)
Claims paid, ceded during the period *(Note 17)*	18,215,094	17,208,782
Provision for outstanding claims, ceded at the beginning of the period *(Note 17)*	(25,358,546)	(16,271,938)
Provision for outstanding claims, ceded at the end of the period *(Note 17)*	42,666,787	25,358,546
Claims incurred, ceded *(Note 17)*	35,523,335	26,295,390
Commission income accrued from reinsurers during the period *(Note 32)*	1,287,307	1,346,191
Deferred commission income at the beginning of the period *(Note 19)*	362,614	445,382
Deferred commission income at the end of the period *(Note 19)*	(449,504)	(362,614)
Commission income earned from reinsurers *(Note 32)*	1,200,417	1,428,959
Changes in provision for outstanding claims, reinsurers' share *(Note 17)*	(97,559)	(888,882)
Total, net	(64,302,128)	(87,663,106)

11 Financial assets

As at 31 December 2016 and 2015, the Company's financial assets are detailed as follows:

	31 December 2016	31 December 2015
Available for sale financial assets	386,347,109	477,908,745
Impairment loss on available for sale financial assets	(6,855,240)	--
Total	379,491,869	477,908,745

(Currency: Turkish Lira (TL))

As at 31 December 2016 and 2015, the Company's available for sale financial assets are as follows:

	31 December 2016			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds - TL	16,500,000	17,752,529	16,052,192	16,052,192
Private sector bonds - TL	32,979,000	32,979,000	33,678,722	33,678,722
Impairment loss on private sector bonds			(6,855,240)	(6,855,240)
	49,479,000	50,731,529	42,875,674	42,875,674
Non-fixed income financial assets:				
Equity shares		59,067,373	84,226,985	84,226,985
Investment funds		249,366,318	252,389,210	252,389,210
		308,433,691	336,616,195	336,616,195
Total available-for-sale financial assets	49,479,000	359,165,220	379,491,869	379,491,869

	31 December 2015			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds - TL	143,796,999	146,059,445	141,743,139	141,743,139
Private sector bonds - TL	79,034,800	78,959,454	81,019,445	81,019,445
	222,831,799	225,018,899	222,762,584	222,762,584
Non-fixed income financial assets:				
Equity shares		57,514,333	87,500,877	87,500,877
Investment funds		165,786,834	167,645,284	167,645,284
		223,301,167	255,146,161	255,146,161
Total available-for-sale financial assets	222,831,799	448,320,066	477,908,745	477,908,745

All debt instruments presented above are traded in the capital markets. As at 31 December 2016, equity shares classified as available for sale financial assets with a carrying amount of TL 504,107 are not publicly traded (31 December 2015: TL 504,107).

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

Value increases in financial assets 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/(decrease)	Total increase/ (decrease) in value
2016	98,335,063	189,009,992
2015	22,420,884	90,674,929
2014	42,623,127	68,254,045

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

Details of the financial assets issued by related parties of the Company's are as follows:

	31 December 2016			
	Face value	Cost	Fair value	Carrying value
Available for sale financial assets - Equity shares		55,264,170	81,396,292	81,396,292
Available for sale financial assets - Investment funds		249,366,318	252,389,210	252,389,210
Total		304,630,488	333,785,502	333,785,502

	31 December 2015			
	Face value	Cost	Fair value	Carrying value
Available for sale financial assets - Private sector bonds	3,100,000	3,100,000	3,157,102	3,157,102
Available for sale financial assets - Investment funds		49,352,135	80,822,633	80,822,633
Available for sale financial assets - Equity shares		136,291,750	136,556,466	136,556,466
Total		188,743,885	220,536,201	220,536,201

As at 31 December 2016 and 2015, the movement of the financial assets is presented below:

	31 December 2016	
	Available-for-sale	Total
Balance at the beginning of the period	477,908,745	477,908,745
Unrealized exchange differences on financial assets	--	--
Acquisitions during the period	441,427,489	441,427,489
Disposals (sale and redemption)	(558,559,879)	(558,559,879)
Change in the fair value of financial assets	9,448,284	9,448,284
Change in amortized cost of the financial assets	3,355,195	3,355,195
Bonus shares acquired	5,912,035	5,912,035
Balance at the end of the period	379,491,869	379,491,869

	31 December 2015		
	Trading	Available-for-sale	Total
Balance at the beginning of the period	5,952,187	484,276,534	490,228,721
Unrealized exchange differences on financial assets	--	--	--
Acquisitions during the period	--	555,614,361	555,614,361
Disposals (sale and redemption)	(6,181,114)	(595,064,697)	(601,245,811)
Change in the fair value of financial assets	228,927	33,560,566	33,789,493
Change in amortized cost of the financial assets	--	(5,582,883)	(5,582,883)
Bonus shares acquired	--	5,104,864	5,104,864
Balance at the end of the period	--	477,908,745	477,908,745

(Currency: Turkish Lira (TL))

12 Loans and receivables

	31 December 2016	31 December 2015
Receivables from main operations *(Note 4.2)*	162,954,919	181,305,786
Prepaid taxes and funds *(Note 19)*	10,488,911	11,292,292
Other receivables *(Note 4.2)*	1,663,239	605,367
Other current asset	--	2,042
Total	175,107,069	193,205,487
Short-term receivables	175,107,069	193,205,487
Medium and long-term receivables	--	--
Total	175,107,069	193,205,487

As at 31 December 2016 and 2015, receivables from main operations are detailed as follows:

	31 December 2016	31 December 2015
Receivables from insurance companies	48,669,628	52,193,561
Receivables from agencies, brokers and intermediaries	47,962,366	49,290,731
Receivables from reinsurance companies *(Note 10)*	15,773,710	16,292,221
Total receivables from insurance operations, net	112,405,704	117,776,513
Cash deposited to insurance and reinsurance companies	50,549,215	63,529,273
Doubtful receivables from main operations	16,864,610	14,233,146
Provision for doubtful receivables from main operations	(16,864,610)	(14,233,146)
Receivables from main operations	162,954,919	181,305,786

As at 31 December 2016 and 2015, mortgages and collaterals obtained for receivables are disclosed as follows:

	31 December 2016	31 December 2015
Letters of guarantees	8,100,829	7,322,980
Mortgage notes	--	2,041
Other guarantees received	1,950,000	--
Total	10,050,829	7,325,021

Provisions for overdue receivables and receivables not due yet

a) Receivables under legal or administrative follow up (due): TL 16,864,610 for main operations (31 December 2015: TL 14,233,146) and TL 53,177 (31 December 2015: TL 63,177) for other receivables.

b) Provision for premium receivables (due): None (31 December 2015: None).

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.*

Millî Reasürans Türk Anonim Şirketi
Notes to the Unconsolidated Financial Statements as at 31 December 2016
(Currency: Turkish Lira (TL))
(Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish, See Note 2.1.1)

13 Derivative financial assets

As at 31 December 2016 and 2015, the Company does not have any derivative financial instruments.

14 Cash and cash equivalents

As at 31 December 2016 and 2015, cash and cash equivalents are as follows:

	31 December 2016		31 December 2015	
	At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
Cash on hand	17,446	34,971	34,971	16,329
Bank deposits	1,123,257,588	991,963,515	991,963,515	742,177,130
Cheques received	1,950,000	--	--	--
Cash and cash equivalents in the balance sheet	1,125,225,034	991,998,486	991,998,486	742,193,459
Bank deposits - blocked	(500)	(500)	(500)	(500)
Time deposits with maturities longer than 3 months	(104,733,974)	(356,545,936)	(356,545,936)	(79,404,377)
Interest accruals on bank deposits	(6,427,800)	(2,034,204)	(2,034,204)	(2,654,755)
Cash and cash equivalents presented in the statement of cash flows	1,014,062,760	633,417,846	633,417,846	660,133,827

As at 31 December 2016 and 2015, bank deposits are further analyzed as follows:

	31 December 2016	31 December 2015
Foreign currency denominated bank deposits		
- time deposits	259,793,631	208,369,605
- demand deposits	7,714,663	7,496,092
Bank deposits in Turkish Lira		
- time deposits	855,611,981	776,081,805
- demand deposits	137,313	16,013
Cash at banks	1,123,257,588	991,963,515

(Currency: Turkish Lira (TL))

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 at 31 December 2016 and 2015, the shareholding structure of the Company is presented below:

	31 December 2016		31 December 2015	
Name	Shareholding amount (TL)	Shareholding rate (%)	Shareholding amount (TL)	Shareholding rate (%)
Türkiye İş Bankası A.Ş.	505,810,925	76.64	505,810,925	76.64
Millî Reasürans T.A.Ş. Mensupları Yardımlaşma Sandığı Vakfı (**)	69,604,854	10.55	69,585,028	10.54
Groupama Emeklilik A.Ş.	38,809,894	5.88	38,809,894	5.88
Ankara Doğal Elektrik Üretim ve Ticaret A.Ş. (*)	22,240,456	3.37	--	--
T.C. Ziraat Bankası A.Ş.	16,430,944	2.49	16,430,944	2.49
Others (**)	7,102,927	1.07	7,122,753	1.08
T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı	--	--	22,240,456	3.37
Paid in capital	660,000,000	100.00	660,000,000	100.00

(*) As of 11 March 2016, the Company has decided to transfer total amount of 3.37% shares with TL 22,240,456 nominal value owned by T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı which is one of the shareholders of the Company to Ankara Doğal Elektrik Üretim ve Ticaret A.Ş. and to record this transfer to the share ledger with the Board Decision numbered 1239 and dated 11 March 2016.

(**) The Company has decided to transfer total amount of 0,003004% Millî Reasürans T.A.Ş. shares with TL 19,826 nominal value owned by Fatma Ayşe Feyzioğlu Karakaş, Mevhibe Derya Feyzioğlu and Ali Zihni Feyzioğlu who are shareholders of the Company to Millî Reasürans T.A.Ş. Mensupları Yardımlaşma Sandığı Vakfı with the Board Decision numbered 1242 and dated 10 June 2016.

As at 31 December 2016, the issued share capital of the Company is TL 660,000,000 (31 December 2015: TL 660,000,000) and the share capital of the Company consists of 66.000.000.000 (31 December 2015: 66.000.000.000 shares) issued shares with TL 0.01 nominal value each. There are no privileges over the shares of the Company.

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 27 June 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 30 November 2016.

There are not any treasury shares held by the Company 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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

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:

	31 December 2016	31 December 2015
Legal reserves at the beginning of the period	49,622,694	49,622,694
Transfer from profit	5,912,709	--
Legal reserves at the end of the period	55,535,403	49,622,694

As at 31 December 2016 and 31 December 2015, "Other Reserves and Retained Earnings" includes extraordinary reserves, gains to be added to equity and self-used buildings revaluation differences.

Extraordinary reserves

The movement of extraordinary reserves is as follows:

	31 December 2016	31 December 2015
Extraordinary reserves at the beginning of the period	12,899	12,899
Amount for capital increase	42,698,436	--
Acquisition of the founding stocks (*)	(27,166,000)	--
Extraordinary reserves at the end of the period	15,545,335	12,899

(*) As a result of the Extraordinary General Assembly Meeting of the Company held on 27 June 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 30 November 2016.

Other profit reserves

According to revision on TAS 19, actuarial profit and losses that recognized in income statement in termination indemnity calculation before, is recognized in "Other Profit Reserves" account under equity in current period financial statements. The amount of TL (1,024,260) (31 December 2015: TL (660,733)) regarding actuarial calculation is presented in other profit reserves account, in calculation of termination indemnity as of 31 December 2016.

Movement of other profit reserves is presented below:

	31 December 2016	31 December 2015
Other profit reserves at the beginning of the period	(660,733)	(285,578)
Actuarial gains/losses	(363,527)	(375,155)
Other profit reserves at the end of the period	(1,024,260)	(660,733)

(Currency: Turkish Lira (TL))

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 at 31 December 2016, there are no funds allocated in this manner (31 December 2015: None).

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 31 December 2016, foreign currency translation loss amounting to TL (26,027,092) (31 December 2015: TL (19,573,401) loss) stems from Singapore Branch whose functional currency is US Dollars.

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.

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

According to expertise reports, fair value of property for use is calculated as TL 147,915,000 and revaluation differences amounted TL 130,065,426 TL is recognized in 'Other Capital Reserves' account under equity amounting to TL 123,562,155 with net tax effect in financial statements as of 31 December 2016 (31 December 2015: 122,341,816).

Valuation of financial assets

As of 31 December 2016 and 2015 detailed change of fair value of marketable securities, debt securities and subsidiaries classified as available for sale financial assets is as following:

	31 December 2016	31 December 2015
Fair value reserves at the beginning of the period	90,674,929	68,254,045
Change in the fair value during the period *(Note 4.2)*	105,522,290	25,278,317
Deferred tax effect *(Note 4.2)*	(5,705,297)	(298,539)
Net gains transferred to the statement of income *(Note 4.2)*	(1,852,412)	(3,198,617)
Deferred tax effect *(Note 4.2)*	370,482	639,723
Fair value reserves at the end of the period	189,009,992	90,674,929

Profit for the period that is extraneous from the distribution

In accordance with tax legislation, 75% of profits from sales of participation shares and real states 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.

In the direction of sector announcement made by Treasury dated 27 October, 2008 and numbered 2008/41, the Company classified the gain on sale dated 10 April 2015 from the land in real estate amounting to TL 23,723,323 as of 31 December 2015.

16 Other reserves and equity component of DPF

As at 31 December 2016 and 2015, other reserves are explained in detail in Note 15 - *Equity* above.

As at 31 December 2016 and 2015, the Company does not hold any insurance or investment contracts which contain a DPF.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

17 Insurance contract liabilities and reinsurance assets

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

As at 31 December 2016 and 2015, technical reserves of the Company are as follows:

	31 December 2016	31 December 2015
Reserve for unearned premiums, gross	377,386,975	404,344,069
Reserve for unearned premiums, ceded *(Note 10)*	(6,276,404)	(8,311,202)
Reserves for unearned premiums, net	371,110,571	396,032,867
Provision for outstanding claims, gross	1,002,018,769	866,350,659
Provision for outstanding claims, ceded *(Note 10)*	(42,666,787)	(25,358,546)
Provision for outstanding claims, net	959,351,982	840,992,113
Reserve for unexpired risks, gross	11,303,215	28,168,127
Reserve for unexpired risks, ceded *(Note 10)*	(181,283)	(278,842)
Reserve for unexpired risks, net	11,121,932	27,889,285
Equalization provision, net	45,209,926	23,432,191
Mathematical provisions	165,157	491,937
Total technical provisions, net	1,386,959,568	1,288,838,393
Short-term	1,341,749,642	1,265,406,202
Medium and long-term	45,209,926	23,432,191
Total technical provisions, net	1,386,959,568	1,288,838,393

(Currency: Turkish Lira (TL))

As at 31 December 2016 and 2015, movements of the insurance liabilities and related reinsurance assets are presented below:

	31 December 2016		
Reserve for unearned premiums	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the period	404,344,069	(8,311,202)	396,032,867
Premiums written during the period	929,965,931	(98,893,523)	831,072,408
Premiums earned during the period	(956,923,025)	100,928,321	(855,994,704)
Reserve for unearned premiums at the end of the period	377,386,975	(6,276,404)	371,110,571

	31 December 2015		
Reserve for unearned premiums	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the period	366,997,830	(7,038,046)	359,959,784
Premiums written during the period	996,757,231	(115,771,729)	880,985,502
Premiums earned during the period	(959,410,992)	114,498,573	(844,912,419)
Reserve for unearned premiums at the end of the period	404,344,069	(8,311,202)	396,032,867

	31 December 2016		
Provision for outstanding claims	Gross	Ceded	Net
Provision for outstanding claims at the beginning of the period	866,350,659	(25,358,546)	840,992,113
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	708,089,035	(35,523,335)	672,565,700
Claims paid during the period	(572,420,925)	18,215,094	(554,205,831)
Provision for outstanding claims at the end of the period	1,002,018,769	(42,666,787)	959,351,982

	31 December 2015		
Provision for outstanding claims	Gross	Ceded	Net
Provision for outstanding claims at the beginning of the period	756,531,339	(16,271,938)	740,259,401
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	773,801,448	(26,295,390)	747,506,058
Claims paid during the period	(663,982,128)	17,208,782	(646,773,346)
Provision for outstanding claims at the end of the period	866,350,659	(25,358,546)	840,992,113

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

The Company, being a reinsurance company, has no obligation of providing guarantees.

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 Company.

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

None.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

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

None.

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

None.

Pension investment funds established by the Company and their unit prices

None.

Number and amount of participation certificates in portfolio and circulation

None.

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

None.

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

None.

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

None.

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

None.

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

None.

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.

(Currency: Turkish Lira (TL))

Deferred commission expenses

The Company capitalizes commissions paid to the intermediaries related to policy production under short-term and long-term prepaid expenses. As at 31 December 2016, short-term deferred expenses amounting to TL 92,601,447 (31 December 2015: TL 100,548,550) totally consist of deferred commission expenses.

As at 31 December 2016 and 2015, the movement of deferred commission expenses is presented below:

	31 December 2016	31 December 2015
Deferred commission expenses at the beginning of the period	100,548,550	92,115,629
Commissions accrued during the period *(Note 32)*	221,619,306	237,519,964
Commissions expensed during the period *(Note 32)*	(229,566,409)	(229,087,043)
Deferred commission expenses at the end of the period	92,601,447	100,548,550

18 Investment contract liabilities

None.

19 Trade and other payables and deferred income

	31 December 2016	31 December 2015
Payables arising from reinsurance operations	36,432,984	44,146,054
Short/long term deferred income and expense accruals	4,778,313	3,561,620
Taxes and other liabilities and similar obligations	1,453,431	1,673,213
Due to related parties *(Note 45)*	80,030	66,378
Other payables	2,941,103	2,229,087
Total	45,685,861	51,676,352
Short-term liabilities	45,685,861	51,633,019
Long-term liabilities	--	43,333
Total	45,685,861	51,676,352

As at 31 December 2016 and 2015, other payables largely consist of outsourced benefits and services.

Short/long term deferred income and expense accruals include deferred commission income *(Note 10)* amounting to TL 449,504 (31 December 2015: TL 362,614).

As at 31 December 2016, the amounting of the expense accruals TL 4,165,628 (31 December 2015: TL 2,989,356) are detailed in the table below.

	31 December 2016	31 December 2015
Dividend accrual	2,896,731	1,856,235
Other accruals	1,268,897	1,133,121
Total	4,165,628	2,989,356

Prepaid income and expense accruals are TL 163,181 (31 December 2015: TL 209,650) consist of long-term and short term other deferred income.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

Corporate tax liabilities and prepaid taxes are disclosed below:

	31 December 2016	31 December 2015
Taxes paid during the year	14,047,755	11,292,292
Corporate tax liabilities	(3,558,844)	--
Prepaid assets, net *(Note 12)*	10,488,911	11,292,292

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

None.

20 Financial liabilities

The Company does not have any financial liabilities as of 31 December 2016 (31 December 2015: TL 86,678,332 repo).

21 Deferred tax

As at 31 December 2016 and 2015, deferred tax assets and liabilities are attributable to the following:

	31 December 2016	31 December 2015
	Deferred tax assets/(liabilities)	Deferred tax assets/(liabilities)
Reserve for unexpired risks	2,224,386	5,577,857
Provision for the pension fund deficits	5,937,022	5,671,788
Deferred tax effect of current period tax losses	--	10,039,500
Equalization provision	3,908,023	253,684
Provisions for employee termination benefits	1,440,524	1,329,954
Valuation differences in financial assets	272,495	815,618
Provision for doubtful receivables	1,369,800	369,862
Time deposits	52,495	--
Personnel bonus accrual	567,768	360,012
Discount of receivables and payables	447,106	8,607
Amortization correction differences	(229,150)	(203,454)
Income accruals	(1,405,895)	(2,157,068)
Valuation differences in subsidiaries	(9,906,893)	(4,872,635)
Real estate valuation differences	(21,717,565)	(18,877,238)
Deferred tax (liabilities)/assets, net	(17,039,884)	(1,683,513)

As at 31 December 2016, the Company does not have deductible tax losses. As of 31 December 2015, the Company has deductible tax losses presented below with maturities and amounts in detail.

	31 December 2016	31 December 2015
31 December 2016	--	50,197,498
Deductible tax losses	--	50,197,498

(Currency: Turkish Lira (TL))

Movement of deferred tax assets are given below:

Movement of deferred tax (assets)/liabilities:	31 December 2016	31 December 2015
Opening balance at 1 January	(1,683,513)	14,006,036
Recognised in profit or loss	(9,677,726)	(9,045,756)
Recognised in equity	(5,678,645)	(6,643,793)
Deferred tax (assets)/liabilities:	(17,039,884)	(1,683,513)

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") which is established in accordance with the temporary Article 20 of the Social Security 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 1 November 2005. However, the said article of the Banking Law has been vetoed by the President on 2 November 2005 and the execution of the article was ceased based on the Supreme Court's decision numbered 2007/33 and dated 22 March 2007. The justified decision of Supreme Court is published in Official Gazette dated 15 December 2007 and numbered 26731. 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 8 May 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 8 May 2011 was extended to the 8 May 2013. On 8 March 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 3 May 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 8 May 2015 with the decision of The Council of Ministers dated 24 February 2014.

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 23 April 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. As part of this law' 4. article' first sub-article' (a) clause, pension fund partnerships are counted as insured as of the turnover date."

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 19 June 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 30 March 2011.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

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 29,685,112 (31 December 2015: TL 28,358,939) is accounted as "Provision for pension fund deficits" in the accompanying unconsolidated 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 and 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. At 31 December 2016 and 2015, technical deficit from pension funds comprised the following:

	31 December 2016	31 December 2015
Net present value of total liabilities other than health	(105,825,425)	(92,355,113)
Net present value of insurance premiums	23,100,988	17,661,596
Net present value of total liabilities other than health	(82,724,437)	(74,693,517)
Net present value of health liabilities	(12,841,513)	(11,172,968)
Net present value of health premiums	12,625,747	9,681,587
Net present value of health liabilities	(215,766)	(1,491,381)
Pension fund assets	53,255,091	47,825,959
Amount of actuarial and technical deficit	(29,685,112)	(28,358,939)

(Currency: Turkish Lira (TL))

Plan assets are comprised of the following items:

	31 December 2016	31 December 2015
Cash and cash equivalents	45,069,448	40,973,136
Associates	7,376,761	6,759,312
Other	808,882	93,511
Total plan assets	53,255,091	47,825,959

23 Provision for other liabilities and charges

As at 31 December 2016 and 2015; the provisions for other risks are disclosed as follows:

	31 December 2016	31 December 2015
Provision for pension fund deficits *(Note 22)*	29,685,112	28,358,939
Provision for employee termination benefits	7,202,618	6,649,770
Total provision for other risks	36,887,730	35,008,709

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

	31 December 2016	31 December 2015
Provision at the beginning of the period	6,649,770	5,804,554
Interest cost *(Note 47)*	477,252	428,118
Service cost *(Note 47)*	426,533	405,492
Payments during the period *(Note 47)*	(805,346)	(457,337)
Actuarial differences	454,409	468,943
Provision at the end of the period	7,202,618	6,649,770

24 Net insurance premium

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

25 Fee revenue

None.

26 Investment income

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

27 Net income accrual on financial assets

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

28 Asset held at fair value through profit or loss

Presented in "*Note 4.2* - Financial Risk Management".

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

29 Insurance rights and claims

	31 December 2016		31 December 2015	
	Life	Non-Life	Life	Non-Life
Claims paid, net off reinsurers' share	(8,006,413)	(546,199,418)	(6,111,970)	(640,661,376)
Changes in provision for outstanding claims, net off reinsurers' share	(2,448,530)	(115,911,339)	(463,503)	(100,269,209)
Changes in reserve for unearned premium, net off reinsurers' share	(575,291)	25,497,587	(392,924)	(35,680,159)
Changes in reserve for unexpired risks, net off reinsurers' share	--	16,767,353	--	13,259,544
Change in equalization provision, net off reinsurers' share	(583,585)	(21,194,150)	(199,272)	(728,774)
Change in life mathematical provisions, net off reinsurers' share	71,202	255,578	131,983	(255,578)
Total	(11,542,617)	(640,784,389)	(7,035,686)	(764,335,554)

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 31 December 2016 and 2015, the operating expenses are disclosed as follows:

	31 December 2016		31 December 2015	
	Life	Non life	Life	Non life
Commission expenses *(Note 17)*	8,852,371	220,714,038	8,950,911	220,136,132
Commissions to the intermediaries accrued during the period (Note 17)	8,813,177	212,806,129	8,863,918	228,656,046
Changes in deferred commission expenses (Note 17)	39,194	7,907,909	86,993	(8,519,914)
Employee benefit expenses *(Note 33)*	858,881	40,804,890	799,808	36,549,645
Foreign exchange losses	247,495	20,401,109	241,415	22,737,610
Administration expenses	224,534	11,541,357	217,634	10,733,188
Commission income from reinsurers *(Note 10)*	(16,469)	(1,183,948)	(76,340)	(1,352,619)
Commission income from reinsurers accrued during the period (Note 10)	(13,586)	(1,273,721)	(35,951)	(1,310,240)
Change in deferred commission income (Note 10)	(2,883)	89,773	(40,389)	(42,379)
Outsourced benefits and services	20,324	867,201	19,512	800,332
Other	32,550	8,116,914	29,513	9,267,033
Total	10,219,686	301,261,561	10,182,453	298,871,321

(Currency: Turkish Lira (TL))

33 Employee benefit expenses

For the years ended 31 December 2016 and 2015, employee benefit expenses are disclosed as follows:

	31 December 2016		31 December 2015	
	Life	Non life	Life	Non life
Wages and salaries	623,887	30,392,580	563,471	25,887,407
Employer's share in social security premiums	148,064	6,613,611	137,113	5,623,924
Pension fund benefits	86,930	3,798,699	99,224	5,038,314
Total *(Note 32)*	858,881	40,804,890	799,808	36,549,645

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 recognised as expense in the unconsolidated statement of income.

35 Income tax expense

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

	31 December 2016	31 December 2015
Corporate tax expense:		
Corporate tax provision	(3,558,844)	--
Deferred taxes:		
Origination and reversal of temporary differences	(9,677,726)	(9,045,756)
Total income tax expense/(income)	(13,236,570)	(9,045,756)

A reconciliation of tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the year ended 31 December 2016 and 2015 is as follows:

	31 December 2016		31 December 2015	
Profit before taxes	142,479,802	Tax rate (%)	139,289,163	Tax rate (%)
Taxes on income per statutory tax rate	28,495,960	20.00	27,857,833	20.00
Tax exempt income	(18,168,056)	(12.75)	(19,203,837)	(13.78)
Non-deductible expenses	2,908,666	2.04	391,761	0.28
Total tax expense recognized in profit or loss	13,236,570	9.29	9,045,756	6.49

36 Net foreign exchange gains

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

37 Earnings per share

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

	31 December 2016	31 December 2015
Net profit for the period	129,243,232	130,243,407
Weighted average number of shares	66,000,000,000	66,000,000,000
Earnings per share (TL)	0,00196	0,00197

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 members of the Board of Directors, founders or 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.

As a result of the General Assembly Meeting of the Company held on 25 March 2016, the Company has decided to distribute subsidiary sale exemption amounting to TL 23,723,323 to sales profits to be capitalized, TL 12,694,585 to accumulated losses as deducting from net profit for 2015 amounting to TL 130,243,407 and after deducting legal reserves from remained amount, it has been decided to distribute TL 42,807,730 as cash dividend and TL 2,406,624 as personnel dividend and the remaining TL 42,698,436 as extraordinary reserves and the profit is distributed in the period.

As a result of the Extraordinary General Assembly Meeting of the Company held on 27 June 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 30 November 2016.

(Currency: Turkish Lira (TL))

39 Cash generated from operations

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

40 Convertible bonds

None.

41 Redeemable preference shares

None.

42 Risks

"Millî Reasürans Türk Anonim Şirketi Mensupları Yardımlaşma Sandığı Vakfı" was established by Millî Reasürans Türk Anonim 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.

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

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

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

TL commitments	31 December 2016	31 December 2015
Within one year	2,047,372	828,666
Between two to five years	170,614	897,722
More than 5 years	--	--
Total of minimum rent payments	2,217,986	1,726,388

44 Business combinations

None.

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

45 Related party transactions

For the purpose of the accompanying unconsolidated 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 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Türkiye İş Bankası A.Ş.	746,908,324	709,729,211
Other	1,132	430
Banks	746,909,456	709,729,641
Equity shares of the related parties *(Note 11)*	81,396,292	80,822,633
Investment funds founded by İş Portföy Yönetimi A.Ş. *(Note 11)*	252,389,210	116,579,044
Investment funds founded by İş Yatırım Menkul Değerler A.Ş. *(Note 11)*	--	19,977,422
Bonds issued by İş Finansal Kiralama A.Ş. *(Note 11)*	--	3,157,102
Financial assets	333,785,502	220,536,201
Axa Sigorta A.Ş.	3,934,701	4,273,009
Anadolu Sigorta	3,014,702	7,565,788
Ziraat Sigorta A.Ş.	1,238,110	81,886
Anadolu Hayat Emeklilik	161,483	286,760
İstanbul Umum Sigorta A.Ş.	107,627	109,963
Ziraat Hayat ve Emeklilik A.Ş.	51,250	47,220
Ergo Sigorta A.Ş.	18,246	18,246
Groupama Sigorta A.Ş	--	167,561
Receivables from main operations	8,526,119	12,550,433
Due to shareholders	66,287	53,738
Due to other related parties	13,743	12,640
Due to related parties	80,030	66,378
Ergo Sigorta A.Ş.	2,468,712	5,304,570
Güven Sigorta T,A.Ş.	1,266,357	1,360,722
Allianz Sigorta A.Ş.	1,193,374	874,590
Groupama Sigorta A.Ş.	222,070	55,043
Axa Sigorta A.Ş.	35,723	50,953
İstanbul Umum Sigorta A.Ş.	30,112	--
Anadolu Hayat Emeklilik A.Ş.	2	40,403
Payables from main operations	5,216,350	7,686,281

No guarantees have been taken against receivables from related parties.

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

No guarantees, commitments, guarantee letters, advances and endorsements given in favour of shareholders, associates and subsidiaries.

(Currency: Turkish Lira (TL))

The transactions with related parties during the years ended 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Anadolu Sigorta	113,402,718	101,325,349
Axa Sigorta A.Ş.	36,740,520	48,212,402
Ziraat Sigorta A.Ş.	15,282,714	12,178,834
Groupama Sigorta A.Ş.	4,528,283	11,167,164
Ergo Sigorta A.Ş.	3,793,595	14,189,023
Allianz Sigorta A.Ş.	684,257	933,867
Anadolu Hayat Emeklilik A.Ş.	591,584	858,013
Ziraat Hayat ve Emeklilik A.Ş.	205,000	390,235
Güven Sigorta T.A.Ş.	21,639	315
Premiums received	175,250,310	189,255,202
Groupama Sigorta A.Ş.	28	3,800
İstanbul Umum A.Ş.	(3)	1
Allianz Sigorta A.Ş.	(29)	(34)
Axa Sigorta A.Ş.	(72)	2,172
Güven Sigorta T.A.Ş.	(80)	767
Anadolu Sigorta	(1,151)	10,030
Ergo Sigorta A.Ş.	(1,227)	12,902
Premiums ceded	(2,534)	29,638
Allianz Sigorta A.Ş.	(3)	1
Güven Sigorta T.A.Ş.	(1,285)	1,389
Axa Sigorta A.Ş.	(3,021)	3,037
Ergo Sigorta A.Ş.	(3,567)	5,134
Groupama Sigorta A.Ş.	(7,032)	7,659
Anadolu Sigorta	(12,153)	14,392
Commissions received	(27,061)	31,612
Anadolu Sigorta	22,257,301	21,562,258
Axa Sigorta A.Ş.	6,778,440	7,953,361
Ziraat Sigorta A.Ş.	3,562,905	2,861,183
Ergo Sigorta A.Ş.	1,345,451	2,975,744
Groupama Sigorta A.Ş.	908,651	1,323,906
Anadolu Hayat Emeklilik A.Ş.	122,120	223,783
Allianz Sigorta A.Ş.	96,741	146,237
Güven Sigorta T.A.Ş.	(5)	(62,182)
Commissions given	35,071,604	36,984,290

Millî Reasürans Türk Anonim Şirketi

Notes to the Unconsolidated Financial Statements as at 31 December 2016

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

	31 December 2016	31 December 2015
Anadolu Sigorta	85,058,631	53,073,935
Axa Sigorta A.Ş.	14,516,386	41,100,417
Ergo Sigorta A.Ş.	13,725,776	13,250,572
Allianz Sigorta A.Ş.	4,875,749	4,209,033
Ziraat Sigorta A.Ş.	3,811,044	5,780,262
Groupama Sigorta A.Ş.	3,573,133	19,670,681
Güven Sigorta T.A.Ş.	2,496,742	2,361,285
Anadolu Hayat Emeklilik A.Ş.	307,788	167,542
Ziraat Hayat ve Emeklilik A.Ş.	217,078	749,298
Claims paid	128,582,327	140,363,025
Güven Sigorta T.A.Ş.	38,868	95,107
Axa Sigorta A.Ş.	33,560	196,702
İstanbul Umum A.Ş.	15,706	21,018
Allianz Sigorta A.Ş.	13,919	16,536
Ergo Sigorta A.Ş.	(11,781)	121,500
Groupama Sigorta A.Ş.	(18,898)	269,451
Anadolu Sigorta	(90.154)	469.767
Reinsurance's share of claims paid	(18,780)	1,190,081
Ergo Sigorta A.Ş.	1,398,446	421,667
Axa Sigorta A.Ş.	625,977	690,593
Anadolu Sigorta	563,569	715,473
Allianz Sigorta A.Ş.	99,536	148,657
Ziraat Sigorta A.Ş.	67,728	49,556
Groupama Sigorta A.Ş.	22,475	273,437
Anadolu Hayat Emeklilik A.Ş.	2,532	10,326
Other income	2,780,263	2,309,709
Ergo Sigorta A.Ş.	1,467,669	358,197
Güven Sigorta T.A.Ş.	457,001	264,090
Axa Sigorta A.Ş.	117,026	1,139,001
Allianz Sigorta A.Ş.	113,938	115,889
Anadolu Sigorta	80,186	242,021
Ziraat Sigorta A.Ş.	9,925	13,525
Groupama Sigorta A.Ş.	7,017	125,132
Anadolu Hayat Emeklilik A.Ş.	178	1,918
Ziraat Hayat ve Emeklilik A.Ş.	--	506
Other expenses	2,252,940	2,260,279

(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 at and for the year ended 31 December 2016 and 2015, details of rediscount and provision expenses are as follows:

Provision expenses	31 December 2016	31 December 2015
Provision for pension fund deficits	(1,326,173)	(28,214)
Assessment	--	2,910,801
Diminution in value of financial investments	(6,855,240)	--
Provision expenses for doubtful receivables	(2,631,464)	(2,528,035)
Provision for employee termination benefits *(Note 23)*	(98,439)	(376,273)
Other	4,142	2,345
Provisions	(10,907,174)	(19,376)

	31 December 2016	31 December 2015
Rediscount income/(expense) from reinsurance receivables	2,561	(3,584)
Rediscount income/(expense) from reinsurance payables	547,549	(455,335)
Total of rediscounts	550,110	(458,919)

Millî Reasürans Türk Anonim Şirketi

31 December 2016 Consolidated Financial Statements together with Independent Auditors’ Report Thereon

(Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)

Information on Consolidated Subsidiaries

Anadolu Anonim Türk Sigorta Şirketi

Writing non-life insurance and reinsurance business, Anadolu Sigorta was founded on 1925 at the initiative of Mustafa Kemal Atatürk and under the leadership of İşbank, Turkey's first national bank.

Pioneering its sector ever since it was founded, Anadolu Sigorta is committed to offering only high-quality products and services and to ensuring their sustainability with its experienced staff, solid financial and high-tech infrastructure, dynamic approach towards continuous development and improvement, and extensive network of expert agents.

48% of Anadolu Sigorta's shares are quoted on Borsa İstanbul (BİST) National Market under the symbol "ANSGR". 57.3% of the Company's share is held by Millî Reasürans T.A.Ş.

Headquartered in İstanbul, Anadolu Sigorta brings its products to its customers via regional offices in İstanbul (2), Ankara, Adana, Antalya, Bursa, Samsun, Trabzon, and İzmir, a branch in the Turkish Republic of Northern Cyprus, and about 2,458 agencies.

Anadolu Sigorta uses bank branches within the bancassurance network as fundamental element of its service delivery in Turkey. Together with all İşbank branches, Türkiye Sınai Kalkınma Bankası, Arap Türk Bankası, Alternatifbank, Albaraka Türk Katılım Bankası, Aktif Yatırım Bankası, and Finansbank branches are serving as Anadolu Sigorta agencies.

In 2016, Anadolu Sigorta expanded its total premium production by 24.19% year-on-year to TL 4.48 billion and controlled a 12.65% share of the overall market among non-life companies.

Total unconsolidated assets of Anadolu Sigorta were up by 22.2% year-on-year and reached TL 5,974 million at year end 2016, while its shareholders' equity registered as TL 1,223 million with 1.8% increase. Posting TL 111.2 million gross profit, the Company successfully reached its target of sustainable profitability in 2016.

Independent Auditor's Report

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah.
Kavak Sok. No: 3
Beykoz 34805 İstanbul

Telephone +90 (216) 681 90 00
Fax +90 (216) 681 90 90
İnternet www.kpmg.com.tr

To the Board of Directors of Milli Reasürans Türk Anonim Şirketi

Report on the Financial Statements

We have audited the accompanying consolidated balance sheet of Milli Reasürans Türk Anonim Şirketi ("the Company") as at 31 December 2016 and the related consolidated statement of income, changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with the "Insurance Accounting and Reporting Legislation" which includes the accounting principles and standards, in force as per the insurance legislation, and the requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to error and/or fraud.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our audit was conducted in accordance with audit standards in force as per insurance legislation and Independent Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement and provide a true and fair view of the Company.

An audit involves performing independent audit procedures to obtain independent audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessments, the Company's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Company and its internal control system. An audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Milli Reasürans Türk Anonim Şirketi as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with the Insurance Accounting and Reporting Legislation.

Independent Auditor's Report

Report on Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code No. 6102 ("TCC"); no significant matter has come to our attention that causes us to believe that for the period 1 January - 31 December 2016, the Company's bookkeeping activities are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

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

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member of KPMG International Cooperative

Alper Güvenç
Partner

17 February 2017
İstanbul, Turkey

Additional paragraph for convenience translation to English:

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

Millî Reasürans Türk Anonim Şirketi

Consolidated Financial Statements as at and For the Year Ended 31 December 2016

We confirm that the consolidated financial statements and related disclosures and footnotes as at 31 December 2016 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, 17 February 2017

Şule SOYLU Assistant General Manager	Kemal ÇUHACI Assistant General Manager	Hasan Hulki YALÇIN General Manager	Ertan TAN Actuary Registration No: 21

Contents

Millî Reasürans Türk Anonim Şirketi

Consolidated Balance Sheet
As At 31 December 2016

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

ASSETS			
I- Current Assets	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
A- Cash and Cash Equivalents	14	4,342,688,861	3,296,902,698
1- Cash	14	52,555	53,835
2- Cheques Received	14	1,950,000	--
3- Banks	14	3,919,164,699	2,929,798,391
4- Cheques Given and Payment Orders	14	(82,544)	(125,585)
5- Bank Guaranteed Credit Card Receivables With Maturity Less Than Three Months	14	421,604,151	367,176,057
6- Other Cash and Cash Equivalents		--	--
B- Financial Assets and Financial Investments with Risks on Policyholders	11	1,106,730,656	1,133,957,261
1- Available-for-Sale Financial Assets	11	970,628,652	1,022,265,854
2- Held to Maturity Investments	11	15,172,182	15,555,214
3- Financial Assets Held for Trading	11	127,881,004	96,232,135
4- Loans and Receivables		--	--
5- Provision for Loans and Receivables		--	--
6- Financial Investments with Risks on Life Insurance Policyholders		--	--
7- Company's Own Equity Shares		--	--
8- Diminution in Value of Financial Investments	11	(6,951,182)	(95,942)
C- Receivables from Main Operations	12	1,208,734,082	1,102,022,681
1- Receivables from Insurance Operations	12	984,855,530	869,275,449
2- Provision for Receivables from Insurance Operations	12	(8,836,586)	(8,305,178)
3- Receivables from Reinsurance Operations	12	169,611,886	169,725,737
4- Provision for Receivables from Reinsurance Operations		--	--
5- Cash Deposited to Insurance & Reinsurance Companies	12	63,103,252	71,326,673
6- Loans to the Policyholders		--	--
7- Provision for Loans to the Policyholders		--	--
8- Receivables from Private Pension Operations		--	--
9- Doubtful Receivables from Main Operations	4.2,12	188,867,237	150,770,368
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(188,867,237)	(150,770,368)
D- Due from Related Parties		--	--
1- Due from Shareholders		--	--
2- Due from Associates		--	--
3- Due from Subsidiaries		--	--
4- Due from Joint Ventures		--	--
5- Due from Personnel		--	--
6- Due from Other Related Parties		--	--
7- Rediscount on Receivables from Related Parties		--	--
8- Doubtful Receivables from Related Parties		--	--
9- Provision for Doubtful Receivables from Related Parties		--	--
E- Other Receivables	12	15,454,198	10,983,942
1- Finance Lease Receivables		--	--
2- Unearned Finance Lease Interest Income		--	--
3- Deposits and Guarantees Given	12	583,462	568,349
4- Other Miscellaneous Receivables	12	14,870,736	10,415,593
5- Rediscount on Other Miscellaneous Receivables		--	--
6- Other Doubtful Receivables	4.2,12	53,177	63,177
7- Provision for Other Doubtful Receivables	4.2,12	(53,177)	(63,177)
F- Prepaid Expenses and Income Accruals		408,923,726	382,912,914
1- Deferred Acquisition Costs	17	399,249,100	366,089,853
2- Accrued Interest and Rent Income		--	--
3- Income Accruals	4.2,12	8,999,362	16,363,166
4- Other Prepaid Expenses	4.2,12	675,264	459,895
G- Other Current Assets		24,550,172	35,540,786
1- Stocks to be Used in the Following Months		1,006,926	1,090,552
2- Prepaid Taxes and Funds	12,19	22,930,006	33,690,959
3- Deferred Tax Assets		--	--
4- Job Advances	12	170,946	255,077
5- Advances Given to Personnel	12	14,890	4,151
6- Inventory Count Differences		--	--
7- Other Miscellaneous Current Assets	12	427,404	500,047
8- Provision for Other Current Assets		--	--
I- Total Current Assets		7,107,081,695	5,962,320,282

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

Millî Reasürans Türk Anonim Şirketi

Consolidated Balance Sheet
As At 31 December 2016

(Currency: Turkish Lira (TL))

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

ASSETS			
II- Non-Current Assets	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
A- Receivables from Main Operations		--	--
1- Receivables from Insurance Operations		--	--
2- Provision for Receivables from Insurance Operations		--	--
3- Receivables from Reinsurance Operations		--	--
4- Provision for Receivables from Reinsurance Operations		--	--
5- Cash Deposited for Insurance and Reinsurance Companies		--	--
6- Loans to the Policyholders		--	--
7- Provision for Loans to the Policyholders		--	--
8- Receivables from Individual Pension Business		--	--
9- Doubtful Receivables from Main Operations	4.2,12	16,858,335	14,221,013
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(16,858,335)	(14,221,013)
B- Due from Related Parties		--	--
1- Due from Shareholders		--	--
2- Due from Associates		--	--
3- Due from Subsidiaries		--	--
4- Due from Joint Ventures		--	--
5- Due from Personnel		--	--
6- Due from Other Related Parties		--	--
7- Rediscount on Receivables from Related Parties		--	--
8- Doubtful Receivables from Related Parties		--	--
9- Provision for Doubtful Receivables from Related Parties		--	--
C- Other Receivables	4.2,12	1,749,362	2,207,981
1- Finance Lease Receivables		--	--
2- Unearned Finance Lease Interest Income		--	--
3- Deposits and Guarantees Given		--	--
4- Other Miscellaneous Receivables	4.2,12	2,129,835	2,839,780
5- Rediscount on Other Miscellaneous Receivables	4.2,12	(380,473)	(631,799)
6- Other Doubtful Receivables		--	--
7- Provision for Other Doubtful Receivables		--	--
D- Financial Assets	9	183,088,026	165,528,161
1- Investments in Equity Shares		--	--
2- Investments in Associates	9	181,995,319	164,435,454
3- Capital Commitments to Associates		--	--
4- Investments in Subsidiaries	9	1,092,707	1,092,707
5- Capital Commitments to Subsidiaries		--	--
6- Investments in Joint Ventures		--	--
7- Capital Commitments to Joint Ventures		--	--
8- Financial Assets and Financial Investments with Risks on Policyholders		--	--
9- Other Financial Assets		--	--
10- Impairment in Value of Financial Assets		--	--
E- Tangible Assets	6	578,741,391	510,242,396
1- Investment Properties	6,7	388,265,000	324,911,650
2- Impairment for Investment Properties		--	--
3- Owner Occupied Property	6	160,287,253	158,649,350
4- Machinery and Equipments	6	49,033,797	41,909,394
5- Furniture and Fixtures	6	19,296,491	17,209,219
6- Motor Vehicles	6	1,732,838	1,859,204
7- Other Tangible Assets (Including Leasehold Improvements)	6	22,982,418	20,322,655
8- Tangible Assets Acquired Through Finance Leases	6	3,868,337	4,166,354
9- Accumulated Depreciation	6	(66,724,743)	(58,785,430)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		--	--
F- Intangible Assets	8	69,805,708	59,597,284
1- Rights	8	116,516,653	97,650,098
2- Goodwill	8	16,250,000	16,250,000
3- Pre-operating Expenses		--	--
4- Research and Development Costs		--	--
5- Other Intangible Assets		--	--
6- Accumulated Amortization	8	(87,076,641)	(69,276,525)
7- Advances Paid for Intangible Assets	8	24,115,696	14,973,711
G- Prepaid Expenses and Income Accruals		6,296,844	5,344,867
1- Deferred Acquisition Costs	17	6,211,364	5,221,880
2- Income Accruals		--	--
3- Other Prepaid Expenses	4.2	85,480	122,987
H- Other Non-Current Assets	21	10,227,714	13,948,959
1- Effective Foreign Currency Accounts		--	--
2- Foreign Currency Accounts		--	--
3- Stocks to be Used in the Following Years		--	--
4- Prepaid Taxes and Funds		--	--
5- Deferred Tax Assets	21	10,227,714	13,948,959
6- Other Miscellaneous Non-Current Assets		--	--
7- Amortization on Other Non-Current Assets		--	--
8- Provision for Other Non-Current Assets		--	--
II- Total Non-Current Assets		849,909,045	756,869,648
TOTAL ASSETS		7,956,990,740	6,719,189,930

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

Millî Reasürans Türk Anonim Şirketi

Consolidated Balance Sheet
As At 31 December 2016

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

LIABILITIES

III- Short-Term Liabilities	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
A- Financial Liabilities	20	134,413,473	297,347,979
1- Borrowings from Financial Institutions		--	--
2- Finance Lease Payables		--	--
3- Deferred Leasing Costs		--	--
4- Current Portion of Long Term Debts		--	--
5- Principal Installments and Interests on Bonds Issued		--	--
6- Other Financial Assets Issued		--	--
7- Valuation Differences of Other Financial Assets Issued		--	--
8- Other Financial Liabilities		134,413,473	297,347,979
B- Payables Arising from Main Operations	19	466,995,593	373,784,676
1- Payables Arising from Insurance Operations		282,126,010	216,615,209
2- Payables Arising from Reinsurance Operations		35,487,145	43,014,872
3- Cash Deposited by Insurance and Reinsurance Companies		6,570,424	5,496,957
4- Payables Arising from Pension Operations		--	--
5- Payables Arising from Other Operations		142,812,014	108,657,638
6- Discount on Payables from Other Operations		--	--
C-Due to Related Parties	19	171,856	158,568
1- Due to Shareholders		66,287	53,738
2- Due to Associates		--	--
3- Due to Subsidiaries		--	--
4- Due to Joint Ventures		--	--
5- Due to Personnel		91,826	92,190
6- Due to Other Related Parties		13,743	12,640
D- Other Payables	19	85,550,857	62,710,887
1- Deposits and Guarantees Received		7,436,777	3,177,561
2- Payables to Social Security Institution Related to Treatment Expenses		32,500,031	27,524,238
3- Other Miscellaneous Payables		46,076,135	32,516,197
4- Discount on Other Miscellaneous Payables		(462,086)	(507,109)
E-Insurance Technical Provisions	17	5,154,029,795	4,108,661,380
1- Reserve for Unearned Premiums - Net	17	2,135,349,141	1,846,273,474
2- Reserve for Unexpired Risks- Net	17	12,888,197	32,682,256
3- Life Mathematical Provisions - Net	17	165,157	491,937
4- Provision for Outstanding Claims - Net	17	3,005,627,300	2,229,213,713
5- Provision for Bonus and Discounts - Net		--	--
6- Other Technical Provisions - Net		--	--
F- Provisions for Taxes and Other Similar Obligations	19	40,980,017	38,761,168
1- Taxes and Funds Payable		37,869,439	36,015,743
2- Social Security Premiums Payable		3,110,578	2,745,425
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		--	--
4- Other Taxes and Similar Payables	-	--	--
5- Corporate Tax Payable		26,875,657	1,769,959
6- Prepaid Taxes and Other Liabilities Regarding Current Year Income		(26,875,657)	(1,769,959)
7- Provisions for Other Taxes and Similar Liabilities		--	--
G- Provisions for Other Risks	23	--	--
1- Provision for Employee Termination Benefits		--	--
2- Provision for Pension Fund Deficits		--	--
3- Provisions for Costs	23	--	--
H- Deferred Income and Expense Accruals	19	104,670,372	75,955,282
1- Deferred Commission Income	10,19	46,650,934	39,714,319
2- Expense Accruals	19	57,847,236	36,066,016
3- Other Deferred Income	19	172,202	174,947
I- Other Short Term Liabilities	23	1,561,950	1,492,709
1- Deferred Tax Liabilities		--	--
2- Inventory Count Differences		--	--
3- Other Various Short Term Liabilities	23	1,561,950	1,492,709
III - Total Short Term Liabilities		5,988,373,913	4,958,872,649

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

Millî Reasürans Türk Anonim Şirketi

Consolidated Balance Sheet
As At 31 December 2016

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

LIABILITIES

IV- Long-Term Liabilities	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
A- Financial Liabilities		--	--
1- Borrowings from Financial Institutions		--	--
2- Finance Lease Payables		--	--
3- Deferred Leasing Costs		--	--
4- Bonds Issued		--	--
5- Other Financial Assets Issued		--	--
6- Valuation Differences of Other Financial Assets Issued		--	--
7- Other Financial Liabilities		--	--
B- Payables Arising from Operating Activities		--	--
1- Payables Arising from Insurance Operations		--	--
2- Payables Arising from Reinsurance Operations		--	--
3- Cash Deposited by Insurance and Reinsurance Companies		--	--
4- Payables Arising from Pension Operations		--	--
5- Payables Arising from Other Operations		--	--
6- Discount on Payables from Other Operations		--	--
C- Due to Related Parties		--	--
1- Due to Shareholders		--	--
2- Due to Associates		--	--
3- Due to Subsidiaries		--	--
4- Due to Joint Ventures		--	--
5- Due to Personnel		--	--
6- Due to Other Related Parties		--	--
D- Other Payables		--	--
1- Deposits and Guarantees Received		--	--
2- Payables to Social Security Institution Related to Treatment Expenses		--	--
3- Other Miscellaneous Payables		--	--
4- Discount on Other Miscellaneous Payables		--	--
E-Insurance Technical Provisions	17	154,637,733	104,977,919
1- Reserve for Unearned Premiums - Net		--	--
2- Reserve for Unexpired Risks - Net		--	--
3- Life Mathematical Provisions - Net		--	--
4- Provision for Outstanding Claims - Net		--	--
5- Provision for Bonus and Discounts - Net		--	--
6- Other Technical Provisions - Net	17	154,637,733	104,977,919
F-Other Liabilities and Relevant Accruals		--	--
1- Other Liabilities		--	--
2- Overdue, Deferred or By Installment Taxes and Other Liabilities		--	--
3- Other Liabilities and Expense Accruals		--	--
G- Provisions for Other Risks	23	54,251,255	50,253,639
1- Provisions for Employment Termination Benefits	23	24,566,143	21,894,700
2- Provisions for Pension Fund Deficits	22,23	29,685,112	28,358,939
H-Deferred Income and Expense Accruals	19	--	43,332
1- Deferred Commission Income		--	--
2- Expense Accruals		--	--
3- Other Deferred Income	19	--	43,332
I- Other Long Term Liabilities		--	--
1- Deferred Tax Liabilities		--	--
2- Other Long Term Liabilities		--	--
IV - Total Long Term Liabilities		208,888,988	155,274,890

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

Millî Reasürans Türk Anonim Şirketi

Consolidated Balance Sheet
As At 31 December 2016

(Currency: Turkish Lira (TL))

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

EQUITY

V- Equity	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
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 Capital Restatement Differences		--	--
4- Negative Capital Restatement Differences (-)		--	--
5- Unregistered Capital		--	--
B- Capital Reserves	15	137,993,463	117,604,491
1- Share Premiums		--	--
2- Cancellation Profits of Equity Shares		--	--
3- Profit on Sale Assets That Will Be Transferred to Capital	15	23,723,323	--
4- Currency Translation Adjustments	15	(26,027,092)	(19,573,401)
5- Other Capital Reserves	15	140,297,232	137,177,892
C- Profit Reserves		165,559,918	103,545,587
1- Legal Reserves	15	90,232,526	80,567,006
2- Statutory Reserves	15	10,220,997	6,759,148
3- Extraordinary Reserves	15	81,426,632	34,827,040
4- Special Funds		--	--
5- Revaluation of Financial Assets	11,15	31,358,139	28,234,178
6- Other Profit Reserves	15	23,381,673	24,218,264
7- Subsidiary Capital Correction	15	(71,060,049)	(71,060,049)
D- Retained Earnings		197,937,817	195,873,555
1- Retained Earnings		197,937,817	195,873,555
E- Accumulated Losses		--	--
1- Accumulated Losses		--	--
F-Net Profit/(Loss) for the Year		181,244,361	156,222,767
1- Net Profit for the Period		181,235,711	131,042,910
2- Net Loss for the Period		--	--
3- Net Profit for the Period not Subject to Distribution		8,650	25,179,857
G- Minority Shares		416,992,280	371,795,991
V- Total Equity		1,759,727,839	1,605,042,391
TOTAL EQUITY AND LIABILITIES		7,956,990,740	6,719,189,930

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

Millî Reasürans Türk Anonim Şirketi

Consolidated Statement of Income
For the Year Ended 31 December 2016

(Currency: Turkish Lira (TL))

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

I-TECHNICAL SECTION	Note	Audited Current Period 1 January- 31 December 2016	Audited Prior Period 1 January- 31 December 2015
A- Non-Life Technical Income		4,621,127,210	3,868,158,939
1- Earned Premiums (Net of Reinsurer Share)		4,009,233,765	3,362,793,609
1.1- Written Premiums (Net of Reinsurer Share)	17	4,277,940,082	3,631,983,131
1.1.1- Written Premiums, gross	17	5,304,350,878	4,487,551,165
1.1.2- Written Premiums, ceded	10,17	(875,616,791)	(756,056,567)
1.1.3- Written Premiums, SSI share	17	(150,794,005)	(99,511,467)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17,29	(288,500,376)	(316,963,162)
1.2.1- Reserve for Unearned Premiums, gross	17	(365,034,325)	(374,332,005)
1.2.2- Reserve for Unearned Premiums, ceded	10,17	56,450,295	39,086,070
1.2.3- Reserve for Unearned Premiums, SSI share		20,083,654	18,282,773
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)	17	19,794,059	47,773,640
1.3.1- Reserve for Unexpired Risks, gross	17	28,490,590	45,621,785
1.3.2- Reserve for Unexpired Risks, ceded	10,17	(8,696,531)	2,151,855
2- Investment Income - Transferred from Non-Technical Section		528,362,786	377,454,291
3- Other Technical Income (Net of Reinsurer Share)		52,151,853	71,477,926
3.1- Other Technical Income, gross		52,152,151	71,477,926
3.2- Other Technical Income, ceded		(298)	--
4. Accrued Salvage and Subrogation Income		31,378,806	56,433,113
B- Non-Life Technical Expense		(4,404,492,029)	(3,805,677,102)
1- Incurred Losses (Net of Reinsurer Share)		(3,192,362,319)	(2,802,133,939)
1.1- Claims Paid (Net of Reinsurer Share)	17,29	(2,418,397,262)	(2,320,746,150)
1.1.1- Claims Paid, gross	17	(2,728,766,418)	(2,538,268,492)
1.1.2- Claims Paid, ceded	10,17	310,369,156	217,522,342
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17,29	(773,965,057)	(481,387,789)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(779,788,377)	(731,830,650)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10,17	5,823,320	250,442,861
2- Change in Provision for Bonus and Discounts (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
2.1- Provision for Bonus and Discounts, gross		--	--
2.2- Provision for Bonus and Discounts, ceded		--	--
3- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(49,076,229)	(21,724,626)
4- Operating Expenses	32	(1,049,421,699)	(908,004,593)
5- Change in Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)		255,578	(255,578)
5.1- Mathematical Provisions		255,578	(255,578)
5.2- Mathematical Provisions, ceded		--	--
6- Other Technical Expense		(113,887,360)	(73,558,366)
6.1- Other Technical Expense, gross		(113,887,360)	(73,558,366)
6.2- Other Technical Expense, ceded		--	--
C- Net Technical Income-Non-Life (A - B)		216,635,181	62,481,837
D- Life Technical Income		19,687,077	19,541,877
1- Earned Premiums (Net of Reinsurer Share)		17,549,152	17,904,430
1.1- Written Premiums (Net of Reinsurer Share)	17	18,124,443	18,297,354
1.1.1- Written Premiums, gross	17	19,210,055	19,755,699
1.1.2- Written Premiums, ceded	10,17	(1,085,612)	(1,458,345)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17,29	(575,291)	(392,924)
1.2.1- Reserve for Unearned Premiums, gross	17	(502,515)	84,139
1.2.2- Reserve for Unearned Premiums, ceded	10,17	(72,776)	(477,063)
1.3- Change in Reserve for Unexpired Risks (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
1.3.1- Reserve for Unexpired Risks, gross		--	--
1.3.2- Reserve for Unexpired Risks, ceded		--	--
2- Investment Income		2,049,914	1,466,954
3- Unrealized Gains on Investments		--	--
4- Other Technical Income (Net of Reinsurer Share)		88,011	170,493
4.1- Other Technical Income, gross		185,899	59,603
4.2- Other Technical Income, ceded		(97,888)	110,890
5- Accrued Salvage and Subrogation Income		--	--

(*) See

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

Millî Reasürans Türk Anonim Şirketi

Consolidated Statement of Income
For the Year Ended 31 December 2016

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

I-TECHNICAL SECTION	Note	Audited Current Period 1 January- 31 December 2016	Audited Prior Period 1 January- 31 December 2015
E- Life Technical Expense		(21,187,012)	(16,825,215)
1- Incurred Losses (Net of Reinsurer Share)		(10,454,943)	(6,575,473)
1.1- Claims Paid (Net of Reinsurer Share)	17,29	(8,006,413)	(6,111,970)
1.1.1- Claims Paid, gross	17	(8,664,622)	(6,492,393)
1.1.2- Claims Paid, ceded	10,17	658,209	380,423
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17,29	(2,448,530)	(463,503)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(2,730,793)	(828,662)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10,17	282,263	365,159
2- Change in Provision for Bonus and Discounts (Net of Reinsurer Share and Less the Amounts Carried Forward)		--	--
2.1- Provision for Bonus and Discounts, gross		--	--
2.2- Provision for Bonus and Discounts, ceded		--	--
3- Change in Life Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	71,202	131,983
3.1- Change in Mathematical Provisions, gross	29	71,202	131,983
3.1.1- Actuarial Mathematical Provisions		71,202	131,983
3.1.2- Profit Sharing Provisions (Provisions for Policies Investment Risks of Which Belong to Life Insurance Policyholders)		--	--
3.2- Change in Mathematical Provisions, ceded		--	--
3.2.1- Actuarial Mathematical Provisions, ceded		--	--
3.2.2- Profit Sharing Provisions, ceded (Provisions for Policies Investment Risks of Which Belong to Life Insurance Policyholders)		--	--
4- Change in Other Technical Reserves (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	(583,585)	(199,272)
5- Operating Expenses	32	(10,219,686)	(10,182,453)
6- Investment Expenses		--	--
7- Unrealized Losses on Investments		--	--
8- Investment Income Transferred to the Non-Life Technical Section		--	--
F- Net Technical Income- Life (D - E)		(1,499,935)	2,716,662
G- Pension Business Technical Income		--	--
1- Fund Management Income		--	--
2- Management Fee		--	--
3- Entrance Fee Income		--	--
4- Management Expense Charge in case of Suspension		--	--
5- Income from Private Service Charges		--	--
6- Increase in Value of Capital Allowances Given as Advance		--	--
7- Other Technical Expense		--	--
H- Pension Business Technical Expense		--	--
1- Fund Management Expense		--	--
2- Decrease in Value of Capital Allowances Given as Advance		--	--
3- Operating Expenses		--	--
4- Other Technical Expenses		--	--
I- Net Technical Income - Pension Business (G - H)		--	--

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

Millî Reasürans Türk Anonim Şirketi

Consolidated Statement of Income
For the Year Ended 31 December 2016

(Currency: Turkish Lira (TL))

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

II-NON-TECHNICAL SECTION	Note	Audited Current Period 1 January- 31 December 2016	Audited Prior Period 1 January- 31 December 2015
C- Net Technical Income - Non-Life (A-B)		216,635,181	62,481,837
F- Net Technical Income - Life (D-E)		(1,499,935)	2,716,662
I - Net Technical Income - Pension Business (G-H)		--	--
J- Total Net Technical Income (C+F+I)		215,135,246	65,198,499
K- Investment Income		763,869,487	659,953,132
1- Income from Financial Assets	4.2	370,164,896	288,672,778
2- Income from Disposal of Financial Assets	4.2	33,059,353	55,904,227
3- Valuation of Financial Assets	4.2	51,967,175	32,495,483
4- Foreign Exchange Gains	4.2	184,579,297	149,059,354
5- Income from Associates	4.2	40,163,943	30,635,392
6- Income from Subsidiaries and Joint Ventures	4.2	3,251	4,075
7- Income from Property, Plant and Equipment	7	79,387,860	101,851,209
8- Income from Derivative Transactions	4.2	4,432,112	741,200
9- Other Investments		111,600	589,414
10- Income Transferred from Life Section		--	--
L- Investment Expense		(680,499,653)	(503,350,993)
1- Investment Management Expenses (inc. interest)	4.2	(4,630,870)	(3,060,240)
2- Diminution in Value of Investments	4.2	(1,643,638)	(2,824,154)
3- Loss from Disposal of Financial Assets	4.2	(17,234,556)	(11,039,996)
4- Investment Income Transferred to Non-Life Technical Section		(528,362,786)	(377,454,292)
5- Loss from Derivative Transactions	4.2	(3,616,449)	(74,638)
6- Foreign Exchange Losses	4.2	(88,324,565)	(67,687,210)
7- Depreciation and Amortization Expenses	6,8	(28,732,695)	(32,779,765)
8- Other Investment Expenses		(7,954,094)	(8,430,698)
M- Income and Expenses From Other and Extraordinary Operations		(46,790,612)	(31,797,769)
1- Provisions	47	(49,002,399)	(25,565,845)
2- Rediscounts	47	1,042,702	999,672
3- Specified Insurance Accounts		--	--
4- Monetary Gains and Losses		--	--
5- Deferred Taxation (Deferred Tax Assets)		--	--
6- Deferred Taxation (Deferred Tax Liabilities)	35	(886,872)	(14,290,010)
7- Other Income		3,862,489	9,528,258
8- Other Expenses and Losses		(1,806,532)	(2,469,844)
9- Prior Year's Income		--	--
10- Prior Year's Expenses and Losses		--	--
N- Net Profit for the Year		224,838,811	188,232,910
1- Profit for the Year		251,714,468	190,002,869
2- Corporate Tax Provision and Other Fiscal Liabilities	35	(26,875,657)	(1,769,959)
3- Net Profit for the Year		224,838,811	188,232,910
3.1-Groups Profit/(Loss)		181,244,361	156,222,767
3.2-Minority Shares		43,594,450	32,010,143
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 Changes in Equity
For the Year Ended 31 December 2016

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

Audited Changes in Equity - 31 December 2015

	Note	Paid-in capital	Own shares of the company	Revaluation of financial assets	Inflation adjustment	Currency translation adjustment
I - Balance at the end of the previous year - 31 December 2014	15	660,000,000	--	49,409,155	--	(11,907,682)
II - Correction [(*)]		--	--	--	--	--
III - Restated balances (I+II) (1 January 2015)		660,000,000	--	49,409,155	--	(11,907,682)
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		--	--	--	--	--
E - Change in the value of financial assets	11	--	--	(21,174,977)	--	--
F - Currency translation adjustments		--	--	--	--	(7,665,719)
G - Other gains or losses		--	--	--	--	--
H - Inflation adjustment differences		--	--	--	--	--
I - Net profit for the year		--	--	--	--	--
J - Other reserves and transfers from retained earnings		--	--	--	--	--
K - Dividends paid		--	--	--	--	--
II - Balance at the end of the year - 31 December 2015	15	660,000,000	--	28,234,178	--	(19,573,401)

Audited Changes in Equity - 31 December 2016

	Note	Paid-in capital	Own shares of the company	Revaluation of financial assets	Inflation adjustment	Currency translation adjustment
I - Balance at the end of the previous year - 31 December 2015	15	660,000,000	--	28,234,178	--	(19,573,401)
II - Correction		--	--	--	--	--
III - Restated balances (I+II) (1 January 2016)		660,000,000	--	28,234,178	--	(19,573,401)
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		--	--	--	--	--
E -Change in the value of financial assets	11	--	--	3,123,961	--	--
F - Currency translation adjustments		--	--	--	--	(6,453,691)
G - Other gains or losses		--	--	--	--	--
H - Inflation adjustment differences		--	--	--	--	--
I - Net profit for the year		--	--	--	--	--
J - Other reserves and transfers from retained earnings		--	--	--	--	--
K - Dividends paid		--	--	--	--	--
II - Balance at the end of the year - 31 December 2016	15	660,000,000	--	31,358,139	--	(26,027,092)

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

Legal reserves	statutory Reserves	Other reserves and retained earnings	Net profit for the year	Retained earnings	Total equity before minority shares	Minority share	Total
77,369,316	4,441,017	(29,022,104)	80,363,867	144,703,437	975,357,006	345,313,374	1,320,670,380
--	--	--	--	--	--	--	--
77,369,316	4,441,017	(29,022,104)	80,363,867	144,703,437	975,357,006	345,313,374	1,320,670,380
--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--
--	--	121,598,260	--	--	121,598,260	809,659	122,407,919
--	--	--	--	--	(21,174,977)	(2,570,431)	(23,745,408)
--	--	--	--	--	(7,665,719)	--	(7,665,719)
--	--	--	--	9,519,361	9,519,361	7,090,930	16,610,291
--	--	--	--	--	--	--	--
--	--	--	156,222,767	--	156,222,767	32,010,144	188,232,911
3,197,690	2,318,131	32,586,991	(80,363,867)	41,650,757	(610,298)	--	(610,298)
--	--	--	--	--	--	(10,857,685)	(10,857,685)
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

Legal reserves	statutory Reserves	Other reserves and retained earnings	Net profit for the year	Retained earnings	Total equity before minority shares	Minority share	Total
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
--	--	--	--	--	--	--	--
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
--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--
--	--	(27,166,000)	--	--	(27,166,000)	--	(27,166,000)
--	--	843,778	--	--	843,778	--	843,778
--	--	--	--	--	3,123,961	1,601,839	4,725,800
--	--	--	--	--	(6,453,691)	--	(6,453,691)
--	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--
--	--	--	181,244,361	--	181,244,361	43,594,450	224,838,811
9,665,520	3,461,849	98,927,886	(113,415,037)	2,064,262	704,480	--	704,480
--	--	--	(42,807,730)	--	(42,807,730)	--	(42,807,730)
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

Millî Reasürans Türk Anonim Şirketi

Consolidated Statement of Cash Flows For the Year Ended 31 December 2016

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

	Note	Audited Current Period 31 December 2016	Audited Prior Period 31 December 2015
A. Cash flows from operating activities			
1. Cash provided from insurance activities		4,963,098,172	3,792,126,779
2. Cash provided from reinsurance activities		844,811,957	1,082,027,764
3. Cash provided from private pension business		--	--
4. Cash used in insurance activities		(4,769,080,059)	(3,634,027,829)
5. Cash used in reinsurance activities		(212,748,356)	(893,254,430)
6. Cash used in private pension business		--	--
7. Cash provided from operating activities		826,081,714	346,872,284
8. Interest paid		--	--
9. Income taxes paid		(531,339)	(22,398,667)
10. Other cash inflows		1,313,756,953	925,534,252
11. Other cash outflows		(1,496,564,413)	(1,310,262,560)
12. Net cash provided from operating activities		642,742,915	(60,254,691)
B. Cash flows from investing activities		--	--
1. Proceeds from disposal of tangible assets		8,424,794	18,142,811
2. Acquisition of tangible assets	6, 8	(42,245,758)	(30,156,258)
3. Acquisition of financial assets	11	(1,284,787,847)	(1,165,407,715)
4. Proceeds from disposal of financial assets	11	1,403,536,295	1,219,198,917
5. Interests received		63,883,362	271,228,019
6. Dividends received		5,178,576	6,170,248
7. Other cash inflows		200,230,723	393,855,080
8. Other cash outflows		(156,293,766)	(330,550,178)
9. Net cash provided by/(used in) investing activities		197,926,379	382,480,924
C. Cash flows from financing activities		--	--
1. Equity shares issued		--	--
2. Cash provided from loans and borrowings		--	--
3. Finance lease payments		--	--
4. Dividends paid		(45,197,943)	(12,871,811)
5. Other cash inflows		--	297,347,979
6. Other cash outflows		(214,584,486)	(8,876,616)
7. Net cash provided by financing activities		(259,782,429)	275,599,552
D. Effect of exchange rate fluctuations on cash and cash equivalents		2,029,215	1,930,699
E. Net increase/(decrease) in cash and cash equivalents		582,916,080	599,756,484
F. Cash and cash equivalents at the beginning of the year	14	2,303,619,535	1,703,863,051
G. Cash and cash equivalents at the end of the year	14	2,886,535,615	2,303,619,535

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

Millî Reasürans Türk Anonim Şirketi

Consolidated Statement of Profit Distribution
For the Year Ended 31 December 2016

(Currency: Turkish Lira (TL))

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

	Note	Audited Current Period 31 December 2016 (*)	Audited Prior Period 31 December 2015
I. DISTRIBUTION OF THE PERIOD PROFIT (**)			
1.1. PERIOD PROFIT (**)		135,640,914	130,243,407
1.2. TAXES AND DUTIES PAYABLE	35	(3,558,844)	--
1.2.1. Corporate Tax (Income Tax)	35	(3,558,844)	--
1.2.2. Income Tax Deductions		--	--
1.2.3. Other Taxes and Legal Duties		--	--
A. CURRENT PERIOD PROFIT (1.1 - 1.2)		132,082,070	130,243,407
1.3. ACCUMULATED LOSSES (-)		--	(12,694,585)
1.4. FIRST LEGAL RESERVES (-)		(6,604,104)	(4,491,275)
1.5. OTHER STATUTORY RESERVES (-)		--	(23,723,323)
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A - (1.3 + 1.4 + 1.5)]		125,477,966	89,134,224
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)		--	(8,913,422)
1.6.1. To owners of ordinary shares		--	(8,913,422)
1.6.2. To owners of privileged shares		--	--
1.6.3. To owners of redeemed shares		--	--
1.6.4. To holders profit sharing bonds		--	--
1.6.5. To holders of profit and loss sharing certificates		--	--
1.7. DIVIDENDS TO PERSONNEL (-)		--	(2,406,624)
1.8. DIVIDENDS TO FOUNDERS (-)		--	(2,807,728)
1.9. DIVIDENDS TO BOARD OF DIRECTORS (-)		--	--
1.10. SECOND DIVIDEND TO SHAREHOLDERS (-)		--	(31,086,578)
1.10.1. To owners of ordinary shares		--	(31,086,578)
1.10.2. To owners of privileged shares		--	--
1.10.3. To owners of redeemed shares		--	--
1.10.4. To holders profit sharing bonds		--	--
1.10.5. To holders of profit and loss sharing certificates		--	--
1.11. LEGAL RESERVES (-)		--	(1,221,435)
1.12. STATUTORY RESERVES(-)		--	--
1.13. EXTRAORDINARY RESERVES		--	(42,698,437)
1.14 OTHER RESERVES		--	--
1.15 SPECIAL FUNDS		--	--
II. DISTRIBUTION OF RESERVES		--	--
2.1. APPROPRIATED RESERVES		--	--
2.2. SECOND LEGAL RESERVES (-)		--	--
2.3. DIVIDENDS TO SHAREHOLDERS (-)		--	--
2.3.1. To owners of ordinary shares		--	--
2.3.2. To owners of privileged shares		--	--
2.3.3. To owners of redeemed shares		--	--
2.3.4. To holders of profit sharing bonds		--	--
2.3.5. To holders of profit and loss sharing certificates		--	--
2.4. DIVIDENDS TO PERSONNEL (-)		--	--
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)		--	--
III. EARNINGS PER SHARE		--	--
3.1. TO OWNERS OF ORDINARY SHARES		--	130,243,407
3.2. TO OWNERS OF ORDINARY SHARES (%)		--	19,7338
3.3. TO OWNERS OF PRIVILEGED SHARES		--	--
3.4. TO OWNERS OF PRIVILEGED SHARES (%)		--	--
IV. DIVIDEND PER SHARE		--	--
4.1. TO OWNERS OF ORDINARY SHARES		--	40,000,000
4.2. TO OWNERS OF ORDINARY SHARES (%)		--	6,0606
4.3. TO OWNERS OF PRIVILEGED SHARES		--	--
4.4. TO OWNERS OF PRIVILEGED SHARES (%)		--	--

(*) Since the profit distribution proposal for the year 2016 has not prepared by the Board of Directors, profit distribution table has not been filled yet. According to legislation in Turkey, companies can not distribute consolidated profit and statement of profit distribution above is belonged to parent company.

(**) Reserve for personnel dividend amounting to TL 2,838,838 that recognized according to TMS 19 is included in period profit as of 31 December 2016.

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

1 General information

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

As at 31 December 2016, 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 26 February 1929 and has been operating since in 19 July 1929.

On 30 September 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 31 December 2016 include the Company and its subsidiary Anadolu Sigorta (together with "the Group").

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

The Company was registered in Turkey in 16 July 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 Business 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 accident, health, motor vehicles, air vehicles, water vehicles, transportation, fire and natural disasters, general loss, credit, financial losses, and legal protection. As at 31 December 2016, the Company serves through 2,556 agencies of which 2,458 authorized and 98 unauthorized agencies. (31 December 2015: 2.468 authorized 93 unauthorized total 2,561 agencies)

1.4 Description of the main operations of the Company

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

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.

(Currency: Turkish Lira (TL))

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

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

	31 December 2016	31 December 2015
Senior managers	12	13
Managers	63	58
Assistant managers	163	145
Officers	789	749
Contracted personnel	6	7
Advisors	3	3
Other personnel	326	308
Total	1,362	1,283

1.6 Wages and similar benefits provided to the senior management

For the year ended 31 December 2016, wages and similar benefits provided to the senior management including chairman, members of the board of the directors, general manager, general coordinator, and deputy general managers is amounting to TL 12,179,938 (31 December 2015: TL 10,846,547).

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

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

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 6 March 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", 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 31 December 2016, 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 31 December 2016.

Anadolu Sigorta as a subsidiary company of the Group, is operating in almost all of the none-life insurance branches composed of accident, health, general damages , motor vehicles liability, air craft liability, general liability, credit, 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 accident 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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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

There has been no change in the Company's operations, documentation and records or policies after the reporting date.

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 18 April 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.

2.1.2 Other 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 at 31 December 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 4 April 2005 and numbered 19387, consolidated financial statements as of 31 December 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 15 January 2003 and numbered 25290. Inflation accounting is no longer applied starting from 1 January 2005, in accordance with the same declaration of the Turkish Treasury. Accordingly, as at 31 December 2016, non-monetary assets and liabilities and items included in shareholders' equity including paid-in capital recognized or recorded before 1 January 2005 are measured as restated to 31 December 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 1 January 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 31 December 2015 and nine-month results as at and for the period ended 30 September 2016 and accordingly related balance sheet balances as at 31 December 2016 do not reflect the actual position. According to the letter dated 31 August 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.

2.1.5 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 31 December 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 2 August 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 12 August 2011 sent by the Turkish Treasury to the Company, prospective application as at 30 June 2011 effective from 1 January 2011 is allowed since retrospective application is impossible. Accordingly, financial statements prepared as at 31 December 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 1 January 2016 - 31 December 2016. The same ratio is used for unproportioned reinsurance treaties in accordance with the Communiqué released on 28 July 2010 and numbered 27655 "Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves". Distribution of commissions and claims between the fire and earthquake branches is parallel with the aforementioned method.

According to the letter dated 12 January 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 at 31 December 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, provision for outstanding claims 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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

According to 16th article of "Circular on Actuarial Chain Ladder Method (2010/12)" dated 20 September 2010 and announced by Turkish Treasury, ACML calculation should be made through main branches. However, as at 31 December 2012, the Company has calculated ACML reserve for General Damages main branch as two separate 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 17 January 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 separately. Turkish Treasury has given permission the Company in order to calculate IBNR reserve for General Damages within two sub branches with the letter dated 28 January 2013 and numbered 24179134. As at 31 December 2016, 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 - *Critical accounting estimates and judgments in applying accounting policies.*

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
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 31 December 2016 and 2015.

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.

2.3 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. As at 31 December 2016 and 2015, 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 self-used buildings, tangible assets are recorded at their historical costs that have been adjusted according to the inflation rates until the end of 31 December 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 31 December 2004. Tangible assets that have been purchased after 1 January 2005 have been recorded at their costs excluding their exchange rate differences and finance expenses less impairment losses if any.

The Company has changed historical cost basis method with revaluation method for self-used buildings. Fair values of self-used buildings have been reflected in the financial statements instead of historical cost values since third quarter of 2015.

The fair values of self-used buildings were provided by CMB licensed real estate companies. The fair values excluding the accumulated depreciation are reflected in the financial statements.

Increase arising from the revaluation of self-used buildings is 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 and 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 since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

Depreciation rates and estimated useful lives are as follows:

Tangible assets	Estimated useful lives (years)	Depreciation rates (%)
Self-used buildings	50	2.0
Machinery and equipment	3 - 15	6.7 - 33.3
Vehicles	5	20.0
Other tangible assets (includes leasehold improvements)	5	20.0

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 31 December 2004 are restated from the purchasing dates to 31 December 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. at 31 August 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.

2.8 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.

2.9 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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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

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

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

Impairment on tangible and intangible assets

On each balance sheet date, the 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*.

2.10 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))

2.13 Capital

The shareholder having direct or indirect control over the shares of the Company is İş Bankası Group. As at 31 December 2016 and 2015, the share capital and ownership structure of the Company are as follows:

	31 December 2016		31 December 2015	
Name	Shareholding amount (TL)	Shareholding rate (%)	Shareholding amount (TL)	Shareholding rate (%)
Türkiye İş Bankası A.Ş.	505,810,925	76.64	505,810,925	76.64
Millî Reasürans T.A.Ş. Mensupları Yardımlaşma Sandığı Vakfı (**)	69,604,854	10.55	69,585,028	10.54
Groupama Emeklilik A.Ş.	38,809,894	5.88	38,809,894	5.88
Ankara Doğal Elektrik Üretim ve Ticaret A.Ş. (*)	22,240,456	3.37	--	--
T.C. Ziraat Bankası A.Ş.	16,430,944	2.49	16,430,944	2.49
Others (**)	7,102,927	1.07	7,122,753	1.08
T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı	--	--	22,240,456	3.37
Paid in capital	660,000,000	100.00	660,000,000	100.00

(*) As of 11 March 2016, the Company has decided to transfer total amount of 3.37% shares with TL 22,240,456 nominal value owned by T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı which is one of the shareholders of the Company to Ankara Doğal Elektrik Üretim ve Ticaret A.Ş. and to record this transfer to the share ledger with the Board Decision numbered 1239 and dated 11 March 2016.

(**) The Company has decided to transfer total amount of 0,003004% Millî Reasürans T.A.Ş. shares with TL 19,826 nominal value owned by Fatma Ayşe Feyzioğlu Karakaş, Mevhibe Derya Feyzioğlu and Ali Zihni Feyzioğlu who are shareholders of the Company to Millî Reasürans T.A.Ş. Mensupları Yardımlaşma Sandığı Vakfı with the Board Decision numbered 1242 and dated 10 June 2016.

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 27 June 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 30 November 2016.

Registered capital system in the Company

None.

Repurchased own shares by the Company

None.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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 DPF

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

2.17 Liabilities

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

2.18 Income taxes

Corporate tax

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

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

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

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. As at 31 December 2016, the Company does not have any deductible tax losses (31 December 2015: TL 50,197,498).

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.

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

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

Transfer pricing

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

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

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 8 May 2008. Decree of the Council of Ministers about two years extending transfer duration, was published in the Official Gazette on 9 April 2011. Based on this, expiration date has been extended to 8 May 2013 from the expiration date on 8 May 2011. On 8 March 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 3 May 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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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 8 May 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 9 April 2011. Accordingly, the three-year period expired on 8 May 2011 was extended to the 8 May 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 23 April 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.

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 at 31 December 2016 is TL 4,297 (31 December 2015: TL 3,828).

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 at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Discount rate	4,25-4,61%	3,77-4,61%
Expected rate of salary/limit increase	6,00-5,83%	5,00-5,83%
Estimated employee turnover rate	2,00-3,22%	2,00-3,27%

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.

(Currency: Turkish Lira (TL))

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.

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 provision 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 provisions are off-set against these reserves.

Subrogation, salvage and quasi income

According to the Circular 2010/13 dated 20 September 2010; the Company may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insuree. 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 Group provided TL 43,739,284 (31 December 2015: TL 45,354,423) subrogation receivables and recorded TL 47,016,782 (31 December 2015: TL 49,626,517) *(Note 12)* amount net subrogation and salvage receivables under receivables from main operations. The Group provided allowance for uncollected subrogation receivables amounting to TL 8,836,586 (31 December 2015: TL 8,305,178) *(Note 12)* in accordance with circular.

For the periods ended 31 December 2016 and 2015, salvage and subrogation collected are as follows:

	31 December 2016	31 December 2015
Motor vehicles	341,775,724	292,754,774
Third party liability for motor vehicles (MTPL)	10,694,282	7,174,650
Fire and natural disaster	3,961,070	3,654,611
Transportation	2,799,577	2,946,419
Credit	467,351	68,150
General damages	313,114	164,084
General responsibility	103,795	135,207
Accident	21,706	7,759
Air crafts	10,588	--
Water vehicles	10,222	1,052,607
Legal protection	529	--
Total	360,157,958	307,958,261

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

As at 31 December 2016 and 2015, accrued subrogation and salvage income per branches is as follows:

	31 December 2016	31 December 2015
Motor vehicles	37,302,823	36,648,709
Third party liability for motor vehicles (MTPL)	4,565,163	4,252,062
Transportation	2,688,121	1,048,488
Fire and natural disaster	1,883,852	3,485,325
General damages	490,114	3,904,872
Water vehicles	78,448	12,503
General responsibility	8,261	--
Accident	--	274,558
Total	47,016,782	49,626,517

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 1 January 2008 and recognizing deferred commission income and deferred commission expense in the financial statements for the policies produced after 1 January 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.

2.22 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

As a result of the General Assembly Meeting of the Company held on 25 March 2016, the Company has decided to distribute subsidiary sale exemption amounting to TL 23,723,323 to sales profits to be capitalized, TL 12,694,585 to accumulated losses as deducting from net profit for the year of 2015 amounting to TL 130,243,407 and after deducting legal reserves from remained amount, it has been decided to distribute TL 42,807,730 as cash dividend and TL 2,406,624 as personnel dividend and the remaining TL 42,698,436 as extraordinary reserves and the profit is distributed in the period.

2.24 Reserve for unearned premiums

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

- Reserve for unearned premiums are calculated on the basis of 1/8 for reinsurance and retrocession transactions that are not subject to basis of day or 1/24 due to application limitations,
- For commodity transportation policies with indefinite expiration dates, 50% of the remaining portion of the premiums accrued in the last three months, less any commissions is also provided as unearned premium reserves.

The subsidiary of the Company, Anadolu Sigorta calculated unearned premium reserve in accordance with the basis specified above.

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.

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

In accordance with the "Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" ("Communiqué on Technical Reserves") which was issued in 26606 numbered and 7 August 2007 dated Official Gazette and put into effect starting from 1 January 2008, the reserve for unearned premiums represents the proportions of the gross premiums written without deductions of commission or any other allowance, in a period that relate to the period of risk subsequent to the reporting date for all short-term insurance policies. 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 1 January 2008, the Turkish Treasury issued 4 July 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 14 June 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 14 June 2007, while the Company had not calculated reserve for unearned premiums for the earthquake premiums written before 14 June 2007.

According to the 2009/9 Numbered Circular Related to Application of Technical Reserves issued on 27 March 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 considered, unless there is a specified exchange rate in the agreement.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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

As at the reporting date, the Group has provided reserve for unearned premiums amounting to TL 2,560,196,809 (31 December 2015: TL 2,194,659,969) and reinsurer share in reserve for unearned premiums amounting TL 349,788,450 (31 December 2015: TL 293,410,931). Furthermore, reserve for unearned premiums includes Social Security Institution ("SSI") share amounting to TL 75,059,218 (31 December 2015: TL 54,975,564).

2.25 Provision for outstanding claims

Claims are recorded in the year in which they occur, based on reported claims or on the basis of estimates when not reported. Provision for outstanding claims 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.

5 December 2014 dated "Circular regarding Provision for Outstanding Claims (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.

According to the Anadolu Sigorta actuary's best damage assessment, as of 31 December 2015, the cash flow originating from pending compensations and their discount interest is 7,6% to 8%. Also after "General Instructions Regarding The Cash Flow From Pending Compensation and Their Discounts" which was published in 10 June 2016 which regulates the processes involving the discount of cash flow from pending compensations, which was published in the official gazette in 31 December 2016, the new discount rate (9%) has been put into use.

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 Pending Compensations (2014/16)" which was published in 29 February 2016 with the number 2016/11. Anadolu Sigorta has used these gradual transition curve with 100% accuracy and has reflected the calculations on the official statements as well as possible. (According to the General Instructions which was published on December 31st 2015 with the number 2015/28, Compulsory Traffic, Fiscal and General Liability 10% rate of increase have been calculated as IBNR and has been represented in the statement. According to this, the IBNR sum which has not yet been represented in the statement is 203.903.058 TL for compulsory traffic branch, TL 7.407.845 for fiscal liability branch and TL 10.774.133 for the general liability branch total to TL 222.085.036).

Except for the life branch, provision for outstanding claims 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.

(Currency: Turkish Lira (TL))

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

Branches	Milli Reasürans	Anadolu Sigorta
Fire and Natural Disasters	Standard Chain	Standard Chain
General Damages (*)	Standard Chain	Standard Chain
General Responsibility	Standard Chain	Cape Cod
Compulsory Traffic	Standard Chain	Cape Cod
Transportation	Standard Chain	Standard Chain
Water Vehicles	Standard Chain	Standard Chain
Land Vehicles	Standard Chain	Standard Chain
Accident	Standard Chain	Standard Chain
Health	Standard Chain	Standard Chain
Air Vehicles	Standard Chain	Standard Chain
Legal Protection	Standard Chain	Standard Chain
Water Vehicles Responsibility	Sector Average (Insurance Association of Turkey 09/2016)	--
Air Vehicles Responsibility	Sector Average (Insurance Association of Turkey 09/2016)	Standard Chain
Indemnity	Sector Average (Insurance Association of Turkey 09/2016)	--
Financial Losses	Sector Average (Insurance Association of Turkey 09/2016)	Standard Chain
Credit	Sector Average (Insurance Association of Turkey 09/2016)	Standard Chain
Life	Sector Average (Insurance Association of Turkey 09/2016)	--
Facultative Financial Responsibility	--	Standard Chain

(*) Two separate calculations have been made as agriculture and non agriculture sub branches.

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 third party liability on air and water, guarantee, financial losses, credit 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 5 December 2014 dated "Circular regarding Provision for Outstanding Claims (2014/16)" of Turkish Treasury, the Company constitutes data by taking base of acceptance year rather than accident 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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

According to the letter dated 12 January 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 at 31 December 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, provision for outstanding claims 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 5 December 2014 dated and 2014/16 numbered "Circular for Provision for Outstanding Claims" of Turkish Treasury, ACML calculation should be on main branch. However, as at 31 December 2012, the Company has calculated ACML reserve for General Damages main branch as two separate sub branches namely agriculture and non-agriculture branches. Because, Agriculture and Engineering sub branches 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 17 January 2013 with letter numbered 300, so as to receive permission to calculate IBNR reserve for General Damages s branch as agriculture and non-agriculture sub branches separately. Turkish Treasury has given permission the Company in order to calculate IBNR reserve for General Damages within two sub branches with the letter dated 28 January 2013 and numbered 24179134. As at 31 December 2016 and 31 December 2015, the Company recognised the amount that aroused due to change in calculation method for IBNR on General Damages branch.

As at 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 49,181,395 (31 December 2015: TL 52,091,457 negative IBNR) as provision for outstanding claims. As at the reporting date, TL 19,924,049 (31 December 2015: TL 26,507,042) of IBNR provision is recorded for Singapore branch.

In accordance with "Circular Related to Information on Calculation of Incurred But Not Reported Claims Reserve" and dated 26 November 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 provision for outstanding claims 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 170,861,245 (31 December 2015: TL 104,862,951) as IBNR and TL 25,166,208 (31 December 2015: TL 18,207,321) as reinsurer's share of IBNR is excluded from outstanding claims reserve balance.

(Currency: Turkish Lira (TL))

The calculated winning ratio of Anadolu Sigorta, the subsidiary of the Company as at 31 December 2016 is within 0%-100% range (31 December 2015: 0%-100%). Winning ratios used in and amounts decreased from provision for outstanding claims are as follows:

31 December 2016			
Branch	Winning ratios used	Gross amount decreased	Net amount decreased
General responsibility	25%	78,777,548	72,050,356
Third party liability for motor vehicles (MTPL)	11%	55,777,818	54,833,381
Fire and natural disasters	25%	21,068,122	9,042,415
Motor vehicles	22%	5,296,987	5,210,113
General Damages	25%	5,382,650	1,422,206
Transportation	25%	1,308,549	851,196
Water vehicles	25%	708,020	422,494
Accident	25%	1,825,148	1,167,341
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

31 December 2015			
Branch	Winning ratios used	Gross amount decreased	Net amount decreased
General responsibility	25%	44,952,215	40,954,135
Third party liability for motor vehicles (MTPL)	10%	34,977,046	34,149,860
Fire and natural disasters	25%	16,115,339	5,546,618
General damages	25%	3,014,805	1,082,648
Motor vehicles	21%	2,994,637	2,925,531
Transportation	25%	804,446	394,117
Water vehicles	25%	677,619	482,354
Accident	16%	656,803	469,951
Credit	25%	636,655	636,655
Financial Losses	3%	28,162	8,537
Legal protection	25%	5,224	5,224
Total		104,862,951	86,655,630

New Regulations on Treatment Costs Resulted from Traffic Accidents in Accordance with the Circular Numbered 2011/18 "Circular Related to the Accounting of Payments Related to Payment of Treatment Costs Resulted from Traffic Accidents and New Accounts in the Insurance Chart of Accounts"

58th and 59th articles and 1st and 2nd provisional articles of the Law no 6111 on "Restructuring of certain receivables and amendment to the law of social insurance and general health insurance and certain other laws and decree laws" published in the Official Gazette numbered 27857 and has come into effect on 25 February 2011.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

According to the Article 59 of the aforementioned law, starting from 25 February 2011, premiums written under compulsory motor third party liability insurance contracts providing health assurance will be transferred to SSI by the rate up to 15% which will be later defined by Turkish Treasury. By this premium transfer, all liabilities related to body injuries resulted from traffic accidents will be compensated by SSI. According to the Provisional Article 1 and Article 59 of the Law, up to 20% of the transferred premium amount defined by the Turkish Treasury will also be transferred to SSI and treatment costs resulted from traffic accidents occurred before 25 February 2011 will also be compensated by SSI. As part of the aforementioned law, "Communiqué on Payment of Treatment Costs Resulted from Traffic Accidents" which was issued in Official Gazette numbered 28038 and dated 27 August 2011 has become effective. On 17 October 2011, the Turkish Treasury issued circular numbered 2011/18 "Circular Related to the Accounting of Payments Related to Payment of Treatment Costs Resulted from Traffic Accidents and New Accounts in the Insurance Chart of Accounts". In accordance with the related circular, the Company eliminated outstanding claims reserve amounting to TL 2,279,273 related to treatment costs occurred before issuance of the aforementioned law, with "Paid Claims" account. The same amount is recorded as "Payable to SSI" under "Other Payables" in the accompanying financial statements.

In accordance with the circular numbered 2011/18, the Company recalculated test IBNR amount by excluding treatments costs covered by the aforementioned law as at 31 March 2011 and eliminated difference between the newly calculated IBNR amount and IBNR amount in the financial statements amounting to TL 2,375,923 with "Paid Claims" account. The same amount is recorded as "Payable to SSI" under "Other Payables" in the accompanying financial statements.

The Turkish Treasury informed the Company 7.02% for motor third party liability, 2.08% for compulsory personal accident seat insurance and 15.8% for compulsory transportation liability for traffic accidents occurred before issuance of the aforementioned law. The difference amounting to TL 58 between the amount informed by the Turkish Treasury and the amount eliminated by the Company is transferred to "Other Technical Expense" as at 31 December 2016 (31 December 2015: TL 448).

2.26 Mathematical provisions

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

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

2.27 Reserve for unexpired risk

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

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 reserve for unexpired risk detailed in the above, gross reserve for unexpired risk is also calculated. The test is performed on main branch basis and in case where the net and gross expected claim/premium ratio is higher than 95%, reserve calculated by multiplying the exceeding portion of the expected claim/premium ratio with the reserve for unearned premiums of that main branch is added to the reserves of that branch. Difference between the gross and net amount is represents reinsurer's share. Premiums paid for non-proportional reinsurance agreements are considered as premiums ceded to the reinsurance firms.

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

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

According to the Turkish Treasury circular numbered 2016/37, reserve for unexpired risk for the branches of land vehicles, land vehicles responsibility and general responsibility may be calculated by the following calculation method in addition to the abovementioned calculation method.

Net and gross reserve for unexpired risk is calculated by multiplying the exceeding portion of the expected claim/premium ratio with the net and gross reserve for unearned premiums 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 accident 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 accident year for the calculation is not possible and demanded the following particulars;

- Calculation of reserve for unexpired risk on the basis of business year,
- Calculation of reserve for unexpired risk once a year and using the 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 30 December 2016 and numbered 38681552-306.99-E.36992.

According to the Circular numbered 2015/30, the amount of the opening provision for outstanding claims which is determined unexpired risk reserve redefined in a manner consistent with the current period as of 31 December 2016.

According to the Circular numbered 2011/18, the Company excluded both the premiums transferred to SSI and claims related to treatment costs from calculation of reserve for unexpired risks in motor third party liability, compulsory transportation financial liability and compulsory personal accident for bus transportation branches.

According to the related test, as at the reporting date, the Group has provided net reserve for unexpired risk amounting to TL 12,888,197 in the accompanying consolidated financial statements (31 December 2015: TL 32,682,256).

2.28 Equalization provision

In accordance with the Communiqué on Technical Reserves put into effect starting from 1 January 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 premiums written in credit insurance and earthquake branches. In the calculation of net premiums, fees paid for non-proportional reinsurance agreements are considered as premiums ceded to the reinsurance firms. The companies should provide equalization 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 28 July 2010 and numbered 27655 "Communiqué on Amendments to Communiqué on Technical Reserves for Insurance, Reinsurance and Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves", ceded premiums of earthquake and credit for non-proportional reinsurance contracts covered multiple branches should be calculated according to percentage of premiums of those branches within the total premiums unless the Company is determined any other methods. Share of earthquake and credit premium of written premiums for non-proportional reinsurance contracts is based on share of earthquake and credit premiums of proportional reinsurance contracts. In accordance with the Communiqué on Technical Reserves, the Company considers 11% of net death premium (including damage payments) as earthquake premium and 12% of that amount is calculated as equalization 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 154,637,733 (31 December 2015: TL 104,977,919).

As at 31 December 2016, the Group has deducted TL 4,475,777 (31 December 2015: TL 21,443,124) from equalization provision in consequence of realized earthquake losses.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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.

2.32 New standards and interpretations not yet 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, after the new standards and interpretations become in effect.

TFRS 9 - Financial Instruments - Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2018. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

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

International Financial Reporting Standards ("IFRS") 16 *Leases*

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

3 Critical accounting estimates and judgments in applying accounting policies

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

The preparation of 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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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.

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))

Insurance risk concentrations

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

	31 December 2016		
Branches	Gross total claims liability (*)	Reinsurance share of total claims liability	Net total claims liability
Motor vehicles third party liability(MTPL)	729,691,973	(70,930)	729,621,043
Motor 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
Water vehicles	55,309,663	(15,238,133)	40,071,530
Accident	38,922,785	(2,401,040)	36,521,745
Transportation	34,644,629	(4,613,117)	30,031,512
Life	8,664,622	(658,209)	8,006,413
Air crafts	9,169,585	(4,095,208)	5,074,377
Guarantee	671,676	(1,390)	670,286
Air crafts liability	1,333,750	(1,082,372)	251,378
Legal protection	99,268	--	99,268
Water 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

	31 December 2015		
Branches	Gross total claims liability (*)	Reinsurance share of total claims liability	Net total claims liability
Motor vehicles third party liability(MTPL)	618,805,649	933,225	619,738,874
Motor vehicles	565,027,359	(2,225,458)	562,801,901
Fire and natural disasters	449,254,743	(79,242,218)	370,012,525
General damages	382,547,462	(65,052,063)	317,495,399
Health	283,625,533	(15,683,716)	267,941,817
General liability	81,076,828	(16,848,913)	64,227,915
Water vehicles	63,082,149	(25,232,499)	37,849,650
Transportation	43,680,167	(6,978,256)	36,701,911
Accident	28,721,311	(1,919,589)	26,801,722
Air crafts	15,461,734	(2,839,416)	12,622,318
Life	6,492,393	(380,423)	6,111,970
Financial losses	4,494,461	(1,980,489)	2,513,972
Air crafts liability	1,575,450	--	1,575,450
Legal protection	180,879	--	180,879
Guarantee	173,639	(513)	173,126
Credit	558,318	(452,437)	105,881
Water vehicles liability	2,810	--	2,810
Total	2,544,760,885	(217,902,765)	2,326,858,120

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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.

4.2 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))

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

	31 December 2016	31 December 2015
Cash and cash equivalents *(Note 14)* (*)	4,342,718,850	3,296,974,448
Receivables from main operations *(Note 12)*	1,208,734,082	1,102,022,681
Financial assets and financial investments with risks on policyholders *(Note 11)* (**)	901,399,497	952,668,900
Reinsurer share in provision for outstanding claims *(Note 10), (Note 17)*	444,284,536	438,178,953
Prepaid taxes and funds *(Note 12)*	22,930,006	33,690,959
Income accruals *(Note 12)*	8,999,362	16,363,166
Other receivables *(Note 12)*	17,203,560	13,191,923
Other current asset *(Note 12)*	613,240	759,275
Total	6,946,883,133	5,853,850,305

(*) Cash on hands balance amounting to TL 52,555 are not included (31 December 2015: TL 53,835).
(**) Equity shares amounting to TL 205,331,159 are not included (31 December 2015: TL 181,288,361).

31 December 2016 and 2015, the aging of the receivables from main operations and related provisions are as follows:

	31 December 2016		31 December 2015	
	Gross amount	Provision	Gross amount	Provision
Not past due	799,022,932	--	775,620,092	--
Past due 0-30 days	182,192,754	--	119,127,361	--
Past due 31-60 days	28,512,365	--	23,594,511	--
Past due 61-90 days	14,269,658	--	11,863,059	--
More than 90 days (*)	236,471,494	(205,725,572)	187,385,523	(164,991,381)
Total (**)	1,260,469,203	(205,725,572)	1,117,590,546	(164,991,381)

(*) As per the 3 February 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.
(**) In consolidated financial tables, except 1.260.469.203 TL (31 December 2015: 1.117.590.546 TL) in the balance of receivables from insurance and reinsurance operations includes TL 115,810,255 (31 December 2015: TL 108,102,177) of untransferred amount collected by intermediaries and TL 47,016,782 (31 December 2015: TL 49,626,517) of subrogation and salvage receivables in the consolidated financial statements. Subrogation receivables having passed over 4 months for individuals and 6 months for legal entities but not transferred to legal follow-up amounting to TL 8,836,586 (31 December 2015: TL 8,305,178) are excluded from the table.

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

	31 December 2016	31 December 2015
Provision for receivables from insurance operations at the beginning of the year	164,991,381	125,085,618
Collections during the period *(Note 47)*	(584,677)	(350,189)
Impairment losses provided during the period *(Note 47)*	2,758,273	748,206
Impairment losses provided for subrogation - salvage receivables during the period *(Note 47)*	35,926,722	36,978,505
Foreign currency translation effect *(Note 47)*	2,633,873	2,529,241
Provision for receivables from insurance operations at the end of the year	205,725,572	164,991,381

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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

	31 December 2016	31 December 2015
Provision for other receivables at the beginning of the year	63,177	63,177
Collections during the period *(Note 47)*	(10,000)	--
Provision for other receivables at the end of the year	53,177	63,177

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))

Maturity distribution of monetary assets and liabilities:

31 December 2016	Carrying amount	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 (**)	3,005,627,300	163,150,628	320,240,339	180,809,484	214,124,793	2,127,302,056
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	3,845,837,587	530,641,923	418,750,276	250,824,682	472,562,490	2,173,058,216

(*) Equity shares amounting to TL 205,331,159 are not included.

(**) Provision for outstanding claims 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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

31 December 2015	Carrying amount	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Assets						
Cash and cash equivalents	3,296,902,698	834,942,131	2,363,085,480	35,431,171	48,610,833	14,833,083
Financial assets and financial investments with risks on policyholders (*)	952,668,900	317,420,540	30,398,589	24,133,356	96,505,354	484,211,061
Receivables from main operations	1,102,022,681	174,701,805	364,291,401	415,411,347	136,892,645	10,725,483
Other receivables and current assets	64,588,205	49,632,241	2,821,831	1,612,816	3,923,841	6,597,476
Total monetary assets	5,416,182,484	1,376,696,717	2,760,597,301	476,588,690	285,932,673	516,367,103
Liabilities						
Financial liabilities	297,347,979	297,347,979	--	--	--	--
Payables arising from main operations	373,784,676	136,796,701	43,639,580	75,056,633	118,291,762	--
Due to related parties	158,568	158,568	--	--	--	--
Other liabilities	62,710,887	24,878,685	34,654,641	--	--	3,177,561
Insurance technical provisions (**)	2,229,213,713	195,693,816	386,759,515	157,100,713	146,675,348	1,342,984,321
Provisions for taxes and other similar obligations	38,761,168	38,761,168	--	--	--	--
Provisions for other risks and expense accruals	86,319,655	2,989,356	14,194,372	9,759,024	7,690,111	51,686,792
Total monetary liabilities	3,088,296,646	696,626,273	479,248,108	241,916,370	272,657,221	1,397,848,674

(*) Equity shares amounting to TL 181,288,361 are not included.

(**) Provision for outstanding claims 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.

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.

(Currency: Turkish Lira (TL))

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

31 December 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 provisions (*)	(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 on-balance sheet position	282,951,438	(68,023,660)	(35,068,336)	179,859,442

31 December 2015	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	382,061,544	13,591,035	5,014,051	400,666,630
Financial assets and financial investments with risks on policyholders	17,469,980	11,206,804	--	28,676,784
Receivables from main operations	217,690,101	71,611,738	102,342,657	391,644,496
Total foreign currency assets	617,221,625	96,409,577	107,356,708	820,987,910
Liabilities:				
Payables arising from main operations	(139,817,443)	(12,281,990)	(8,581,099)	(160,680,532)
Insurance technical provisions (*)	(250,489,227)	(115,466,094)	(100,535,963)	(466,491,284)
Total foreign currency liabilities	(390,306,670)	(127,748,084)	(109,117,062)	(627,171,816)
Net on-balance sheet position	226,914,955	(31,338,507)	(1,760,354)	193,816,094

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

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

Foreign currency rates used for the translation of foreign currency denominated monetary assets and liabilities as at reporting dates at 31 December 2016 and 2015 are as follows:

	At the end of the period		Average	
	US Dollar	Euro	US Dollar	Euro
31 December 2016	3,5192	3,7099	3,0208	3,3392
31 December 2015	2,9076	3,1776	2,7184	3,0175

Exposure to foreign currency risk

A 10 percent depreciation of the TL against the following currencies as at 31 December 2016 and 2015 would have increased or decreased equity and profit or loss (excluding tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. In case of a 10 percent appreciation of the TL against the following currencies, the effect will be in opposite direction.

	31 December 2016		31 December 2015	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	28,295,144	28,067,874	22,632,349	22,691,496
Euro	(6,802,366)	(6,802,366)	(3,133,851)	(3,133,851)
Others	(3,506,834)	(3,506,834)	(176,035)	(176,035)
Total, net	17,985,944	17,758,674	19,322,463	19,381,610

(*) 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.

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:

	31 December 2016	31 December 2015
Financial assets		
Financial assets with fixed interest rates:	*4,297,312,503*	*3,469,973,909*
Cash at banks *(Note 14)* (*)	3,897,091,928	2,912,696,899
Available for sale financial assets - Government bonds - TL *(Note 11)*	275,517,300	443,991,707
Cash deposited to insurance and reinsurance companies *(Note 12)*	63,103,252	71,326,673
Available for sale financial assets - Private sector bonds *(Note 11)*	57,291,689	30,070,603
Other- financial assets *(Note 11)*	4,308,334	11,888,027
Financial assets with variable interest rate:	*126,454,421*	*161,186,051*
Available for sale financial assets - Private sector bonds - TL *(Note 11)*	68,430,540	102,367,158
Available for sale financial assets - Government bonds- TL *(Note 11)*	41,938,456	42,365,317
Held to maturity investments - Government bonds *(Note 11)*	15,172,182	15,555,214
Financial assets held for trading - Government bonds - TL *(Note 11)*	913,243	898,362
Financial liabilities:		
Financial liabilities with fixed interest rate:	134,413,473	297,347,979
Funds from repo transactions *(Note 20)*	134,413,473	297,347,979

(*) Demand deposits amounting to TL 22,072,771 are not included (31 December 2015: TL 17,101,492).

(Currency: Turkish Lira (TL))

Interest rate sensitivity of the financial instruments

Interest rate sensitivity of the statement of income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss and on the net interest income as at and for 31 December 2016 and 2015 of the floating rate non-trading financial assets and financial liabilities held at 31 December 2016 and 2015. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity (*)	
31 December 2016	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets held for trading	(6,560)	6,669	(6,560)	6,669
Available for sale financial assets	--	--	(7,899,493)	8,339,161
Total, net	(6,560)	6,669	(7,906,053)	8,345,830

	Profit or loss		Equity (*)	
31 December 2015	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets held for trading	(1,842)	1,889	(1,842)	1,889
Available for sale financial assets	--	--	(6,940,196)	7,098,494
Total, net	(1,842)	1,889	(6,942,038)	7,100,383

(*) Consolidated equity effect also includes profit or loss effect of the changes assumed in interest rates.

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 whether held for trading purpose 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. Held to maturity investments with a carrying amount of TL 15,172,182 (31 December 2015: TL 15,555,214) are measured at amortized cost and their fair value amounting to TL 15,168,262 (31 December 2015: TL 14,936,855) as at 31 December 2016 in the consolidated financial statements. Held to maturity financial assets of the Group is consist of the government bonds that are dealt at the organized markets and classified as Level 1.

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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Available for sale financial assets (*)	791,531,470	170,581,922	358,464	962,471,856
Financial assets held for trading *(Note 11)*	67,520,258	60,360,746	--	127,881,004
Total financial assets	859,051,728	230,942,668	358,464	1,090,352,860

	31 December 2015			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Available for sale financial assets (*)	1,002,425,627	18,205,108	358,464	1,020,989,199
Financial assets held for trading *(Note 11)*	96,232,135	--	--	96,232,135
Total financial assets	1,098,657,762	18,205,108	358,464	1,117,221,334

(*) As at 31 December 2016, securities that are not publicly traded amounting to TL 1,205,614 (31 December 2015: TL 1,180,713) have been measured at cost.

	31 December 2016	31 December 2015
Available for sale financial assets at the beginning of the period	358,464	3,297,263
Valuation increase (Account of valuation of financial assets)	--	(2,938,799)
Available for sale financial assets at the end of the period	358,464	358,464

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):

	31 December 2016		31 December 2015	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
Financial assets held for trading	(3,778,444)	(3,778,444)	(265,467)	(265,467)
Available for sale financial assets	--	(16,598,264)	--	(17,709,451)
Total, net	(3,778,444)	(20,376,708)	(265,467)	(17,974,918)

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

(Currency: Turkish Lira (TL))

Gain and losses from financial assets

Gains and losses recognized in the statement of income, net:	31 December 2016	31 December 2015
Interest income from bank deposits	348,883,022	243,833,157
Foreign exchange gains	184,579,297	149,059,354
Interest income from debt securities classified as available-for-sale financial assets	49,632,870	52,831,329
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15)*	(2,251,759)	2,581,239
Income from derivative transactions	4,432,112	741,200
Income from participates	40,163,943	30,635,392
Interest income from debt securities classified as held to maturity financial investments	1,494,265	3,511,381
Income from debt securities classified as held for trading financial assets	6,762,828	430,223
Interest income from debt securities classified as held for trading financial assets	109,741	435,648
Income from equity shares	19,079,145	23,150,967
Interest income from repos	9,510,276	7,542,195
Income from subsidiaries	3,251	4,075
Income from investment funds	17,943,279	9,308,317
Other	1,530,171	32,949,153
Income from investment funds reclassified as available for sale financial assets	2,497,586	498,879
Investment income	684,370,027	557,512,509
Loss from derivative transactions	(3,616,449)	(74,638)
Foreign exchange losses	(88,324,565)	(67,687,210)
Loss from valuation of financial assets	(1,643,638)	(2,824,154)
Loss from disposal of financial assets	(17,234,556)	(11,039,996)
Investment management expenses (including interest)	(4,630,870)	(3,060,240)
Investment expenses	(115,450,078)	(84,686,238)
Investment income, net	568,919,949	472,826,271

Financial gains and losses recognized in equity, net:	31 December 2016	31 December 2015
Fair value changes in available for sale financial assets *(Note 15)*	2,183,107	(16,455,829)
Amounts resulted from associates through equity accounted consolidation method *(Note 15)*	(1,310,905)	(2,137,909)
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15)*	2,251,759	(2,581,239)
Total	3,123,961	(21,174,977)

Capital management

The Company's capital management policies include the following:

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

In accordance with the "Communiqué on Measurement and Assessment of Capital Adequacy for Insurance, Reinsurance and Individual Pension Companies" issued by Turkish Treasury on 23 August 2015 dated and 29454 numbered; the Company measured its minimum capital requirement as TL 366,047,998 as at 31 December 2016 (31 December 2015: TL 342,770,046). As at 31 December 2016 and 2015, the capital amount of the Company presented in the consolidated financial statements are TL 1,335,906,619 and TL 1,183,898,933 respectively and capital surplus of the Company is amounting to TL 728,518,441 according to the communiqué.

As of 30 June 2016, required equity amount determined in calculations over consolidated financial statements of Company's subsidiary Anadolu Sigorta, is amounted TL 1,077,219,458. As of 31 December 2016, according to communiqué, equity amount in consolidated financial statements of Anadolu Sigorta is over required equity amount.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

5 Segment reporting

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.

6 Tangible assets

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

	1 January 2016	Additions	Transfers	Foreign currency translation effect (*)	Disposals	Revaluation Surplus	31 December 2016
Cost:							
Investment properties *(Note 7)*	324,911,650	9,243	--	--	(65,000)	63,409,107	388,265,000
Self-used buildings	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
Motor 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:							
Self-used buildings	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
Motor 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
Carrying amounts	510,242,396						578,741,391

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

(Currency: Turkish Lira (TL))

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

	1 January 2015	Additions	Transfers	Foreign currency translation effect [*]	Disposals	Revaluation Surplus	31 December 2015
Cost:							
Investment properties *(Note 7)*	230,606,045	59,500	10,584,507	--	--	83,661,598	324,911,650
Owner occupied properties	38,751,315	304,228	(10,584,507)	--	--	130,178,314	158,649,350
Machinery and equipment	34,554,018	7,449,593	--	--	(94,217)	--	41,909,394
Furniture and fixtures	15,701,150	1,635,576	--	125,653	(253,160)	--	17,209,219
Motor vehicles	2,674,433	--	--	106,473	(921,702)	--	1,859,204
Other tangible assets (including leasehold improvements)	19,401,127	921,528	--	--	--	--	20,322,655
Leased tangible assets	4,166,354	--	--	--	--	--	4,166,354
	345,854,442	10,370,425	--	232,126	(1,269,079)	213,839,912	569,027,826
Accumulated depreciation:							
Owner occupied properties	15,236,700	618,669	--	--	--	(15,667,967)	187,402
Machinery and equipment	25,913,753	3,776,154	--	--	(66,717)	--	29,623,190
Furniture and fixtures	11,998,444	1,337,973	--	62,879	(170,101)	--	13,229,195
Motor vehicles	1,824,512	345,094	--	67,182	(863,765)	--	1,373,023
Other tangible assets (including leasehold improvements)	6,853,450	3,352,816	--	--	--	--	10,206,266
Leased tangible assets	4,166,304	50	--	--	--	--	4,166,354
	65,993,163	9,430,756	--	130,061	(1,100,583)	(15,667,967)	58,785,430
Carrying amounts	279,861,279						510,242,396

[*] Foreign currency translation effect resulted from Singapore Branch.

As of 31 December 2016 and 31 December 2015, self-used buildings are evaluated with their fair value. Appraisal reports were provided by CMB licensed real estate appraisal company at December 2016 and December 2015.

As of 31 December 2016, the fair values (excluding VAT) and net carrying values of owner occupied properties are presented below:

Owner occupied land and buildings	Appraisal date	Appraisal value	Net Book Value (31 December 2016)	Net Book Value (31 December 2015)
Headquarter	December 2016	147,915,000	147,878,181	146,963,127
İzmir Regional Headquarter	December 2016	8,675,000	8,669,647	7,938,011
Adana Regional Headquarter	December 2015	1,842,253	1,825,031	1,745,694
Lefkoşe Cyprus Branch	December 2015	720,000	706,286	716,571
Adana Office	December 2016	455,000	454,719	423,935
Other	December 2015	680,000	657,888	674,610
Total		160,287,253	160,191,752	158,461,948

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 31 December 2016 and 31 December 2015, there is no mortgage on Company's tangible assets.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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 31 December 2016 and 31 December 2015 on balance sheet and the Company's investment properties gained TL 63,409,107 amount of value in 2016 in the context of expertise report prepared by independent professional valuation specialists authorized by Capital Markets Board. For the year ended 31 December 2016, the Group has rental income from investment properties amounting to TL 15,978,753 (31 December 2015: TL 14,766,839).

As at 31 December 2016, inflation adjusted cost and carrying amounts of the Company's investment properties are amounting to TL 388,265,000 (31 December 2015: TL 324,911,650).

Property based value of expertise report (excluding VAT) and fair values of investment properties are as follows. Expertise reports regarding these property is prepared by independent professional valuation specialists authorized by CMB in December 2016. There is no mortgage on Company's investment properties.

As at 31 December 2016 and 2015, details of investment properties and the fair values are as follows:

	31 December 2016 Carrying amount	31 December 2015 Carrying amount	Date of expertise report	Value of expertise report
Operating Center Rental Offices	160,085,000	127,883,050	December 2016	160,085,000
Suadiye Fitness Center	33,200,000	18,280,000	December 2016	33,200,000
Tunaman Garage	90,000,000	85,400,000	December 2016	90,000,000
Villa Office Block	42,800,000	39,000,000	December 2016	42,800,000
Çifteler Land	5,000	5,000	December 2016	5,000
Other buildings	62,175,000	54,343,600	December 2016	62,175,000
Carrying amounts	388,265,000	324,911,650		388,265,000

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 1 January to 31 December 2016 is presented below:

	1 January 2016	Additions	Transfers	Foreign currency translation effects (*)	Disposal	31 December 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
Carrying amounts	59,597,284					69,805,708

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

(Currency: Turkish Lira (TL))

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

	1 January 2015	Additions	Transfers	Foreign currency translation effects (*)	Disposal	31 December 2015
Cost:						
Other intangible assets	90,745,932	3,136,809	3,404,691	362,666	--	97,650,098
Goodwill	16,250,000	--	--	--	--	16,250,000
Advances given for intangible assets	1,729,378	16,649,024	(3,404,691)	--	--	14,973,711
	108,725,310	19,785,833	--	362,666	--	128,873,809
Accumulated amortization:						
Other intangible assets	45,684,081	23,349,009	(117,837)	361,272	--	69,276,525
	45,684,081	23,349,009	(117,837)	361,272	--	69,276,525
Carrying amounts	63,041,229					59,597,284

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

9 Investments in associates

	31 December 2016		31 December 2015	
	Carrying value	Participation rate %	Carrying value	Participation rate %
Anadolu Hayat Emeklilik A.Ş.	181,995,319	21,00	164,435,454	21,00
Associates, net	181,995,319		164,435,454	
Miltaş Turizm Inşaat Ticaret Anonim Şirketi	1,092,707	77,00	1,092,707	77,00
Subsidiaries, net	1,092,707		1,092,707	
Financial asset total	183,088,026		165,528,161	

Name	Total assets	Shareholders' equity	Retained earnings	Profit for the year	Audited	Period
Subsidiaries:						
Miltaş Turizm Inşaat Ticaret A.Ş.	4,239,546	3,957,638	--	124,231	Not audited	31 December 2016
Associates:						
Anadolu Hayat Emeklilik A.Ş. (consolidated)	14,397,471,747	866,644,377	101,780,905	191,256,870	Audited	31 December 2016

In the current period TL 40,163,943 of income is obtained from associates through equity accounted consolidation method (31 December 2015: TL 30,635,392).

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

10 Reinsurance assets and liabilities

As at 31 December 2016 and 2015, outstanding reinsurance assets and liabilities of the Group in accordance with existing reinsurance contracts are as follows:

Reinsurance assets	31 December 2016	31 December 2015
Reserve for unearned premiums, ceded *(Note 17)*	349,788,450	293,410,931
Provision for outstanding claims, ceded *(Note 4.2)*, *(Note 17)*	444,284,536	438,178,953
Receivables from reinsurance companies *(Note 12)*	41,416,933	16,263,461
Cash deposited to reinsurance companies	31,738,373	24,827,641
Total	867,228,292	772,680,986

There is no impairment losses recognized for reinsurance assets.

Reinsurance liabilities	31 December 2016	31 December 2015
Payables to the reinsurers related to premiums written *(Note 19)*	276,408,549	221,834,755
Deferred commission income *(Note 19)*	46,650,934	39,714,319
Cash deposited by reinsurance companies	5,624,583	4,365,775
Commission payables to the reinsurers related to written premiums *(Note 19)*	7,963,322	2,237,886
Total	336,647,388	268,152,735

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

	31 December 2016	31 December 2015
Premiums ceded during the period *(Note 17)*	(876,702,403)	(757,514,912)
Reserve for unearned premiums, ceded at the beginning of the period *(Note 17)*	(293,410,931)	(254,801,924)
Reserve for unearned premiums, ceded at the end of the period *(Note 17)*	349,788,450	293,410,931
Premiums earned, ceded *(Note 17)*	(820,324,884)	(718,905,905)
Claims paid, ceded during the period *(Note 17)*	311,027,365	217,902,765
Provision for outstanding claims, ceded at the beginning of the period *(Note 17)*	(438,178,953)	(187,370,933)
Provision for outstanding claims, ceded at the end of the period *(Note 17)*	444,284,536	438,178,953
Claims incurred, ceded *(Note 17)*	317,132,948	468,710,785
Commission income accrued from reinsurers during the period *(Note 32)*	119,937,652	108,308,438
Deferred commission income at the beginning of the period *(Note 19)*	39,714,319	34,699,722
Deferred commission income at the end of the period *(Note 19)*	(46,650,934)	(39,714,319)
Commission income earned from reinsurers *(Note 32)*	113,001,037	103,293,841
Changes in provision for outstanding claims, reinsurers' share *(Note 17)*	(8,696,531)	2,151,855
Total, net	(398,887,430)	(144,749,424)

(Currency: Turkish Lira (TL))

11 Financial assets

As at 31 December 2016 and 2015, the Group's financial assets are detailed as follows:

	31 December 2016	31 December 2015
Available for sale financial assets	970,628,652	1,022,265,854
Financial assets held for trading	127,881,004	96,232,135
Held to maturity financial assets	15,172,182	15,555,214
Impairment loss on available for sale financial assets	(6,951,182)	(95,942)
Total	1,106,730,656	1,133,957,261

As at 31 December 2016 and 2015, the Group's financial assets held for trading are detailed as follows:

	31 December 2016			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds - TL	900,000	902,576	913,243	913,243
Other	--	4,306,508	4,308,334	4,308,334
		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

	31 December 2015			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds - TL	900,000	905,152	898,362	898,362
Reverse repo	--	11,884,791	11,888,027	11,888,027
		12,789,943	12,786,389	12,786,389
Non-fixed income financial assets:				
Equity shares		3,664,047	2,654,674	2,654,674
Investment funds		63,837,754	80,791,072	80,791,072
		67,501,801	83,445,746	83,445,746
Total financial assets held for trading		80,291,744	96,232,135	96,232,135

Millî Reasürans Türk Anonim Şirketi
Notes to the Consolidated Financial Statements as at 31 December 2016
(Currency: Turkish Lira (TL))
(Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish, See Note 2.1.1)

As at 31 December 2016 and 2015, the Group's available for sale financial assets are detailed as follows:

	31 December 2016			
	Face value	Cost	Fair value	Carrying 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

	31 December 2015			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds - TL	491,419,930	487,236,417	486,357,024	486,357,024
Private sector bonds - TL	112,694,800	112,298,598	114,967,781	114,967,781
Private sector bonds - USD	17,649,132	17,267,984	17,469,980	17,469,980
		616,802,999	618,794,785	618,794,785
Non-fixed income financial assets:				
Investment funds		223,360,394	224,741,440	224,741,440
Equity shares		137,982,546	178,729,629	178,729,629
Impairment loss on equity shares		--	(95,942)	(95,942)
		361,342,940	403,375,127	403,375,127
Total available-for-sale financial assets		978,145,939	1,022,169,912	1,022,169,912

All debt instruments presented above are traded in the capital markets, As at 31 December 2016, equity shares classified as available for sale financial assets with a carrying amount of TL 1,564,077 are not publicly traded (31 December 2015: TL 1,539,177).

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/(decrease)	Total increase/ (decrease) in value
2016	3,123,961	31,358,139
2015	(21,174,977)	28,234,178
2014	30,539,946	49,409,155

(Currency: Turkish Lira (TL))

As at 31 December 2016 and 2015, the Group's financial assets held to maturity are detailed as follows:

	31 December 2016			
	Face value	Cost	Fair value	Carrying 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

	31 December 2015			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds - TL	14,866,200	14,890,092	14,936,855	15,555,214
Total financial assets held to maturity	14,866,200	14,890,092	14,936,855	15,555,214

As at 31 December 2016 and 2015 the movement of the financial assets is presented below:

	31 December 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
Unrealized exchange differences on financial assets	--	--	--	--
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

	31 December 2015			
	Trading	Available-for-sale	Held to maturity	Total
Balance at the beginning of the period	140,006,920	901,049,714	73,670,047	1,114,726,681
Unrealized exchange differences on financial assets	--	--	--	--
Acquisitions during the period	10,000,000	1,155,407,715	--	1,165,407,715
Disposals (sale and redemption)	(64,843,411)	(1,092,729,292)	(61,626,214)	(1,219,198,917)
Change in the fair value of financial assets	11,068,626	53,263,772	--	64,332,398
Change in amortized cost of the financial assets	--	(5,582,883)	3,511,381	(2,071,502)
Bonus shares acquired	--	10,760,886	--	10,760,886
Balance at the end of the period	96,232,135	1,022,169,912	15,555,214	1,133,957,261

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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

	31 December 2016			
	Face value	Cost	Fair value	Carrying 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

	31 December 2015			
	Face value	Cost	Fair value	Carrying value
Available for sale financial assets - Private sector bonds	33,958,896	33,746,319	34,318,123	34,318,123
Financial assets held for trading - Investment funds		63,837,754	80,791,072	80,791,072
Available for sale financial assets - Investment funds		193,638,136	193,416,293	193,416,293
Available for sale financial assets - Equity shares		42,291,736	56,058,636	56,058,636
Total		333,513,945	364,584,124	364,584,124

As at 31 December 2016 and 2015, financial assets blocked in favour of the Turkish Treasury as a guarantee for the insurance activities are detailed as follows:

	31 December 2016			
	Face value	Cost	Fair value	Carrying 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

	31 December 2015			
	Face value	Cost	Fair value	Carrying value
Held to maturity financial assets *(Note 17)*	14,866,200	14,890,092	14,936,855	15,555,214
Total	14,866,200	14,890,092	14,936,855	15,555,214

12 Loans and receivables

	31 December 2016	31 December 2015
Receivables from main operations *(Note 4.2)*	1,208,734,082	1,102,022,681
Prepaid taxes and funds *(Note 19), (Note 4.2)*	22,930,006	33,690,959
Income accruals *(Note 4.2)*	8,999,362	16,363,166
Other receivables *(Note 4.2)*	17,203,560	13,191,923
Other current assets *(Note 4.2)*	613,240	759,275
Total	1,258,480,250	1,166,028,004
Short-term receivables	1,256,730,888	1,163,820,023
Medium and long-term receivables	1,749,362	2,207,981
Total	1,258,480,250	1,166,028,004

(Currency: Turkish Lira (TL))

As at 31 December 2016 and 2015, receivables from main operations are detailed as follows:

	31 December 2016	31 December 2015
Receivables from insurance companies	76,357,040	101,717,061
Receivables from reinsurance companies *(Note 10)*	41,416,933	16,263,461
Receivables from agencies, brokers and intermediaries	51,837,913	51,745,215
Total receivables from reinsurance operations, net	169,611,886	169,725,737
Receivables from agencies, brokers and other intermediaries	786,165,652	690,773,097
Long term receivable which is bank guarantee and three months credit card	105,184,248	94,861,111
Receivables from policyholders	47,016,782	49,626,517
Salvage and subrogation receivables *(Note 2.21)*	46,488,848	34,014,724
Total receivables from insurance operations, net	984,855,530	869,275,449
Cash deposited to insurance and reinsurance companies *(Note 4.2)*	63,103,252	71,326,673
Provisions for receivables from insurance operations - subrogation receivables *(Note 2.21)*	(8,836,586)	(8,305,178)
Doubtful receivables from main operations - premium receivables	46,175,079	41,367,610
Provision for doubtful receivables from main operations - premium receivables	(46,175,079)	(41,367,610)
Doubtful receivables from insurance operations - subrogation receivables	159,550,493	123,623,771
Provisions for doubtful receivables from insurance operations - subrogation receivables	(159,550,493)	(123,623,771)
Receivables from main operations	1,208,734,082	1,102,022,681

As at 31 December 2016 and 2015, mortgages and collaterals obtained for receivables are disclosed as follows:

	31 December 2016	31 December 2015
Letters of guarantees	80,884,673	70,151,308
Mortgage notes	111,390,450	86,456,091
Other guarantees	49,243,518	17,322,671
Government bonds and treasury bills	2,902,263	2,951,479
Total	244,420,904	176,881,549

Provisions for overdue receivables and receivables not due yet

a) Receivables under legal or administrative follow up (due): TL 46,175,079 for main operations (31 December 2015: TL 41,367,610) and TL 53,177 (31 December 2015: TL 63,177) for other receivables.

b) Provision for premium receivables (due): None (31 December 2015: None).

c) Provision for subrogation receivables: TL 168,387,079 (31 December 2015: TL 131,928,949).

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.*

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

13 Derivative financial assets

As at 31 December 2016, the Group have derivative guarantees reclassified in the financial assets held for trading amounting to TL 6,649,637 (31 December 2015: None) and does not have any open liabilities (31 December 2015: None).

14 Cash and cash equivalents

As at 31 December 2016 and 2015, cash and cash equivalents are as follows:

	31 December 2016		31 December 2015	
	At the end of the period	At the beginning of the period	At the end of the period	At the beginning of the period
Cash on hand	52,555	53,835	53,835	53,676
Cheques received	1,950,000	--	--	--
Bank deposits	3,919,164,699	2,929,798,391	2,929,798,391	2,098,910,576
Cheques given and payment orders	(82,544)	(125,585)	(125,585)	(171,519)
Bank guaranteed credit card receivables with maturities less than three months	421,604,151	367,176,057	367,176,057	249,449,440
Cash and cash equivalents in the balance sheet	4,342,688,861	3,296,902,698	3,296,902,698	2,348,242,173
Bank deposits - blocked (*)	(399,689,396)	(340,278,123)	(340,278,123)	(223,171,910)
Time deposits with maturities longer than 3 months	(1,037,818,192)	(644,460,216)	(644,460,216)	(414,971,615)
Interest accruals on banks deposits	(18,645,658)	(8,544,824)	(8,544,824)	(6,235,597)
Cash and cash equivalents presented in the statement of cash flows	2,886,535,615	2,303,619,535	2,303,619,535	1,703,863,051

(*) As at 31 December 2016, cash collateral amounting to TL 399,688,896 is kept in favour of the Turkish Treasury as a guarantee for the insurance activities. (31 December 2015: TL 340,277,623).

As at 31 December 2016 and 2015, bank deposits are further analysed as follows:

	31 December 2016	31 December 2015
Foreign currency denominated bank deposits		
- time deposits	394,517,157	385,699,076
- demand deposits	12,279,005	14,928,007
Bank deposits in Turkish Lira		
- time deposits	3,502,574,771	2,526,997,823
- demand deposits	9,793,766	2,173,485
Cash at banks	3,919,164,699	2,929,798,391

(Currency: Turkish Lira (TL))

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 at 31 December 2016 and 2015, the shareholding structure of the Company is presented below:

	31 December 2016		31 December 2015	
Name	Shareholding amount (TL)	Shareholding rate (%)	Shareholding amount (TL)	Shareholding rate (%)
Türkiye İş Bankası A.Ş.	505,810,925	76.64	505,810,925	76.64
Millî Reasürans T.A.Ş. Mensupları Yardımlaşma Sandığı Vakfı (**)	69,604,854	10.55	69,585,028	10.54
Groupama Emeklilik A.Ş.	38,809,894	5.88	38,809,894	5.88
Ankara Doğal Elektrik Üretim ve Ticaret A.Ş. (*)	22,240,456	3.37	--	--
T.C. Ziraat Bankası A.Ş.	16,430,944	2.49	16,430,944	2.49
Others (**)	7,102,927	1.07	7,122,753	1.08
T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı	--	--	22,240,456	3.37
Paid in capital	660,000,000	100.00	660,000,000	100.00

(*) As of 11 March 2016, the Company has decided to transfer total amount of 3.37% shares with TL 22,240,456 nominal value owned by T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı which is one of the shareholders of the Company to Ankara Doğal Elektrik Üretim ve Ticaret A.Ş. and to record this transfer to the share ledger with the Board Decision numbered 1239 and dated 11 March 2016.
(**) The Company has decided to transfer total amount of 0,003004% Millî Reasürans T.A.Ş. shares with TL 19,826 nominal value owned by Fatma Ayşe Feyzioğlu Karakaş, Mevhibe Derya Feyzioğlu and Ali Zihni Feyzioğlu who are shareholders of the Company to Millî Reasürans T.A.Ş. Mensupları Yardımlaşma Sandığı Vakfı with the Board Decision numbered 1242 and dated 10 June 2016.

As at 31 December 2016, the issued share capital of the Group is TL 660,000,000 (31 December 2015: TL 660,000,000) and the share capital of the Group consists of 66,000,000,000 (31 December 2015: 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 27 June 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 30 November 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.

Equity method consolidation

As at 31 December 2016 and 2015, 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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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:

	31 December 2016	31 December 2015
Legal reserves at the beginning of the period	80,567,006	77,369,316
Transfer from profit	9,665,520	3,197,690
Legal reserves at the end of the period	90,232,526	80,567,006

As at 31 December 2016 and 31 December 2015, "Other Reserves and Retained Earnings" includes extraordinary reserves, sales profits to be capitalized and self-used buildings revaluation differences.

As at 31 December 2016 and 2015, "Other Reserves and Retained Earnings" are detailed as below:

	31 December 2016	31 December 2015
Other profit reserves	25,353,668	25,495,279
Extraordinary reserves	81,426,632	34,827,040
Other capital reserves	140,297,232	137,177,892
Sales profits to be capitalized	23,723,323	--
Other earnings and losses	(1,971,995)	(1,277,015)
Subsidiary capital correction	(71,060,049)	(71,060,049)
Total	197,768,811	125,163,147

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 real states 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. As at 31 December 2016, tax exempt gain from participation shares and real estate sale in 2010 amounting to TL 8,081,516, in 2011 amounting to TL 80,025, in 2013 amounting to TL 647,763, and in 2014 amounting to TL 920,272 is classified as other capital reserves. Also in 2015 amounting TL 2,541,500 reclassified to other capital reserves as a gain on sale of fixed assets and equity.

Extraordinary reserves

The movement of extraordinary reserves is as follows:

	31 December 2016	31 December 2015
Extraordinary reserves at the beginning of the period	34,827,040	12,047,517
Transfer from profit	73,765,592	22,779,523
Acquisition of the founding stocks [*]	(27,166,000)	--
Extraordinary reserves at the end of the period	81,426,632	34,827,040

[*] As a result of the Extraordinary General Assembly Meeting of the Company held on 27 June 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 30 November 2016.

Subsidiary capital correction

On 30 September 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 4 July 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 31 December 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 31 December 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 1 September 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.

As at 31 December 2016, the earthquake provision provided in accordance with this circular is TL 25,353,668 (31 December 2015: TL 25,495,279).

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 31 December 2016, TL (1,971,995) (31 December 2015: TL (1,277,015)) 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 75% portion of the gains from sales real estate and 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 27 October, 2008 and numbered 2008/41, for the year ended 31 December 2016, the Company categorized the TL 25,179,857 profit on sale from the sale of the properties realized on 10 April 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 at 31 December 2016, total funds allocated is amounting TL 10,220,997 (31 December 2015: TL 6,759,148) and funds amounting TL 3,461,849 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 31 December 2016, foreign currency translation reserve amounting to TL 26,027,092 loss (31 December 2015: TL 19,573,401 loss) stems from Singapore Branch whose functional currency is US Dollars.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

Valuation of financial assets

As at 31 December 2016 and 2015, 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:

	31 December 2016	31 December 2015
Fair value reserves at the beginning of the period	28,234,178	49,409,155
Change in the fair value during the period *(Note 4.2)*	2,183,107	(16,455,829)
Resulted from equity accounted associate *(Note 4.2)*	(1,310,905)	(2,137,909)
Net gains transferred to the statement of income *(Note 4.2)*	2,251,759	(2,581,239)
Fair value reserves at the end of the period	31,358,139	28,234,178

16 Other reserves and equity component of DPF

As at 31 December 2016 and 2015, other reserves are explained in detail in Note 15 - *Equity* above.

As at 31 December 2016 and 2015, the Group does not hold any insurance or investment contracts which contain a DPF.

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 at 31 December 2016 and 2015, technical reserves of the Group' are as follows:

	31 December 2016	31 December 2015
Reserve for unearned premiums, gross	2,560,196,809	2,194,659,969
Reserve for unearned premiums, ceded *(Note 10)*	(349,788,450)	(293,410,931)
Reserve for unearned premiums, SSI share	(75,059,218)	(54,975,564)
Reserves for unearned premiums, net	2,135,349,141	1,846,273,474
Provision for outstanding claims, gross	3,449,911,836	2,667,392,666
Provision for outstanding claims, ceded *(Note 10)*	(444,284,536)	(438,178,953)
Provision for outstanding claims, net	3,005,627,300	2,229,213,713
Provision for unexpired risk	16,602,906	45,093,496
Provision for unexpired risk, ceded	(3,714,709)	(12,411,240)
Provision for outstanding claims, net	12,888,197	32,682,256
Equalization provision, net (*)	154,637,733	104,977,919
Other technical provisions, net	154,637,733	104,977,919
Life mathematical provisions	165,157	491,937
Total technical provisions, net	5,308,667,528	4,213,639,299
Short-term	5,154,029,795	4,108,661,380
Medium and long-term	154,637,733	104,977,919
Total technical provisions, net	5,308,667,528	4,213,639,299

(*) Net losses (after reinsurance resulted from earthquakes occurred in 2016 amounting to TL 4,475,777 are decreased from prior periods' equalization provision based on regulation (2015: TL 21,443,124).

(Currency: Turkish Lira (TL))

As at 31 December 2016 and 2015, movements of the insurance liabilities and related reinsurance assets are presented below:

	31 December 2016			
Reserve for unearned premiums	Gross	Ceded	SSI Share	Net
Reserve for unearned premiums at the beginning of the period	2,194,659,969	(293,410,931)	(54,975,564)	1,846,273,474
Premiums written during the period	5,323,560,933	(876,702,403)	(150,794,005)	4,296,064,525
Premiums earned during the period	(4,958,024,093)	820,324,884	130,710,351	(4,006,988,858)
Reserve for unearned premiums at the end of the period	2,560,196,809	(349,788,450)	(75,059,218)	2,135,349,141

	31 December 2015			
Reserve for unearned premiums	Gross	Ceded	SSI Share	Net
Reserve for unearned premiums at the beginning of the period	1,820,412,103	(254,801,924)	(36,692,791)	1,528,917,388
Premiums written during the period	4,507,306,864	(757,514,912)	(99,511,467)	3,650,280,485
Premiums earned during the period	(4,133,058,998)	718,905,905	81,228,694	(3,332,924,399)
Reserve for unearned premiums at the end of the period	2,194,659,969	(293,410,931)	(54,975,564)	1,846,273,474

	31 December 2016		
Provision for outstanding claims	Gross	Ceded	Net
Provision for outstanding claims at the beginning of the period	2,667,392,666	(438,178,953)	2,229,213,713
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	3,519,950,210	(317,132,948)	3,202,817,262
Claims paid during the period	(2,737,431,040)	311,027,365	(2,426,403,675)
Provision for outstanding claims at the end of the period	3,449,911,836	(444,284,536)	3,005,627,300

	31 December 2015		
Provision for outstanding claims	Gross	Ceded	Net
Provision for outstanding claims at the beginning of the period	1,934,733,354	(187,370,933)	1,747,362,421
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	3,277,420,197	(468,710,785)	2,808,709,412
Claims paid during the period	(2,544,760,885)	217,902,765	(2,326,858,120)
Provision for outstanding claims at the end of the period	2,667,392,666	(438,178,953)	2,229,213,713

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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.

	31 December 2016		
	Should be placed (**)	Placed (*)	Carrying amount
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

	31 December 2015		
	Should be placed (**)	Placed (*)	Carrying amount
Non-life:			
Bank deposits *(Note 14)*	--	339,186,373	340,277,623
Financial assets (*) *(Note 11)*	--	15,150,590	15,555,214
Total	286,658,129	354,336,963	355,832,837

(*) "As at 31 December 2016 and 31 December 2015, government bonds and treasury bills are measured at daily official prices announced by the Central Bank of Turkey 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. Since the amounts that should be placed as of 31 December 2016 (31 December 2015) will be through the calculated amounts as of 30 June 2016 (30 June 2015), the settled amounts as of June is presented as "should be placed" amounts.

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.

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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

Deferred commission expenses

The Group capitalizes commissions paid to the intermediaries related to policy production under short-term and long-term prepaid expenses. As at 31 December 2016, short-term prepaid expenses amounting to TL 399,249,100 (31 December 2015: TL 366,089,853) consist of deferred acquisition cost; deferred commission expenses amounting to TL 369,762,099 (31 December 2015: TL 340,538,326) and other prepaid expenses amounting to TL 29,487,001 (31 December 2015: TL 25,551,527). Long-term prepaid expenses amounting TL 6,211,364 (31 December 2015: TL 5,221,880) are composed of other prepaid expenses.

	31 December 2016	31 December 2015
Deferred commission expenses at the beginning of the period	340,538,326	289,357,775
Commissions accrued during the period *(Note 32)*	882,941,642	775,132,091
Commissions expensed during the period	(853,717,869)	(723,951,540)
Deferred commission expenses at the end of the period	369,762,099	340,538,326

Individual pension funds

None.

18 Investment contract liabilities

None.

19 Trade and other payables and deferred income

	31 December 2016	31 December 2015
Financial payables	134,413,473	297,347,979
Payables from main operations	466,995,593	373,784,676
Other payables	85,550,857	62,710,887
Short/long term deferred income and expense accruals	104,670,372	75,998,614
Taxes and other liabilities and similar obligations	40,980,017	38,761,168
Due to related parties *(Note 45)*	171,856	158,568
Total	832,782,168	848,761,893
Short-term liabilities	832,782,168	848,718,561
Long-term liabilities	--	43,332
Total	832,782,168	848,761,893

As at 31 December 2016, other payables amounting to TL 85,550,857 (31 December 2015: TL 62,710,887) consist of treatment cost payables to SSI amounting to TL 32,037,945 (31 December 2015: TL 27,017,129), payables to Tarsim and DASK and outsourced benefits and services amounting to TL 46,076,135 (31 December 2015: TL 32,516,197) and deposits and guarantees received amounting to TL 7,436,777 (31 December 2015: TL 3,177,561).

(Currency: Turkish Lira (TL))

Short/long term deferred income and expense accruals are comprised of deferred commission income amounting to TL 46,650,934 (31 December 2015: TL 39,714,319) *(Note 10)*. Expense accruals and deferred income details are presented below:

	31 December 2016	31 December 2015
Personnel premium provision	14,896,731	10,356,235
Security fund provision	15,111,473	9,759,024
Provision for tax assessment *(Note 47)*	3,381,653	3,084,516
Agency remuneration provision	11,375,000	9,125,000
Sliding scale commission provision *(Note 10)*	7,963,322	2,237,886
Deferred rent income	172,202	218,280
Other accruals	5,119,057	1,503,354
Deferred income and expense accruals	58,019,438	36,284,295

Payables arising from main operations of the Group as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Payables to reinsurance companies *(Note 10)*	276,408,549	221,834,755
Payables to agencies, brokers and intermediaries	41,204,606	37,795,326
Cash deposited by insurance and reinsurance companies	6,570,424	5,496,957
Total payables arising from insurance operations	324,183,579	265,127,038
Payables arising from other operating activities	142,812,014	108,657,638
Payables arising from main operations	466,995,593	373,784,676

Corporate tax liabilities and prepaid taxes are disclosed below:

	31 December 2016	31 December 2015
Corporate tax liabilities	(26,875,657)	(1,769,959)
Taxes paid during the period	49,805,663	35,460,918
Corporate tax assets, net	22,930,006	33,690,959

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

None.

20 Financial liabilities

Group's financial liabilities from repo transactions is amounted TL 134,413,473 as of 31 December 2016 (31 December 2015: TL 297,347,979).

Maturity	31 December 2016	Maturity	31 December 2015
17 January 2017	40,153,847	11 January 2016	50,132,106
25 January 2017	94,259,626	22 January 2016	64,243,464
--	--	29 January 2016	56,212,595
--	--	10 February 2016	40,081,482
--	--	10 February 2016	86,678,332
Balance sheet value	134,413,473		297,347,979

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

21 Deferred taxes

As at 31 December 2016 and 2015, deferred tax assets and liabilities are attributable to the following:

	31 December 2016 Deferred tax assets/(liabilities)	31 December 2015 Deferred tax assets/(liabilities)
Equalization provision	20,212,691	12,355,520
Other provisions	8,802,603	5,104,091
Provision for the pension fund deficits	5,937,022	5,671,788
Provisions for employee termination benefits	5,793,388	4,781,636
Provision for recourse	3,137,117	2,030,898
Reserve for unexpired risks	2,577,639	6,536,451
Discount of receivables and payables	500,832	(47,969)
Time deposits	52,495	--
Carried forward tax losses *(Note 2.18)*	--	10,039,500
Other	(607,570)	(1,171,079)
Income accruals	(928,093)	(2,157,068)
Subrogation receivables from third parties	(3,356,747)	(3,147,915)
Differences in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards	(3,368,617)	(2,663,491)
Valuation differences in financial assets	(3,485,938)	(1,619,615)
Real estate valuation differences	(25,039,108)	(21,763,788)
Deferred tax assets, net	10,227,714	13,948,959

As at 31 December 2016, the Group does not have deductible tax losses. As of 31 December 2015, the Group has deductible tax losses presented below with maturities and amounts in detail:

	31 December 2016	31 December 2015
31 December 2016	--	50,197,498
Total	--	50,197,498

Movement of deferred tax assets as at 31 December 2016 and 2015 are given below:

	31 December 2016	31 December 2015
Opening balance at 1 January	13,948,959	31,926,180
Recognized in profit or loss	(886,872)	(14,290,010)
Recognized in equity	(2,834,373)	(3,687,211)
Closing balance at 31 December	10,227,714	13,948,959

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 1 November 2005. However, the said article of the Banking Law has been vetoed by the President on 2 November 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 22 March 2007 effective from 31 March 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 8 May 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 8 May 2011 was extended to the 8 May 2013. On 8 March 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 3 May 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 8 May 2015 with the decision of The Council of Ministers dated 24 February 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 23 April 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. As part of this law' 4. article' first sub-article' (a) clause, pension fund partnerships are counted as insured as of the turnover date."

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 19 June 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 30 March 2011.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

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 29,685,112 (31 December 2015: TL 28,358,939) 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 and 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. At 31 December 2016 and 2015, technical deficit from pension funds comprised the following:

	31 December 2016	31 December 2015
Net present value of total liabilities other than health	(105,825,425)	(92,355,113)
Net present value of insurance premiums	23,100,988	17,661,596
Net present value of total liabilities other than health	(82,724,437)	(74,693,517)
Net present value of health liabilities	(12,841,513)	(11,172,968)
Net present value of health premiums	12,625,747	9,681,587
Net present value of health liabilities	(215,766)	(1,491,381)
Pension fund assets	53,255,091	47,825,959
Amount of actuarial and technical deficit	(29,685,112)	(28,358,939)

(Currency: Turkish Lira (TL))

Plan assets are comprised of the following items:

	31 December 2016	31 December 2015
Cash and cash equivalents	45,069,448	40,973,136
Associates	7,376,761	6,759,312
Other	808,882	93,511
Total plan assets	53,255,091	47,825,959

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.

23 Provision for other liabilities and charges

As at 31 December 2016 and 2015, the provisions for other risks are disclosed as follows:

	31 December 2016	31 December 2015
Provision for pension fund deficits *(Note 22)*	29,685,112	28,358,939
Provision for employee termination benefits	24,566,143	21,894,700
Provision for unused vacation	1,561,950	1,492,709
Total provision for other risks	55,813,205	51,746,348

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

	31 December 2016	31 December 2015
Provision at the beginning of the period	21,894,700	18,432,669
Interest cost *(Note 47)*	2,109,207	1,716,920
Service cost *(Note 47)*	1,649,185	1,490,763
Payments during the period *(Note 47)*	(2,263,874)	(1,518,282)
Actuarial differences	1,176,925	1,772,630
Provision at the end of the period	24,566,143	21,894,700

24 Net insurance premium

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*.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

27 Net income accrual on financial assets

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

28 Asset held at fair value through profit or loss

Presented in "*Note 4.2* - Financial Risk Management".

29 Insurance rights and claims

	31 December 2016		31 December 2015	
	Life	Non-Life	Life	Non-Life
Claims paid, net off reinsurers' share	(8,006,413)	(2,418,397,262)	(6,111,970)	(2,320,746,150)
Changes in provision for outstanding claims, net off reinsurers' share	(2,448,530)	(773,965,057)	(463,503)	(481,387,789)
Changes in reserve for unearned premium, net off reinsurers' share	(575,291)	(288,500,376)	(392,924)	(316,963,162)
Change in equalization provision	(583,585)	(49,076,229)	(199,272)	(21,724,626)
Change in life mathematical provisions, net off reinsurers' share	71,202	255,578	131,983	(255,578)
Changes in reserve for unexpired risks, net off reinsurers' share	--	19,794,059	--	47,773,640
Total	(11,542,617)	(3,509,889,287)	(7,035,686)	(3,093,303,665)

30 Investment contract benefits

None.

31 Other expenses

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

(Currency: Turkish Lira (TL))

32 Operating expenses

For the years ended 31 December 2016 and 2015, the operating expenses are disclosed as follows:

	31 December 2016		31 December 2015	
	Life	Non-life	Life	Non-life
Commission expenses *(Note 17)*	8,852,371	844,865,498	8,950,911	715,000,629
Commissions to the intermediaries accrued during the period (Note 17)	*8,813,177*	*874,128,465*	*8,863,918*	*766,268,173*
Changes in deferred commission expenses (Note 17)	*39,194*	*(29,262,967)*	*86,993*	*(51,267,544)*
Employee benefit expenses *(Note 33)*	858,881	176,373,533	799,808	149,845,678
Foreign exchange losses	247,495	20,401,109	241,415	22,737,610
Administration expenses	224,534	107,570,106	217,634	93,375,196
Commission income from reinsurers *(Note 10)*	(16,469)	(112,984,568)	(76,340)	(103,257,890)
Commission income from reinsurers accrued during the period (Note 10)	*(13,586)*	*(119,924,066)*	*(35,951)*	*(108,272,487)*
Change in deferred commission income (Note 10)	*(2,883)*	*6,939,498*	*(40,389)*	*5,014,597*
Advertising and marketing expenses	--	12,046,504	--	19,727,757
Outsourced benefits and services	*20,324*	17,967,360	19,512	10,659,058
Other	32,550	(16,817,843)	29,513	(83,445)
Total	10,219,686	1,049,421,699	10,182,453	908,004,593

33 Employee benefit expenses

For the years ended 31 December 2016 and 2015, employee benefit expenses are disclosed as follows:

	31 December 2016		31 December 2015	
	Life	Non-life	Life	Non-life
Wages and salaries	623,887	130,973,390	563,471	110,159,569
Employer's share in social security premiums	148,064	29,932,723	137,113	25,016,078
Pension fund benefits	86,930	3,798,699	99,224	5,038,314
Other	--	11,668,721	--	9,631,717
Total *(Note 32)*	858,881	176,373,533	799,808	149,845,678

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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

35 Income tax expense

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

	31 December 2016	31 December 2015
Corporate tax expense:		
Corporate tax provision	(26,875,657)	(1,769,959)
Deferred taxes:		
Origination and reversal of temporary differences	(886,872)	(14,290,010)
Total income tax expense/(income)	(27,762,529)	(16,059,969)

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 31 December 2016 and 2015 is as follows:

	31 December 2016		31 December 2015	
Profit before taxes	252,601,340	Tax rate (%)	204,292,879	Tax rate (%)
Taxes on income per statutory tax rate	50,520,268	20.00	40,858,576	20.00
Tax exempt income	(26,462,474)	(10.48)	(28,846,454)	(14.12)
Non-deductible expenses	3,704,735	1.47	4,047,847	1.98
Total tax expense recognized in consolidated profit or loss	27,762,529	10.99	16,059,969	7.86

36 Net foreign exchange gains

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

37 Earnings per share

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

	31 December 2016	31 December 2015
Net profit for the period	181.244.361	156.222.767
Weighted average number of shares	66.000.000.000	66.000.000.000
Earnings per share (TL)	0,00275	0,00237

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.

As a result of the General Assembly Meeting of the Company held on 25 March 2016, the Company has decided to distribute subsidiary sale exemption amounting to TL 23,723,323 to sales profits to be added to the capital, TL 12,694,585 to accumulated losses as deducting from net profit for the year of 2015 amounting to TL 130,243,407 and after deducting legal reserves from remained amount, it has been decided to distribute TL 42,807,730 as cash dividend and TL 2,406,624 as personnel dividend and the remaining TL 42,698,436 as extraordinary reserves and the profit is distributed in the period. Paid dividend amount is reflected to financial statements as liability on the period that is declared by the Company.

As a result of the Extraordinary General Assembly Meeting of the Company held on 27 June 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 30 November 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 provision for outstanding claims in the accompanying consolidated financial statements.

As at 31 December 2016, total amount of the claims that the Group face is TL 1,189,434,000 in gross (31 December 2015: TL 925,745,000). The Group provided provision for outstanding claims in the consolidated financial statements by considering collateral amounts.

As at 31 December 2016, ongoing law suits prosecuted by the Company's subsidiary Insurance Company against the third parties amounting TL 324,644,000 (31 December 2015: TL 233,643,000).

"Anadolu Anonim Türk Sigorta Şirketi Mensupları Dayanışma Vakfı" was established by Anadolu Anonim Türk Sigorta Şirketi, subsidiary of the Company, in accordance with the Turkish Commercial and Civil Laws which is examined by Tax Audit Committee inspectors due to the Anadolu Sigorta 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.

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

The final legal process which is related the period of 2007, 2008 is expected to result in the Anadolu Sigorta's favor and the amount of provision TL 12,768,684 which was published on the Official Gazette dated 12 November 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 3,381,653 (31 December 2015: TL 3,084,516) related with this process. Furthermore, Anadolu Sigorta does not have any amounts that was recognized as accrued income as the prospect will get back the amount paid pursuant to the tax inspection in line with the above description in the current period (31 December 2015: TL 4,229,629).

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 6 February 2015. Anadolu Sigorta has utilized the means put forward in the "Law Regarding Some Claims" which was published in the official gazette on August 19th 2016 with the number 6736. According to this, Anadolu Sigorta has paid TL 6.990.560 on 29 November 2016 and as a result the assessment has ended.

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:

	31 December 2016	31 December 2015
Less than one year	11,866,768	4,220,673
Between one to five years	16,138,148	2,816,249
More than 5 years	3,390,161	--
Total of minimum rent payments	31,395,077	7,036,922

44 Business combinations

None.

45 Related party transactions

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.

(Currency: Turkish Lira (TL))

The related party balances as of 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Investment funds founded by İş Portföy Yönetimi A.Ş. (Note 11)	419,297,743	243,023,139
Equity shares of the related parties (Note 11)	60,025,295	56,058,636
Bond issued by İş GYO (Note 11)	15,543,150	14,749,064
Investment funds founded by İşbank AG (Note 11)	11,880,374	11,206,804
Bond issued by Türkiye Sınai Kalkınma Bankası (Note 11)	7,050,254	5,843,739
Bonds issued by İş Finansal Kiralama A.Ş. (Note 11)	--	8,203,256
Investment funds founded by İş Yatırım Menkul Değerler A.Ş. (Note 11)	--	19,977,422
Bond issued by İş Faktoring *(Note 11)*	--	5,522,064
Financial assets	513,796,816	364,584,124
Türkiye İş Bankası A.Ş.	1,167,824,872	1,624,387,985
Other	1,132	430
Banks	1,167,826,004	1,624,388,415
Türkiye İş Bankası A.Ş.	125,983,624	106,339,774
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	6,182,414	5,621,566
Axa Sigorta A.Ş.	3,934,701	4,273,009
Anadolu Hayat Emeklilik A.Ş.	1,474,059	873,250
Ziraat Sigorta A.Ş.	1,238,110	81,886
İstanbul Umum Sigorta A.Ş.	107,627	109,963
Ziraat Hayat ve Emeklilik A.Ş.	51,250	47,220
Ergo Sigorta A.Ş.	18,246	18,246
Groupama Sigorta A,Ş	--	167,561
Trakya Cam Sanayii A.Ş.	--	47,472
Receivables from main operations	138,990,031	117,579,947
Türkiye İş Bankası A.Ş.	7,016,739	9,603,965
Ergo Sigorta A.Ş.	2,468,712	5,304,570
Güven Sigorta T.A.Ş.	1,266,357	1,360,722
Allianz Sigorta A.Ş.	1,193,374	874,590
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	399,796	349,731
Groupama Sigorta A.Ş.	222,070	55,043
Axa Sigorta A.Ş.	35,723	50,953
İstanbul Umum Sigorta A.Ş.	30,112	40,403
Anadolu Hayat ve Emeklilik A.Ş.	2	--
Payables from main operations	12,632,885	17,639,977
Due to personnel	91,826	92,190
Due to shareholders	66,287	53,738
Due to other related parties	13,743	12,640
Due to related parties	171,856	158,568

No guarantees have been taken against receivables from related parties.

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

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

The transactions with related parties during the years ended 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
Türkiye İş Bankası A.Ş.	502,036,843	410,699,700
Axa Sigorta A.Ş.	36,740,520	48,212,402
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	20,429,253	17,600,899
Ziraat Sigorta A.Ş.	15,282,714	12,178,834
Groupama Sigorta A.Ş.	4,528,283	11,167,164
Anadolu Hayat Emeklilik A.Ş.	3,911,743	3,663,916
Ergo Sigorta A.Ş.	3,793,595	14,189,023
Allianz Sigorta A.Ş.	684,257	933,867
Ziraat Hayat ve Emeklilik A.Ş.	205,000	390,235
Groupama Sigorta A.Ş. (Güven Sigorta T.A.Ş.)	21,639	315
AvivaSa Emeklilik A.Ş.	--	--
İş Finansal Kiralama A.Ş.	--	--
TSKB	--	--
Premium received	587,633,847	519,036,355
Groupama Sigorta A.Ş.	28	3,800
İstanbul Umum Sigorta A.Ş.	(3)	1
Allianz Sigorta A.Ş.	(29)	(34)
Axa Sigorta A.Ş.	(72)	2,172
Groupama Sigorta A.Ş. (Güven Sigorta T.A.Ş.)	(80)	767
Ergo Sigorta A.Ş.	(1,227)	12,902
Premiums ceded	(1,383)	19,608
Allianz Sigorta A.Ş.	(3)	1
Groupama Sigorta A.Ş.	(1,285)	7,659
Axa Sigorta A.Ş.	(3,021)	3,037
Ergo Sigorta A.Ş.	(3,567)	5,134
Groupama Sigorta A.Ş. (Güven Sigorta T.A.Ş.)	(7,032)	1,389
Commissions received	(14,908)	17,220
Türkiye İş Bankası A.Ş.	59,382,880	54,279,283
Axa Sigorta A.Ş.	6,778,440	7,953,361
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	4,027,166	3,520,602
Ziraat Sigorta A.Ş.	3,562,905	2,861,183
Ergo Sigorta A.Ş.	1,345,451	2,975,744
Groupama Sigorta A.Ş.	908,651	1,323,906
Anadolu Hayat Emeklilik A.Ş.	122,120	223,783
Allianz Sigorta A.Ş.	96,741	146,237
Groupama Sigorta A.Ş. (Güven Sigorta T.A.Ş.)	(5)	(62,182)
Commissions given	76,224,349	73,221,917

(Currency: Turkish Lira (TL))

	31 December 2016	31 December 2015
Axa Sigorta A.Ş.	14,516,386	41,100,417
Ergo Sigorta A.Ş.	13,725,776	13,250,572
Allianz Sigorta A.Ş.	4,875,749	4,209,033
Ziraat Sigorta A.Ş.	3,811,044	5,780,262
Groupama Sigorta A.Ş.	3,573,133	19,670,681
Groupama Sigorta A.Ş. (Güven Sigorta T.A.Ş.)	2,496,742	2,361,285
Anadolu Hayat Emeklilik A.Ş.	307,788	167,542
Ziraat Hayat ve Emeklilik A.Ş.	217,078	749,298
Claims paid	43,523,696	87,289,090
Groupama Sigorta A.Ş. (Güven Sigorta T.A.Ş)	38,868	95,107
Axa Sigorta A.Ş.	33,560	196,702
İstanbul Umum Sigorta A.Ş.	15,706	21,018
Allianz Sigorta A.Ş.	13,919	16,536
Ergo Sigorta A.Ş.	(11,781)	121,500
Groupama Sigorta A.Ş.	(18,898)	269,451
Reinsurance's share of claims paid	71,374	720,314
Ergo Sigorta A.Ş.	1,398,446	421,667
Axa Sigorta A.Ş.	625,977	690,593
Anadolu Hayat Emeklilik A.Ş.	179,649	180,761
Allianz Sigorta A.Ş.	99,536	148,657
Ziraat Sigorta A.Ş.	67,728	49,556
Groupama Sigorta A.Ş.	22,475	273,437
Other income	2,393,811	1,764,671
İş Merkezleri Yönetim ve İşletim A.Ş. - office service costs	4,176,042	3,212,713
Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı Vakfı-rent expense	2,997,956	2,790,764
Ergo Sigorta A.Ş.	1,467,669	358,197
İş Portföy Yönetimi - management commission	965,206	690,905
Groupama Sigorta A.Ş. (Güven Sigorta T.A.Ş)	457,001	264,090
Axa Sigorta A.Ş.	117,026	1,139,001
Allianz Sigorta A.Ş.	113,938	115,889
Yatırım Finansman Menkul Değerler A.Ş. - management commission	51,884	--
Ziraat Sigorta A.Ş.	9,925	13,525
Groupama Sigorta A.Ş.	7,017	125,132
Anadolu Hayat ve Emeklilik A.Ş.	178	1,918
Ziraat Hayat ve Emeklilik A.Ş.	--	506
Other expenses	10,363,842	8,712,640

46 Subsequent events

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

Millî Reasürans Türk Anonim Şirketi

Notes to the Consolidated Financial Statements as at 31 December 2016

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

47 Other

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

They are presented in the related notes above.

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

None.

Subrogation recorded in "Off-Balance Sheet Accounts"

None.

Real rights on immovable and their values

None.

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

None.

As at and for the year ended 31 December 2016 and 2015, details of discount and provision expenses are as follows:

	31 December 2016	31 December 2015
Provision expense for doubtful receivables *(Note 4.2)* (*)	(40,724,191)	(39,905,763)
Provision for pension fund deficits *(Note 23)*	(1,326,173)	(28,214)
Provision expense for employee termination benefits *(Note 23)*	(1,494,518)	(1,689,401)
Provision expenses for unused vacation *(Note 23)*	(69,241)	(59,556)
Provision expenses for tax assessments *(Note 42)*	(297,137)	2,546,902
Other provision expenses *(Note 4.2)* (*)	(588,126)	13,570,187
Terminated provision income/(expense)	2,352,227	--
Impairment loss on financial assets	(6,855,240)	--
Provision expenses	(49,002,399)	(25,565,845)

(*) Provision expense stems from foreign exchange translation effect on doubtful receivables from main operations amounting to TL 40,734,191 (31 December 2015: TL 39,905,763) and income from other doubtful receivables amounting to TL 10,000 *(Note 4.2)*.

	31 December 2016	31 December 2015
Rediscount income/(expense) from main operations receivables	21,048,926	18,196,109
Rediscount income/(expense) from main operations payables	(20,006,224)	(17,196,437)
Total of rediscounts	1,042,702	999,672

Designed by Tayburn
Tel: (90 212) 227 04 36
www.tayburnkurumsal.com

ISBANK Subsidiary

TÜRKİYE İŞ BANKASI