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

Millî Reasürans Türk Anonim Şirketi

31 December 2013
Unconsolidated Financial Statements
Together With
Independent Auditors' Report Thereon

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

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

20 February 2014

This report includes 2 pages of independent auditors' report and 76 pages of financial information together with their explanatory notes.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
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Convenience Translation of the Independent Auditors' Report Originally Prepared and Issued in Turkish (See *Note 2.1.1*)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Milli Reasürans Türk Anonim Şirketi

Introduction

We have audited the accompanying unconsolidated balance sheet of Milli Reasürans Türk Anonim Şirketi (the" Company") as at 31 December 2013 and the related unconsolidated statements of income, unconsolidated statement of 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

Management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with the accounting principles and standards in force as per the insurance legislation. This responsibility includes: designing, implementing and maintaining internal systems relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with audit standards in force as per the insurance legislation. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal systems relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal system. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Independent Auditors' Opinion

In our opinion, the accompanying unconsolidated financial statements give a true and fair view of the financial position of Milli Reasürans Türk Anonim Şirketi as at 31 December 2013, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the accounting principles and standards (see *Note 2*) in force as per the insurance legislation.

Istanbul, 20 February 2014

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ

Alper Güvenç, Certified Public Accountant
Partner

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.

MİLLÎ REASÜRANS TÜRK ANONİM ŞİRKETİ
UNCONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2013

We confirm that the unconsolidated financial statements and related disclosures and footnotes as at 31 December 2013 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, 20 February 2014

Şule SOYLU Group Manager	Kemal ÇUHACI Assistant General Manager	Hasan Hulki YALÇIN General Manager

Ertan TAN
Actuary

CONTENTS

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet
As At 31 December 2013
(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 2013**	**Audited Prior Period 31 December 2012**
A- Cash and Cash Equivalents	**14**	**603,582,774**	**677,226,863**
1- Cash	14	13,024	24,735
2- Cheques Received		-	-
3- Banks	14	603,569,750	677,202,128
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**	**497,248,099**	**360,820,842**
1- Available-for-Sale Financial Assets	11	466,974,184	310,126,411
2- Held to Maturity Investments		-	-
3- Financial Assets Held for Trading	11	30,273,915	50,694,431
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		-	-
C- Receivables from Main Operations	**12**	**185,157,785**	**185,066,883**
1- Receivables from Insurance Operations		-	-
2- Provision for Receivables from Insurance Operations		-	-
3- Receivables from Reinsurance Operations	12	104,820,208	114,726,420
4- Provision for Receivables from Reinsurance Operations		-	-
5- Cash Deposited to Insurance & Reinsurance Companies	12	80,337,577	70,340,463
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	8,985	3,407
10- Provision for Doubtful Receivables from Main Operations	4.2,12	(8,985)	(3,407)
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**	**128,059**	**110,476**
1- Finance Lease Receivables		-	-
2- Unearned Finance Lease Interest Income		-	-
3- Deposits and Guarantees Given		90,797	71,185
4- Other Miscellaneous Receivables		37,262	39,291
5- Rediscount on Other Miscellaneous Receivables		-	-
6- Other Doubtful Receivables	12	63,177	232,377
7- Provision for Other Doubtful Receivables	4.2,12	(63,177)	(232,377)
F- Prepaid Expenses and Income Accruals		**102,422,866**	**117,878,229**
1- Deferred Acquisition Costs	17	87,498,692	102,260,739
2- Accrued Interest and Rent Income		-	-
3- Income Accruals	4.2	14,730,323	15,426,591
4- Other Prepaid Expenses		193,851	190,899
G- Other Current Assets		**8,410,159**	**9,907,866**
1- Stocks to be Used in the Following Months		31,567	28,735
2- Prepaid Taxes and Funds	12	8,019,284	9,551,587
3- Deferred Tax Assets		-	-
4- Job Advances	12	2,046	1,952
5- Advances Given to Personnel		-	-
6- Inventory Count Differences		-	-
7- Other Miscellaneous Current Assets		357,262	325,592
8- Provision for Other Current Assets		-	-
I- Total Current Assets		**1,396,949,742**	**1,351,011,159**

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

(Currency: Turkish Lira (TL))

ASSETS			
II- Non-Current Assets	**Note**	**Audited Current Period 31 December 2013**	**Audited Prior Period 31 December 2012**
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	10,908,362	9,372,557
10- Provision for Doubtful Receivables from Main Operations	4.2.12	(10,908,362)	(9,372,557)
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**	**381,857,848**	**330,278,828**
1- Investments in Equity Shares		-	-
2- Investments in Associates		-	-
3- Capital Commitments to Associates		-	-
4- Investments in Subsidiaries	9	381,857,848	330,278,828
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**	**42,994,518**	**44,873,572**
1- Investment Properties	6,7	41,342,839	41,342,839
2- Impairment for Investment Properties		-	-
3- Owner Occupied Property	6	31,392,945	31,392,945
4- Machinery and Equipments		-	-
5- Furniture and Fixtures	6	3,540,753	3,503,244
6- Motor Vehicles	6	1,278,823	1,215,214
7- Other Tangible Assets (Including Leasehold Improvements)		-	-
8- Tangible Assets Acquired Through Finance Leases		-	-
9- Accumulated Depreciation	6	(34,560,842)	(32,580,670)
10- Advances Paid for Tangible Assets (Including Construction in Progress)		-	-
F- Intangible Assets	**8**	**705,799**	**742,324**
1- Rights	8	2,373,390	2,105,443
2- Goodwill		-	-
3- Pre-operating Expenses		-	-
4- Research and Development Costs		-	-
5- Other Intangible Assets		-	-
6- Accumulated Amortization	8	(1,667,591)	(1,363,119)
7- Advances Paid for Intangible Assets		-	-
G- Prepaid Expenses and Income Accruals		**5,479**	**18,176**
1- Deferred Acquisition Costs		-	-
2- Income Accruals		-	-
3- Other Prepaid Expenses		5,479	18,176
H- Other Non-Current Assets	**21**	**24,710,359**	**36,989,479**
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	24,710,359	36,989,479
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		**450,274,003**	**412,902,379**
TOTAL ASSETS		**1,847,223,745**	**1,763,913,538**

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

(Currency: Turkish Lira (TL))

LIABILITIES			
III- Short-Term Liabilities	**Note**	**Audited Current Period 31 December 2013**	**Audited Prior Period 31 December 2012**
A- Financial Liabilities		**-**	**-**
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		-	-
B- Payables Arising from Main Operations	**19**	**41,083,420**	**36,566,230**
1- Payables Arising from Insurance Operations		-	-
2- Payables Arising from Reinsurance Operations		40,078,893	35,494,365
3- Cash Deposited by Insurance and Reinsurance Companies		1,004,527	1,071,865
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**	**86,156**	**121,029**
1- Due to Shareholders	45	72,450	72,450
2- Due to Associates		-	-
3- Due to Subsidiaries		-	-
4- Due to Joint Ventures		-	-
5- Due to Personnel		-	-
6- Due to Other Related Parties	45	13,706	48,579
D- Other Payables	**19**	**312,611**	**412,535**
1- Deposits and Guarantees Received		42,417	48,500
2- Payables to Social Security Institution Related to Treatment Expenses		-	-
3- Other Miscellaneous Payables	19	270,194	364,035
4- Discount on Other Miscellaneous Payables		-	-
E-Insurance Technical Provisions	**17**	**1,035,107,914**	**1,008,634,370**
1- Reserve for Unearned Premiums - Net	17	349,862,656	387,033,147
2- Reserve for Unexpired Risks- Net	17	5,895,886	1,576,119
3- Life Mathematical Provisions - Net	17	641,636	1,020,079
4- Provision for Outstanding Claims - Net	17	678,707,736	619,005,025
5- Provision for Bonus and Discounts - Net		-	-
6- Other Technical Provisions - Net		-	-
F- Provisions for Taxes and Other Similar Obligations	**19**	**1,156,680**	**897,529**
1- Taxes and Funds Payable		1,065,278	813,764
2- Social Security Premiums Payable		91,402	83,765
3- Overdue, Deferred or By Installment Taxes and Other Liabilities		-	-
4- Other Taxes and Similar Payables		-	-
5- Corporate Tax Payable	19	-	-
6- Prepaid Taxes and Other Liabilities Regarding Current Year Income	19	-	-
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**	**3,519,550**	**4,185,235**
1- Deferred Commission Income	10,19	372,409	934,576
2- Expense Accruals		3,042,211	3,123,239
3- Other Deferred Income		104,930	127,420
I- Other Short Term Liabilities		**-**	**-**
1- Deferred Tax Liabilities		-	-
2- Inventory Count Differences		-	-
3- Other Various Short Term Liabilities		-	-
III - Total Short Term Liabilities		**1,081,266,331**	**1,050,816,928**

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

Millî Reasürans Türk Anonim Şirketi
Unconsolidated Balance Sheet
As At 31 December 2013
(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 2013**	**Audited Prior Period 31 December 2012**
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**	**21,791,287**	**18,263,349**
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	21,791,287	18,263,349
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**	**42,160,216**	**36,418,608**
1- Provisions for Employment Termination Benefits	23	5,844,190	5,323,213
2- Provisions for Pension Fund Deficits	22,23	36,316,026	31,095,395
H-Deferred Income and Expense Accruals	**19**	**-**	**16,667**
1- Deferred Commission Income		-	-
2- Expense Accruals		-	-
3- Other Deferred Income	19	-	16,667
I- Other Long Term Liabilities		-	-
1- Deferred Tax Liabilities		-	-
2- Other Long Term Liabilities		-	-
IV - Total Long Term Liabilities		**63,951,503**	**54,698,624**

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

(Currency: Turkish Lira (TL))

EQUITY			
V- Equity	**Note**	**Audited Current Period 31 December 2013**	**Audited Prior Period 31 December 2012**
A- Paid in Capital		**615,000,000**	**615,000,000**
1- (Nominal) Capital	2.13,15	615,000,000	615,000,000
2- Unpaid Capital (-)		-	-
3- Positive Capital Restatement Differences		-	-
4- Negative Capital Restatement Differences (-)		-	-
5- Unregistered Capital		-	-
B- Capital Reserves	**15**	**(9,246,073)**	**(3,588,736)**
1- Share Premiums		-	-
2- Cancellation Profits of Equity Shares		-	-
3- Profit on Sale Assets That Will Be Transferred to Capital		-	-
4- Currency Translation Adjustments	15	(9,246,073)	(3,588,736)
5- Other Capital Reserves		-	-
C- Profit Reserves		**120,001,241**	**93,374,893**
1- Legal Reserves	15	49,622,694	49,622,694
2- Statutory Reserves	15	39,500,000	39,500,000
3- Extraordinary Reserves	15	5,512,899	5,512,899
4- Special Funds		-	-
5- Revaluation of Financial Assets	11,15	25,630,918	(1,260,700)
6- Other Profit Reserves		(265,270)	-
D- Retained Earnings		**-**	**-**
1- Retained Earnings		-	-
E- Accumulated Losses		**(46,388,171)**	**(144,736,989)**
1- Accumulated Losses		(46,388,171)	(144,736,989)
F-Net Profit/(Loss) for the Year		**22,638,914**	**98,348,818**
1- Net Profit for the Year		22,638,914	98,348,818
2- Net Loss for the Year		-	-
3- Net Profit for the Period not Subject to Distribuiton		-	-
V- Total Equity		**702,005,911**	**658,397,986**
TOTAL EQUITY AND LIABILITIES		**1,847,223,745**	**1,763,913,538**

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

(Currency: Turkish Lira (TL))

I-TECHNICAL SECTION	Note	Audited Current Period 31 December 2013	Audited Prior Period 31 December 2012
A- Non-Life Technical Income		**935,484,453**	**1,092,092,510**
1- Earned Premiums (Net of Reinsurer Share)		811,798,443	990,602,040
1.1- Written Premiums (Net of Reinsurer Share)	17	778,558,377	907,722,546
1.1.1- Written Premiums, gross	17	903,407,847	1,010,293,358
1.1.2- Written Premiums, ceded	10, 17	(124,849,470)	(102,570,812)
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	37,559,833	15,545,809
1.2.1- Reserve for Unearned Premiums, gross	17	37,593,180	19,768,587
1.2.2- Reserve for Unearned Premiums, ceded	10,17	(33,347)	(4,222,778)
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)		(4,319,767)	67,333,685
1.3.1- Reserve for Unexpired Risks, gross		(4,320,089)	69,157,302
1.3.2- Reserve for Unexpired Risks, ceded		322	(1,823,617)
2- Investment Income - Transferred from Non-Technical Section		63,118,469	86,773,916
3- Other Technical Income (Net of Reinsurer Share)		60,567,541	14,716,554
3.1- Other Technical Income, gross		60,539,351	14,715,538
3.2- Other Technical Income, ceded		28,190	1,016
4. Accrued Salvage and Subrogation Income		-	-
B- Non-Life Technical Expense		**(929,186,261)**	**(993,759,547)**
1- Incurred Losses (Net of Reinsurer Share)		(641,692,541)	(713,137,915)
1.1- Claims Paid (Net of Reinsurer Share)	17, 29	(582,397,637)	(686,184,266)
1.1.1- Claims Paid, gross	17	(612,288,138)	(714,698,585)
1.1.2- Claims Paid, ceded	10, 17	29,890,501	28,514,319
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17, 29	(59,294,904)	(26,953,649)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(40,005,276)	(18,554,474)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10, 17	(19,289,628)	(8,399,175)
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	(3,262,513)	(3,640,558)
4- Operating Expenses	32	(284,231,207)	(276,981,074)
5- Change in Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)		-	-
5.1- Mathematical Provisions		-	-
5.2- Mathematical Provisions, ceded		-	-
6- Other Technical Expense		-	-
6.1- Other Technical Expense, gross		-	-
6.2- Other Technical Expense, ceded		-	-
C- Net Technical Income-Non-Life (A – B)		**6,298,192**	**98,332,963**
D- Life Technical Income		**21,370,999**	**21,192,665**
1- Earned Premiums (Net of Reinsurer Share)		20,078,366	19,881,882
1.1- Written Premiums (Net of Reinsurer Share)	17	20,467,708	19,537,701
1.1.1- Written Premiums, gross	17	21,743,651	20,487,622
1.1.2- Written Premiums, ceded	10, 17	(1,275,943)	(949,921)
1.2- Change in Reserve for Unearned Premiums (Net of Reinsurer Shares and Less the Amounts Carried Forward)	17, 29	(389,342)	344,181
1.2.1- Reserve for Unearned Premiums, gross	17	(487,433)	242,510
1.2.2- Reserve for Unearned Premiums, ceded	10, 17	98,091	101,671
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		1,212,093	1,292,350
3- Unrealized Gains on Investments		-	-
4- Other Technical Income (Net of Reinsurer Share)		80,540	18,433
4.1- Other Technical Income, gross		80,540	18,433
4.2- Other Technical Income, ceded		-	-
5- Accrued Salvage and Subrogation Income		-	-

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

(Currency: Turkish Lira (TL))

I-TECHNICAL SECTION	Note	Audited Current Period 31 December 2013	Audited Prior Period 31 December 2012
E- Life Technical Expense		**(16,950,513)**	**(14,423,026)**
1- Incurred Losses (Net of Reinsurer Share)		(7,004,352)	(6,345,198)
1.1- Claims Paid (Net of Reinsurer Share)	17,29	(6,596,545)	(6,018,305)
1.1.1- Claims Paid, gross	17	(6,641,402)	(6,442,406)
1.1.2- Claims Paid, ceded	10,17	44,857	424,101
1.2- Change in Provisions for Outstanding Claims (Net of Reinsurer Share and Less the Amounts Carried Forward)	17,29	(407,807)	(326,893)
1.2.1- Change in Provisions for Outstanding Claims, gross	17	(1,421,346)	(357,681)
1.2.2- Change in Provisions for Outstanding Claims, ceded	10, 17	1,013,539	30,788
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 Disounts, ceded		-	-
3- Change in Life Mathematical Provisions (Net of Reinsurer Share and Less the Amounts Carried Forward)	29	378,443	357,622
3.1- Change in Mathematical Provisions, gross	29	378,443	357,622
3.1.1- Actuarial Mathematical Provisions		378,443	357,622
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	(265,425)	(252,279)
5- Operating Expenses	32	(10,059,179)	(8,183,171)
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)		**4,420,486**	**6,769,639**
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.

(Currency: Turkish Lira (TL))

II-NON-TECHNICAL SECTION	Note	Audited Current Period 31 December 2013	Audited Prior Period 31 December 2012
C- Net Technical Income – Non-Life (A-B)		6,298,192	98,332,963
F- Net Technical Income – Life (D-E)		4,420,486	6,769,639
I - Net Technical Income – Pension Business (G-H)		-	-
J- Total Net Technical Income (C+F+I)		10,718,678	105,102,602
K- Investment Income		114,774,966	130,965,159
1- Income from Financial Assets	4.2	73,775,818	80,361,831
2- Income from Disposal of Financial Assets	4.2	11,771,610	17,988,874
3- Valuation of Financial Assets	4.2	(6,225,984)	14,245,584
4- Foreign Exchange Gains	4.2	20,774,871	8,333,438
5- Income from Associates	4.2	-	-
6- Income from Subsidiaries and Joint Ventures	4.2	1,925	-
7- Income from Property, Plant and Equipment	7	10,331,531	9,694,494
8- Income from Derivative Transactions	4.2	4,345,195	333,499
9- Other Investments		-	7,439
10- Income Transferred from Life Section		-	-
L- Investment Expense		(90,248,876)	(114,465,738)
1- Investment Management Expenses (inc. interest)	4.2	(1,472,447)	(390,732)
2- Diminution in Value of Investments		-	-
3- Loss from Disposal of Financial Assets	4.2	(9,840,257)	(5,103,243)
4- Investment Income Transferred to Non-Life Technical Section		(63,118,469)	(86,773,916)
5- Loss from Derivative Transactions	4.2	(6,400,095)	-
6- Foreign Exchange Losses	4.2	(2,578,350)	(14,645,711)
7- Depreciation and Amortization Expenses	6, 8	(2,137,359)	(2,152,504)
8- Other Investment Expenses		(4,701,899)	(5,399,632)
M- Income and Expenses From Other and Extraordinary Operations		(12,605,854)	(23,253,205)
1- Provisions	47	(6,780,407)	(6,403,075)
2- Rediscounts	47	26,996	(147,053)
3- Specified Insurance Accounts		-	-
4- Monetary Gains and Losses		-	-
5- Deferred Taxation (Deferred Tax Assets)	35	-	-
6- Deferred Taxation (Deferred Tax Liabilities)	35	(6,036,785)	(17,319,883)
7- Other Income		214,969	654,533
8- Other Expenses and Losses		(30,627)	(37,727)
9- Prior Year's Income		-	-
10- Prior Year's Expenses and Losses		-	-
N- Net Profit for the Year		22,638,914	98,348,818
1- Profit for the Year		22,638,914	98,348,818
2- Corporate Tax Provision and Other Fiscal Liabilities	35	-	-
3- Net Profit for the Year		22,638,914	98,348,818
4- Monetary Gains and Losses		-	-

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

(Currency: Turkish Lira (TL))

	Note	Audited Current Period 31 December 2013	Audited Prior Period 31 December 2012
A. Cash flows from operating activities			
1. Cash provided from insurance activities		-	-
2. Cash provided from reinsurance activities		1,030,841,405	1,136,383,369
3. Cash provided from private pension business		-	-
4. Cash used in insurance activities		-	-
5. Cash used in reinsurance activities		(1,034,647,744)	(1,125,674,366)
6. Cash used in private pension business		-	-
7. Cash provided from operating activities		**(3,806,339)**	**10,709,003**
8. Interest paid		-	-
9. Income taxes paid		-	-
10. Other cash inflows		3,859,050	1,434,854
11. Other cash outflows		(5,473,691)	(453,401)
12. Net cash provided from operating activities		**(5,420,980)**	**11,690,456**
B. Cash flows from investing activities			
1. Proceeds from disposal of tangible assets		-	122,453
2. Acquisition of tangible assets	6, 8	(184,858)	(965,850)
3. Acquisition of financial assets	11	(517,714,382)	(520,977,165)
4. Proceeds from disposal of financial assets		371,081,965	526,115,332
5. Interests received		60,568,198	76,521,901
6. Dividends received		4,288,955	2,606,901
7. Other cash inflows		266,396,761	20,058,813
8. Other cash outflows		(20,858,090)	(279,285,358)
9. Net cash provided by / (used in) investing activities		**163,578,549**	**(175,802,973)**
C. Cash flows from financing activities		-	-
1. Equity shares issued		-	-
2. Cash provided from loans and borrowings		-	-
3. Finance lease payments		-	-
4. Dividends paid		-	-
5. Other cash inflows		-	-
6. Other cash outflows		-	-
7. Net cash provided by financing activities		-	-
D. Effect of exchange rate fluctuations on cash and cash equivalents		**2,018**	**276**
E. Net increase /(decrease) in cash and cash equivalents		**158,159,587**	**(164,112,241)**
F. Cash and cash equivalents at the beginning of the year	**14**	**358,862,749**	**522,974,990**
G. Cash and cash equivalents at the end of the year	**14**	**517,022,336**	**358,862,749**

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

(Currency: Turkish Lira (TL))

Audited Changes in Equity – 31 December 2012

	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets	Inflation Adjustment	Currency Translation Adjustment	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit for the Year	Retained Earnings	Total
I - Balance at the end of the previous year – 31 December 2011		615,000,000	-	(112,261,856)	-	(5,367,227)	49,622,694	39,500,000	5,512,899	(144,736,989)	-	447,269,521
A- Capital increase (A1+A2)		-	-	-	-	-	-	-	-	-	-	-
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		-	-	111,001,156	-	-	-	-	-	-	-	111,001,156
E- Currency translation adjustments		-	-	-	-	1,778,491	-	-	-	-	-	1,778,491
F- Other gains or losses		-	-	-	-	-	-	-	-	-	-	-
G- Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-
H- Net profit for the year		-	-	-	-	-	-	-	-	98,348,818	-	98,348,818
I – Other reserves and transfers from retained earnings	38	-	-	-	-	-	-	-	-	144,736,989	(144,736,989)	-
J- Dividends paid		-	-	-	-	-	-	-	-	-	-	-
II - Balance at the end of the year – 31 December 2012		615,000,000	-	(1,260,700)	-	(3,588,736)	49,622,694	39,500,000	5,512,899	98,348,818	(144,736,989)	658,397,986

Audited Changes in Equity – 31 December 2013

	Note	Paid-in Capital	Own Shares of the Company	Revaluation of Financial Assets	Inflation Adjustment	Currency Translation Adjustment	Legal Reserves	Statutory Reserves	Other Reserves and Retained Earnings	Net Profit for the Year	Retained Earnings	Total
I - Balance at the end of the previous year – 31 December 2012		615,000,000	-	(1,260,700)	-	(3,588,736)	49,622,694	39,500,000	5,512,899	98,348,818	(144,736,989)	658,397,986
A- Capital increase (A1+A2)		-	-	-	-	-	-	-	-	-	-	-
1- In cash		-	-	-	-	-	-	-	-	-	-	-
2- From reserves		-	-	-	-	-	-	-	-	-	-	-
B- Purchase of own shares		-	-	-	-	-	-	-	-	-	-	-
C- Gains or losses that are not included in the statement of income		-	-	-	-	-	-	-	(265,270)	-	-	(265,270)
D- Change in the value of financial assets		-	-	26,891,618	-	-	-	-	-	-	-	26,891,618
E- Currency translation adjustments		-	-	-	-	(5,657,337)	-	-	-	-	-	(5,657,337)
F- Other gains or losses		-	-	-	-	-	-	-	-	-	-	-
G- Inflation adjustment differences		-	-	-	-	-	-	-	-	-	-	-
H- Net profit for the year		-	-	-	-	-	-	-	-	22,638,914	-	22,638,914
I – Other reserves and transfers from retained earnings	38	-	-	-	-	-	-	-	-	(98,348,818)	98,348,818	-
J- Dividends paid		-	-	-	-	-	-	-	-	-	-	-
II - Balance at the end of the year – 31 December 2013		615,000,000	-	25,630,918	-	(9,246,073)	49,622,694	39,500,000	5,247,629	22,638,914	(46,388,171)	702,005,911

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

(Currency: Turkish Lira (TL))

	Note	Current Period 31 December 2013 (*)	Prior Period 31 December 2012
I. DISTRIBUTION OF THE PERIOD PROFIT			
1.1. PERIOD PROFIT		22,638,914	98,348,818
1.2. TAXES AND DUTIES PAYABLE	35	-	-
1.2.1. Corporate Tax (Income Tax)	35	-	-
1.2.2. Income Tax Deductions		-	-
1.2.3. Other Taxes and Legal Duties		-	-
A. CURRENT PERIOD PROFIT (1.1 – 1.2)		**22,638,914**	**98,348,818**
1.3. ACCUMULATED LOSSES (-)		(46,388,171)	(144,736,989)
1.4. FIRST LEGAL RESERVES (-)		-	-
1.5. OTHER STATUTORY RESERVES (-)		-	-
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A - (1.3 + 1.4 + 1.5)]		**(23,749,257)**	**(46,388,171)**
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)		-	-
1.6.1. To owners of ordinary shares		-	-
1.6.2. To owners of privileged shares		-	-
1.6.3. To owners of redeemed shares		-	-
1.6.4. To holders profit sharing bonds		-	-
1.6.5. To holders of profit and loss sharing certificates		-	-
1.7. DIVIDENDS TO PERSONNEL (-)		-	-
1.8. DIVIDENDS TO FOUNDERS (-)		-	-
1.9. DIVIDENDS TO BOARD OF DIRECTORS (-)		-	-
1.10. SECOND DIVIDEND TO SHAREHOLDERS (-)		-	-
1.10.1. To owners of ordinary shares		-	-
1.10.2. To owners of privileged shares		-	-
1.10.3. To owners of redeemed shares		-	-
1.10.4. To holders profit sharing bonds		-	-
1.10.5. To holders of profit and loss sharing certificates		-	-
1.11. LEGAL RESERVES (-)		-	-
1.12. STATUTORY RESERVES(-)		-	-
1.13. EXTRAORDINARY RESERVES		-	-
1.14 OTHER RESERVES		-	-
1.15 SPECIAL FUNDS		-	-
II. DISTRIBUTION OF RESERVES		-	-
2.1. APPROPRIATED RESERVES		-	-
2.2. SECOND LEGAL RESERVES (-)		-	-
2.3. DIVIDENDS TO SHAREHOLDERS (-)		-	-
2.3.1. To owners of ordinary shares		-	-
2.3.2. To owners of privileged shares		-	-
2.3.3. To owners of redeemed shares		-	-
2.3.4. To holders of profit sharing bonds		-	-
2.3.5. To holders of profit and loss sharing certificates		-	-
2.4. DIVIDENDS TO PERSONNEL (-)		-	-
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)		-	-
III. EARNINGS PER SHARE		-	-
3.1. TO OWNERS OF ORDINARY SHARES		-	-
3.2. TO OWNERS OF ORDINARY SHARES (%)		-	-
3.3. TO OWNERS OF PRIVILEGED SHARES		-	-
3.4. TO OWNERS OF PRIVILEGED SHARES (%)		-	-
IV. DIVIDEND PER SHARE		-	-
4.1. TO OWNERS OF ORDINARY SHARES		-	-
4.2. TO OWNERS OF ORDINARY SHARES (%)		-	-
4.3. TO OWNERS OF PRIVILEGED SHARES		-	-
4.4. TO OWNERS OF PRIVILEGED SHARES (%)		-	-

(*) Since the Company does not have net profit available for distribution for the year ended 31 December 2013 and 2012, the profit distribution table is not prepared.

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 2013

(Currency: Turkish Lira (TL))

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 ("theInsurance 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.

(Currency: Turkish Lira (TL))

1 General information *(continued)*

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

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

	31 December 2013	31 December 2012
Senior managers	6	7
Managers	19	20
Officers	120	121
Contracted personnel	8	8
Other personnel	50	50
Total	**203**	**206**

1.6 Wages and similar benefits provided to the senior management

For the year ended 31 December 2013, 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 4,527,575 (31 December 2012: TL 4,067,644).

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 2013 separately.

1 General information *(continued)*

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

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

Although the 4th standard of the Turkish Accounting Standards Board ("TASB") (TASB has been closed since November 2011 and duties have been transferred to the Public Oversight Accounting and Auditing Standards) for the '*Insurance contracts*' became effective on 25 March 2006 for the accounting periods that begin on or after 31 December 2005, it is stated that TFRS 4 will not be implemented at this stage since the second phase of the International Accounting Standards Board project about the insurance contracts has not been completed yet. In this context, "Communiqué on Technical Reserves for Insurance, Reinsurance and Individual Pension Companies and the Related Assets That Should Be Invested Against Those Technical Reserves" ("Communiqué on Technical Reserves") is published in the Official Gazette dated 7 August 2007, numbered 26606 and became effective on 1 January 2008. Subsequent to the publication of the Communiqué on Technical Reserves, some other circulars and sector announcements which contain explanations and regulations related to application of the Communiqué on Technical Reserves are published. Accounting policies applied for the insurance contracts based on these communiqué, circulars and other sector announcements are summarized on their own captions in the following sections.

Accounting for subsidiaries, associates and joint ventures is regulated with 28 December 2007 dated and 2007/26 numbered "Circular Related to the Accounting of Subsidiaries, Associates and Joint Ventures", issued by the Turkish Treasury. It is stated that, the companies will continue to apply the principles of the related standards of TFRSs (TASB has been closed since November 2011 and duties have been transferred to the Public Oversight Accounting and Auditing Standards) for the accounting of subsidiaries, associates and joint venture until the publication of another regulation on this issue by the Turkish Treasury. "Circular Related to the Preparation of the Consolidated Financial Statements of Insurance, Reinsurance, and Individual Pension Companies" issued by the Turkish Treasury in the 31 December 2008 dated and 27097 numbered (4th repeat) Official Gazette, constituted the basis of consolidation to be effective on the dates that circular specifies.

Per decree no 660 published on the Official Gazette dated 2 November 2011 and became effective, additional article no 1 of the 2499 numbered Law on establishment of TASB has been abrogated and establishment of Public Oversight, Accounting and Auditing Standards Association ("Board") has been decided by the Council of Ministers. In accordance with this additional temporary article no 1 of the decree, current regulations will prevail until related standards and regulations will be issued by the Board.

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 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

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 2013, 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 2012 and nine-month results as at and for the period ended 30 September 2013 and accordingly related balance sheet balances as at 31 December 2013 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 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

2.1.3 Functional 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 at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments 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 2013, 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 2013. 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.

2 Summary of significant accounting policies *(continued)*

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

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 2013, the Company has calculated ACML reserve for General Losses main branch as two seperate subbranches namely agriculture and non agriculture branches. Because, Agriculture and Engineering subbranches under General Losses main branch have different characteristics in conversion process of outstanding losses to paid losses, IBNR calculation of General Losses branch produces unreliable and improper results.The Company applied to Turkish Treasury on 17 January 2013 with letter numbered 300, so as to receive permission to calculate IBNR reserve for General Losses branch as agriculture and non agriculture subbranches seperately. Turkish Treasury has given permission the Company in order to calculate IBNR reserve for General Losses within two subbranches with the letter dated 28 January 2013 and numbered 24179134. As at 31 December 2013, the Company recognised the amount that arised due to change in calculation method for IBNR on General Losses branch.

Revised TFRS 13 "*Fair Value Measurement*" replaces the fair value measurement guidance contained in individual TFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs.

It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. An entity applied TFRS 13 for related unconsolidated financial statements.

The amended TAS 19 "*Employee Benefits*" is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Financial status and impacts on performance of revised standard considered by the Company and related regulations on financial tables completed.

The amended TAS 19 "*Employee Benefits*" is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among there numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The company, couldn't recognized previous years actuarial gains and losses under the equity due to the related amount is under the materiality but the current year actuarial gains and losses is recognized at the other reserves in equity.

2 Summary of significant accounting policies *(continued)*

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

The Company started to recognize all actuarial gains and losses immediately in other comprehensive income in accordance with the change in IAS 19 (2011).

The Company recognized all actuarial gains and losses in profit or loss in previous years. Since the effect of this change has an immaterial effect on the previous year's financial statements, the Company did not restate its financial statements as at and for the year ended 31 December 2012.

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.

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 2013 and 2012.

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 2013, 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))

2 Summary of significant accounting policies *(continued)*

2.4 Foreign currency transactions

2.5

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.

2.6 Tangible assets

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.

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 year.

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. Depreciation rates and estimated useful lives are as follows:

Tangible assets	Estimated useful lives (years)	Depreciation rates (%)
Buildings	50	2.0
Machinery and equipment	3 – 15	6.7 – 33.1
Vehicles	5	20.0
Other tangible assets (includes leasehold improvements)	5	20.0

2 Summary of significant accounting policies *(continued)*

2.6 Investment property

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

Investment properties are measured initially at cost including transaction costs.

Subsequent to initial recognition, the Company measured all investment property based on the cost model in accordance with the cost model for property and equipment (i.e. at cost less accumulated depreciation and less impairment losses if any).

Depreciation is provided on investment properties on a straight line basis. Depreciation period for investment properties is 50 years for buildings and land is not depreciated.

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. 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.

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 Summary of significant accounting policies *(continued)*

2.8 Financial assets

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

Securities are recognized and derecognized at the date of settlement.

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

Financial assets at fair value through profit or loss are presented as financial assets held for trading in the accompanying 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.

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 Summary of significant accounting policies *(continued)*

2.9 Impairment on asset

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*.

2.10 Derivative financial instruments

As of the reporting date, the Company does not have any 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.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

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 2013 and 2012, the share capital and ownership structure of the Company are as follows:

	31 December 2013		31 December 2012	
Name	Shareholding amount (TL)	Shareholding rate (%)	Shareholding amount (TL)	Shareholding rate (%)
Türkiye İş Bankası AŞ	471,323,817	76.64	471,323,817	76.64
Millî Reasürans TAŞ Mensupları Yardımlaşma Sandığı Vakfı	64,840,594	10.54	64,840,594	10.54
Groupama Emeklilik AŞ	36,163,765	5.88	36,163,765	5.88
T.C. Başbakanlık Hazine Müsteşarlığı	20,724,061	3.37	20,724,061	3.37
T.C. Ziraat Bankası AŞ	15,310,652	2.49	15,310,652	2.49
Others	6,637,111	1.08	6,637,111	1.08
Paid in capital	**615,000,000**	**100.00**	**615,000,000**	**100.00**

Sources of the capital increases during the year

There is not any capital increase during the current period.

2 Summary of significant accounting policies *(continued)*

2.13 Capital *(continued)*

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.

Registered capital system in the Company

None.

Repurchased own shares by the Company

None.

2.14 Insurance and investment contracts - classification

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

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

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

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

2 Summary of significant accounting policies *(continued)*

2.15 Insurance contracts and investment contracts with discretionary participation feature

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

(i) that are likely to comprise a significant portion of the total contractual benefits,

(ii) whose amount or timing is contractually at the discretion of the Issuer; and

(iii) that are contractually based on:

(1) the performance of a specified pool of contracts or a specified type of contract;

(2) realized and/or unrealized investments returns on a specified pool of assets held by the Issuer; 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 2013, the Company has deductible tax losses, amounting to TL 95,828,488 (31 December 2012: 120,750,892 TL).

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.

2 Summary of significant accounting policies *(continued)*

2.18 Income taxes *(continued)*

Deferred tax

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

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

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

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") 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 Gazzette 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.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.19 Employee benefits *(continued)*

Also, under the scope of Decree of the council of ministers numbered 2013/4617 was published on Official Gazzette 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. Decree of the council of ministers will be published on future and decides on transfer principles.

Pension and other post-retirement obligations *(continued)*

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 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 2013 is TL 3,254 (31 December 2012: TL 3,034).

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 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Discount rate	3.77%	3.77%
Expected rate of salary/limit increase	5.00%	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 Summary of significant accounting policies *(continued)*

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 bordereaux.

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.

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.

2 Summary of significant accounting policies *(continued)*

2.21 Revenue recognition *(continued)*

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 28 March 2013, the Company has profit amounting to TL 98,348,818 for 2012, it has been decided unanimously that the profit distribution is not made and offsetted by losses in previous years.

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.

2 Summary of significant accounting policies *(continued)*

2.24 Reserve for unearned premiums *(continued)*

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.

Actuarial chain ladder method ("ACML") calculation is announced by the Turkish Treasury by "Circular on Actuarial Chain Ladder Method (2010/12)" dated 20 September 2010. There are five methods in the actuarial chain ladder: Standard Chain Ladder, Claim/Premium, Cape Cod, Frequency/Volume and Munich Chain Method.

(Currency: Turkish Lira (TL))

2 Summary of significant accounting policies *(continued)*

2.25 Provision for outstanding claims *(continued)*

The methods selected for each branch is provided in the following section. The Company could not perform big claim elimination by Box Plox method whereas New Zealand earthquake claims occurred in February 2011 are eliminated directly.

Branches	**31 December 2013**	**31 December 2012**
Fire and natural disasters	Standard Chain Ladder	Standard Chain Ladder
General losses(*)	Standard Chain Ladder	Standard Chain Ladder
General liability	Standard Chain Ladder	Standard Chain Ladder
Third party liability for motor vehicles (MTPL)	Standard Chain Ladder	Standard Chain Ladder
Transportation	Standard Chain Ladder	Standard Chain Ladder
Water vehicles	Standard Chain Ladder	Standard Chain Ladder
Transportation vehicles (land)	Standard Chain Ladder	Standard Chain Ladder
Accident	Standard Chain Ladder	Standard Chain Ladder
Health	Standard Chain Ladder	Standard Chain Ladder
Air crafts	Standard Chain Ladder	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)
Legal protection	Standard Chain Ladder	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)
Third party liability (water)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)
Third party liability (air)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)
Breach of trust	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)
Financial losses	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)
Credit	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)
Life	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)	Sector Average (Association of Insurance and Reinsurance Companies of Turkey 3/2012)

(*) Two seperate calculation have been made as agriculture and non agriculture subbranches.

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, breach of trust, 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.

Due to characteristics of reinsurance transactions, business period is used rather than accident period in the actuarial chain ladder method and ACML is calculated annually according to claims paid.

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.

2 Summary of significant accounting policies *(continued)*

2.25 Provision for outstanding claims *(continued)*

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 the temporary articles of the Communiqué on Technical Reserves, companies may use at least 80% and 90% of the result of the IBNR calculated by ACML method or test IBNR for 2010 and 2011, respectively. 100% should be accounted in the financial statements as at 2012 although early implementation of 100% is permitted.

Based on the "Circular Related to Information on Calculation of Incurred But Not Reported Claims Reserve" numbered 2011/23 and dated 26 December 2011, as of the reporting date, negative IBNR balances are considered as 100% instead of 50%.

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 Losses main branch as two seperate subbranches namely agriculture and non agriculture branches. Because, Agriculture and Engineering subbranches under General Losses main branch have different characteristics in conversion process of outstanding losses to paid losses, IBNR calculation of General Losses branch produces unreliable and improper results. The Company applied to Turkish Treasury on 17 January 2013 with letter numbered 300, so as to receive permission to calculate IBNR reserve for General Losses branch as agriculture and non agriculture subbranches seperately. Turkish Treasury has given permission the Company in order to calculate IBNR reserve for General Losses within two subbranches with the letter dated 28 January 2013 and numbered 24179134. As at 31 December 2013, the Company recognised the amount that arised due to change in calculation method for IBNR on General Losses 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 3,945,150 (31 December 2012: TL 8,170,590 negative IBNR) as provision for outstanding claims. As at the reporting date, TL 30,299,954 (31 December 2012: TL 21,964,570) of IBNR provision is recorded for Singapore branch.

2 Summary of significant accounting policies *(continued)*

2.26 Mathematical provisions

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

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

2.27 Reserve for unexpired risk

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

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

In order to eliminate the misleading effect of the revised calculation of outstanding claims reserves, reserve for unexpired risks is calculated with the revised outstanding claims reserve for the opening balance.

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

As at the reporting date, the Company has provided net reserve for unexpired risk amounting to TL 5,895,886 in the accompanying unconsolidated financial statements (31 December 2012: TL 1,576,119).

2 Summary of significant accounting policies *(continued)*

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 21,791,287 (31 December 2012: TL 18,263,349).

As at 31 December 2013, the Company has deducted TL 16,738,936 (31 December 2012: TL 13,768,655) from equalization provision in consequence of realized earthquake losses.

2.29 Related parties

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.

2.30 Earning per share

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

2.31 Subsequent events

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

2 Summary of significant accounting policies *(continued)*

2.32 New standards and interpretations not yet adopted

As of 31 December 2013, a number of new standards and amendments to existing standards and interpretations which are not adopted in the preparation of accompanying financial statements and are not yet effective for the year ended 31 December 2013. These new standards are not expected to have any impact on the financial statements of the Company, with the exception of TFRS 9 – Financial instruments, revised TFRS 13 "Fair Value Measurement", amended TAS 19 "*Employee Benefits*", TFRS 10 - *Consolidated Financial Statements* and TFRS 12 - *Disclosure of Interests in Other Entities*.

TFRS 9 – *Financial instruments*, is published by International Accounting Standards Board in November 2009 as a part of a wider project that aims to bring new regulations to replace TAS 39 – *Financial Instruments: Recognition and Measurement*.

Developing a new standard for the financial reporting of financial assets that is principle-based and less complex is aimed by this project. The objective of *TFRS 9*, being the first phase of the project, is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of amounts, timing and uncertainty of the entity's future cash flows. With *TFRS 9* an entity shall classify financial assets as subsequently measured at either amortized cost or fair value on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristic of the financial assets. The guidance in TAS 39 on impairment of financial assets and hedge accounting continues to apply.

An entity shall apply TFRS 9 for annually years beginning on or after 1 January 2015. An earlier application is permitted.

New standards and interpretations not yet adopted and have no effect on the Company's financials

- TAS 32 – Financial Instruments: Presentation – The amendment on the Clarification of Financial Assets and Debts aims to clarify the statement "existence of an available and legal right for clarification of the recognized amounts". Additionally TAS 32 clarifies application areas of settlement systems (such as Exchange bureaus) where gross payment is made and where clarification principle is not implemented simultaneously. Amendments will be applied for the accounting periods starting as from 1 January 2014 retrospectively.

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 2.24 – Reserve for unearned premiums
Note 2.25 – Provision for outstanding claims
Note 2.27 – Reserve for unexpired risks
Note 2.28 – Equalization provision
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 – Deferred acquisition costs
Note 21 – Deferred income taxes

4 Management of insurance and financial risk

4.1 Management of insurance risk

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

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

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

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

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

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

Sensitivity to insurance risk

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

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

(Currency: Turkish Lira (TL))

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

4.1 Management of insurance risk *(continued)*

Insurance risk concentrations

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

	31 December 2013		
Branches	**Gross total claims liability (*)**	**Reinsurance share of total claims liability**	**Net total claims liability**
Fire and natural disasters	248,542,653	(25,413,243)	223,129,410
General losses	165,140,883	(1,059,906)	164,080,977
Motor vehicles liability (MTPL)	65,218,442	(61,945)	65,156,497
Motor vehicles	43,757,542	(33,194)	43,724,348
Health	25,227,979	-	25,227,979
Transportation	18,276,519	(1,180,632)	17,095,887
Water vehicles	17,826,378	(1,148,084)	16,678,294
Accident	13,214,751	(359,033)	12,855,718
General responsibility	13,755,012	(634,021)	13,120,991
Life	6,641,402	(44,858)	6,596,544
Breach of trust	413,418	(325)	413,093
Financial losses	392,928	-	392,928
Air crafts	284,046	-	284,046
Credit	206,615	-	206,615
Water vehicles liability	30,025	-	30,025
Legal protection	946	(117)	829
Air crafts liability	1	-	1
Total	**618,929,540**	**(29,935,358)**	**588,994,182**

	31 December 2012		
Branches	**Gross total claims liability (*)**	**Reinsurance share of total claims liability**	**Net total claims liability**
Fire and natural disasters	251,515,927	(23,349,322)	228,166,605
General losses	153,398,685	(1,920,748)	151,477,937
Motor vehicles	103,286,776	(16,270)	103,270,506
Motor vehicles liability (MTPL)	82,123,613	(101,592)	82,022,021
Health	60,896,463	(19,013)	60,877,450
Water vehicles	17,977,074	(1,095,436)	16,881,638
Transportation	15,841,689	(846,609)	14,995,080
Accident	15,120,573	(731,263)	14,389,310
General responsibility	12,682,430	(414,282)	12,268,148
Life	6,442,405	(424,101)	6,018,304
Financial losses	879,893	(19,307)	860,586
Air crafts	424,519	-	424,519
Credit	288,187	-	288,187
Breach of trust	198,400	(234)	198,166
Water vehicles liability	55,913	-	55,913
Legal protection	8,444	(243)	8,201
Total	**721,140,991**	**(28,938,420)**	**692,202,571**

(*) 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.

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

The 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.

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 2013	31 December 2012
Cash and cash equivalents *(Note 14)*	603,569,750	677,202,128
Financial assets and financial investments with risks on policyholders *(Note 11)* (*)	417,181,634	253,407,116
Receivables from main operations *(Note 12)*	185,157,785	185,066,883
Reinsurer share in provision for outstanding claims *(Note 10)*, *(Note 17)*	12,681,856	30,957,945
Prepaid taxes and funds *(Note 12)*	8,019,284	9,551,587
Income accruals	14,730,323	15,426,591
Other receivables *(Note 12)*	128,059	110,476
Other current asset *(Note 12)*	2,046	1,952
Total	**1,241,470,737**	**1,171,724,678**

(*) Equity shares amounting to TL 80,066,465 are not included (31 December 2012: TL 107,413,726).

(Currency: Turkish Lira (TL))

4 Management insurance and financial risk *(continued)*

4.2 Management of financial risk *(continued)*

Credit risk *(continued)*

31 December 2013 ve 2012, the aging of the receivables from main operations and related provisions are as follows:

	31 December 2013		31 December 2012	
	Gross amount	**Provision**	**Gross amount**	**Provision**
Not past due	138,434,104	-	136,658,598	-
Past due 0-30 days	25,620,451	-	25,778,339	-
Past due 31-60 days	4,261,497	-	6,036,368	-
Past due 61-90 days	6,825,834	-	4,349,110	-
More than 90 days	20,933,246	(10,917,347)	21,620,432	(9,375,964)
Total	**196,075,132**	**(10,917,347)**	**194,442,847**	**(9,375,964)**

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

	31 December 2013	31 December 2012
Provision for receivables from insurance operations at the beginning of the year	9,375,964	9,836,912
Collections during the period *(Note 47)*	-	-
Foreign currency translation effect *(Note 47)*	1,541,383	(460,948)
Provision for receivables from insurance operations at the end of the year	**10,917,347**	**9,375,964**

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

	31 December 2013	31 December 2012
Provision for other receivables at the beginning of the year	232,377	28,088
Collections during the period *(Note 47)*	(177,160)	(56,000)
Impairment losses provided during the period *(Note 47)*	7,960	260,289
Provision for other receivables at the end of the year	**63,177**	**232,377**

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:

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Liquidity risk *(continued)*

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

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

Management of the liquidity risk

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

Maturity distribution of monetary assets and liabilities:

31 December 2013	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	603,582,774	420,220,531	123,926,029	33,753,280	25,682,934	-
Financial assets [*]	417,181,634	85,377,409	15,811,813	17,756,542	12,179,861	286,056,009
Receivables from main operations	185,157,785	72,987,610	23,909,256	27,698,515	60,562,404	-
Other receivables and current assets	22,879,712	22,786,869	-	-	92,843	-
Total monetary assets	**1,228,801,905**	**601,372,419**	**163,647,098**	**79,208,337**	**98,518,042**	**286,056,009**
Insurance technical provisions [**]	678,707,736	-	-	-	-	678,707,736
Payables arising from main operations	41,083,420	29,554,022	10,115,231	-	1,414,167	-
Provisions for other risks and expense accruals	45,202,427	3,042,211	-	-	-	42,160,216
				-		-
Other liabilities	312,611	312,611	-	-	-	-
Due to related parties	86,156	86,156	-	-	-	-
Total monetary liabilities	**765,392,350**	**32,995,000**	**10,115,231**	-	**1,414,167**	**720,867,952**

[*] Equity shares amounting to TL 80,066,465 are not included.

[**] Provision for outstanding claims not subject to consistent distribution is presented in the "over 1 year" column.

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Liquidity risk *(continued)*

31 December 2012	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	677,226,863	413,143,095	218,596,500	26,405,296	19,081,972	-
Financial assets [*]	253,407,116	25,907,242	913,228	4,773,743	75,984,132	145,828,771
Receivables from main operations	185,066,883	62,130,648	29,042,028	12,122,693	81,771,514	-
Other receivables and current assets	25,090,606	25,010,152	-	-	80,454	-
Total monetary assets	**1,140,791,468**	**526,191,137**	**248,551,756**	**43,301,732**	**176,918,072**	**145,828,771**
Insurance technical provisions [**]	619,005,025	-	-	-	-	619,005,025
Provisions for other risks and expense accruals	39,541,847	3,123,239	-	-	-	36,418,608
Payables arising from main operations	36,566,230	30,480,054	5,800,443	18,905	266,828	-
			-	-	-	
Other liabilities	412,535	412,535	-	-	-	-
Due to related parties	121,029	121,029	-	-	-	-
Total monetary liabilities	**695,646,666**	**34,136,857**	**5,800,443**	**18,905**	**266,828**	**655,423,633**

[*] Equity shares amounting to TL 107,413,726 are not included.

[**] Provision for outstanding claims not subject to consistent distribution is presented in the "over 1 year" column.

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 2013	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	101,877,706	8,981,554	2,643,156	113,502,416
Financial assets and financial investments with risks on policyholders	6,396,988	9,766,278	-	16,163,266
Receivables from main operations	24,331,458	24,973,302	88,755,682	138,060,442
Total foreign currency assets	**132,606,152**	**43,721,134**	**91,398,838**	**267,726,124**
Liabilities:				
Payables arising from main operations	(6,671,278)	(2,779,974)	(8,683,031)	(18,134,283)
Insurance technical provisions [*]	(111,654,354)	(83,034,438)	(91,490,335)	(286,179,127)
Total foreign currency liabilities	**(118,325,632)**	**(85,814,412)**	**(100,173,366)**	**(304,313,410)**
Net on-balance sheet position	**14,280,520**	**(42,093,278)**	**(8,774,528)**	**(36,587,286)**

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Foreign currency risk (continued)

31 December 2012	US Dollar	Euro	Other currencies	Total
Assets:				
Cash and cash equivalents	89,551,650	17,174,316	11,826,530	118,552,496
Financial assets and financial investments with risks on policyholders	4,257,009	10,954,110	-	15,211,119
Receivables from main operations	42,608,983	20,088,448	63,298,663	125,996,094
Total foreign currency assets	**136,417,642**	**48,216,874**	**75,125,193**	**259,759,709**
Liabilities:				
Payables arising from main operations	(6,173,861)	(1,243,081)	-	(7,416,942)
Insurance technical provisions (*)	(121,742,091)	(127,742,131)	(63,366,333)	(312,850,555)
Total foreign currency liabilities	**(127,915,952)**	**(128,985,212)**	**(63,366,333)**	**(320,267,497)**
Net on-balance sheet position	**8,501,690**	**(80,768,338)**	**11,758,860**	**(60,507,788)**

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

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

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

	At the end of the period		Average	
	US Dollar	**Euro**	**US Dollar**	**Euro**
31 December 2013	2.1343	2.9365	1.9008	2.5247
31 December 2012	1.7826	2.3517	1.7925	2.2864

Exposure to foreign currency risk

A 10 percent depreciation of the TL against the following currencies as at 31 December 2013 and 2012 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 2013		31 December 2012	
	Profit or loss	**Equity (*)**	**Profit or loss**	**Equity (*)**
US Dollar	1,428,052	1,428,052	850,169	850,169
Euro	(4,209,328)	(4,209,328)	(8,076,834)	(8,076,834)
Others	(877,453)	(877,453)	1,175,886	1,175,886
Total, net	**(3,658,729)**	**(3,658,729)**	**(6,050,779)**	**(6,050,779)**

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

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Exposure to interest rate risk

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

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

	31 December 2013	31 December 2012
Financial assets with fixed interest rates:	***844,658,993***	***780,632,299***
Cash at banks *(Note 14)*	597,468,011	672,163,460
Available for sale financial assets – Government bonds – TL *(Note 11)*	230,024,992	101,668,131
Available for sale financial assets – Private sector bonds – TL *(Note 11)*	9,094,020	2,543,699
Financial assets held for trading – Eurobonds *(Note 11)*	6,396,988	4,257,009
Financial assets held for trading – Private sector bonds – TL *(Note 11)*	1,674,982	-
Financial assets with variable interest rate:	***84,621,112***	***120,114,266***
Available for sale financial assets – Government bonds– TL *(Note 11)*	38,266,949	83,234,012
Available for sale financial assets – Private sector bonds – TL *(Note 11)*	34,826,959	17,920,805
Financial assets held for trading – Private sector bonds – TL *(Note 11)*	11,527,204	18,959,449
Financial liabilities:	None.	None.

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 2013 and 2012 of the floating rate non-trading financial assets and financial liabilities held at 31 December 2013 and 2012. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
31 December 2013	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets held for trading	(13,514)	13,516	(13,514)	13,516
Available for sale financial assets	-	-	(5,144,003)	5,524,843
Total, net	**(13,514)**	**13,516**	**(5,157,517)**	**5,538,359**

	Profit or loss		Equity	
31 December 2012	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets held for trading	(41,386)	41,661	(41,386)	41,661
Available for sale financial assets	-	-	(4,142,134)	4,478,022
Total, net	**(41,386)**	**41,661**	**(4,183,520)**	**4,519,683**

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Fair value information

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

The 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.

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

	31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets held for trading *(Note 11)*	30,273,915	-	-	30,273,915
Available for sale financial assets *(Note 11)* (*)	457,887,052	4,545,190	-	462,432,242
Subsidiaries *(Note 9)* (**)	381,111,641	-	-	381,111,641
Total financial assets	**869,272,608**	**4,545,190**	**-**	**873,817,798**

(*) As at 31 December 2013, securities that are not publicly traded amounting to TL 4,541,942 have been measured at cost.

(**) As at 31 December 2013, subsidiaries that are not publicly traded amounting to TL 746,207 have been measured at cost.

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

	31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets held for trading *(Note 11)*	50,694,431	-	-	50,694,431
Available for sale financial assets *(Note 11)* (*)	304,297,340	1,312,038	-	305,609,378
Subsidiaries *(Note 9)* (**)	329,532,621	-	-	329,532,621
Total financial assets	**684,524,392**	**1,312,038**	**-**	**685,836,430**

(*) As at 31 December 2012, securities that are not publicly traded amounting to TL 4,517,033 have been measured at cost.

(**) As at 31 December 2012, subsidiaries that are not publicly traded amounting to TL 746,207 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 2013 and 2012.

	Change in index	**31 December 2013**	**31 December 2012**
Market price of equity	10%	45,572,770	42,977,535

The effect of changes in fair values of the financial assets held for trading on profit or loss 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 2013 and 2012.

	Change in index	**31 December 2013**	**31 December 2012**
Market price of equity	10%	90,846	265,396

(Currency: Turkish Lira (TL))

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

4.2 Management of financial risk *(continued)*

Market risk *(continued)*

Gain and losses from financial assets

Gains and losses recognized in the statement of income, net:	31 December 2013	31 December 2012
Interest income from bank deposits	40,231,034	57,108,964
Interest income from debt securities classified as available-for-sale financial assets	21,159,004	23,692,565
Foreign exchange gains	20,774,871	8,333,438
Income from equity shares	15,809,199	21,691,254
Income from derivative transactions	4,345,195	333,499
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15*)	1,974,743	(677,095)
Income from investment funds	(1,697,924)	5,003,424
Interest income from debt securities classified as held for trading financial assets	1,271,828	5,128,233
Interest income from repos	573,560	648,944
Income from subsidiaries	1,925	-
Investment income	**104,443,435**	**121,263,226**
Loss from disposal of financial assets	(9,840,257)	(5,103,243)
Loss from derivative transactions	(6,400,095)	-
Foreign exchange losses	(2,578,350)	(14,645,711)
Investment management expenses (including interest)	(1,472,447)	(390,732)
Investment expenses	**(20,291,149)**	**(20,139,686)**
Investment income, net	**84,152,286**	**101,123,540**

Gains and losses recognized in the statement of equity, net:	31 December 2013	31 December 2012
Fair value changes in available for sale financial assets (*Note 15*)	28,866,361	110,324,061
Gains transferred from the statement of equity to the statement of income on disposal of available for sale financial assets (*Note 15*)	(1,974,743)	677,095
Total	**26,891,618**	**111,001,156**

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

4.2 Management of financial risk *(continued)*

Capital management

The Company's capital management policies include the following:

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

In accordance with the "Communiqué on Measurement and Assessment of Capital Adequacy for Insurance, Reinsurance and Individual Pension Companies" issued by Turkish Treasury on 19 January 2008 dated and 26761 numbered; the Company measured its minimum capital requirement as TL 254,861,165 as at 31 December 2013. As at 31 December 2013 and 2012, the capital amount of the Company presented in the unconsolidated financial statements are TL 702,005,911 and TL 658,397,986, respectively and capital surplus of the Company is amounting to TL 182,385,927 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 2013, 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 2013 is presented below:

	1 January 2013	Additions	Foreign currency translation effect (*)	Disposals	31 December 2013
Cost:					
Investment properties *(Note 7)*	41,342,839	-	-	-	41,342,839
Owner occupied properties	31,392,945	-	-	-	31,392,945
Furniture and fixtures	3,503,244	131,997	42,786	(137,274)	3,540,753
Motor vehicles	1,215,214	-	63,609	-	1,278,823
	77,454,242	**131,997**	**106,395**	**(137,274)**	**77,555,360**
Accumulated depreciation:					
Investment properties *(Note 7)*	17,884,987	826,855	-	-	18,711,842
Owner occupied properties	11,937,920	627,859	-	-	12,565,779
Furniture and fixtures	2,162,967	368,004	39,443	(126,234)	2,444,180
Motor vehicles	594,796	225,198	19,047	-	839,041
	32,580,670	**2,047,916**	**58,490**	**(126,234)**	**34,560,842**
Carrying amounts	**44,873,572**				**42,994,518**

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

Movement in tangible assets in the period from 1 January to 31 December 2012 is presented below:

	1 January 2012	Additions	Foreign currency translation effect (*)	Disposals	31 December 2012
Cost:					
Investment properties *(Note 7)*	41,342,839	-	-	-	41,342,839
Owner occupied properties	31,392,945	-	-	-	31,392,945
Furniture and fixtures	3,356,360	421,429	(15,200)	(259,345)	3,503,244
Motor vehicles	968,401	407,024	(9,016)	(151,195)	1,215,214
	77,060,545	**828,453**	**(24,216)**	**(410,540)**	**77,454,242**
Accumulated depreciation:					
Investment properties *(Note 7)*	17,058,132	826,855	-	-	17,884,987
Owner occupied properties	11,310,062	627,858	-	-	11,937,920
Furniture and fixtures	2,067,632	363,742	(12,728)	(255,679)	2,162,967
Motor vehicles	499,905	223,086	(7,239)	(120,956)	594,796
	30,935,731	**2,041,541**	**(19,967)**	**(376,635)**	**32,580,670**
Carrying amounts	**46,124,814**				**44,873,572**

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

There is not any change in depreciation method in the current period.

There is not any revaluation on tangible assets.

As at 31 December 2013 and 2012, carrying amount and fair value of the Company's operating center building located in Nişantaşı amounting to TL 18,827,166 and TL 19,455,025; respectively. As at 31 December 2013, fair value of building is amounting to TL 78,616,087 according to expert report.

(Currency: Turkish Lira (TL))

7 Investment properties

As at 31 December 2013, inflation adjusted cost and carrying amounts of the Company's investment properties are amounting to TL 41,342,839 (31 December 2012: TL 41,342,839) and TL 22,630,997 (31 December 2012: TL 23,457,852), respectively.

As at 31 December 2013 and 2012, details of investment properties and the fair values are as follows:

	31 December 2013 Carrying amount	31 December 2012 Carrying amount	Date of expertise report	Value of expertise report
Villa Office Block	704,041	741,137	31 December 2013	17,426,560
Suadiye Fitness Center	3,829,252	4,004,665	31 December 2013	12,314,911
Tunaman Garage	1,692,481	1,759,737	31 December 2013	53,955,104
Operating Center Rental Offices	16,405,223	16,952,313	31 December 2013	91,103,449
Carrying amounts	**22,630,997**	**23,457,852**		**174,800,024**

For the year ended 31 December 2013, the Company has rental income from investment properties amounting to TL 10,331,531 (31 December 2012: TL 9,694,494)

8 Intangible assets

Movement in intangible assets in the period from 1 January to 31 December 2013 is presented below:

	1 January 2013	Additions	Foreign currency translation effects (*)	Disposal	31 December 2013
Cost:					
Other intangible assets	2,105,443	52,861	215,086	-	2,373,390
	2,105,443	**52,861**	**215,086**	**-**	**2,373,390**
Accumulated amortization:					
Other intangible assets	1,363,119	89,443	215,029	-	1,667,591
	1,363,119	**89,443**	**215,029**	**-**	**1,667,591**
Carrying amounts	**742,324**				**705,799**

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

Movement in intangible assets in the period from 1 January to 31 December 2012 is presented below:

	1 January 2012	Additions	Foreign currency translation effects (*)	Disposal	31 December 2012
Cost:					
Other intangible assets	2,046,157	137,397	(65,010)	(13,101)	2,105,443
	2,046,157	**137,397**	**(65,010)**	**(13,101)**	**2,105,443**
Accumulated amortization:					
Other intangible assets	1,329,357	110,963	(64,100)	(13,101)	1,363,119
	1,329,357	**110,963**	**(64,100)**	**(13,101)**	**1,363,119**
Carrying amounts	**716,800**				**742,324**

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

(Currency: Turkish Lira (TL))

9 Investments in associates

	31 December 2013		31 December 2012	
	Carrying value	**Participation rate %**	**Carrying value**	**Participation rate %**
Anadolu Sigorta	381,111,641	57.31	329,532,621	57.31
Miltaş Turizm İnşaat Ticaret Anonim Şirketi	746,207	77.00	746,207	77.00
Subsidiaries, net	**381,857,848**		**330,278,828**	
Financial asset total	**381,857,848**		**330,278,828**	

Name	**Total assets**	**Shareholders' equity**	**Retained earnings**	**Profit for the year**	**Audited**	**Period**
Subsidiaries:						
Miltaş Turizm Inşaat Ticaret AŞ	3,946,975	3,643,670	1,896	22,067	Not audited	31 December 2013
Anadolu Sigorta (*)	2,992,598,858	652,844,666	(48,878,904)	66,403,111	Audited	31 December 2013

(*) As at 31 December 2013, consolidated financial information of Anadolu Sigorta has been presented.

(Currency: Turkish Lira (TL))

10 Reinsurance asset and liabilities

As at 31 December 2013 and 2012, outstanding reinsurance assets and liabilities of the Company, as Reinsurance company in accordance with existing reinsurance contracts are as follows:

Reinsurance assets	31 December 2013	31 December 2012
Cash deposited to reinsurance companies	19,096,456	19,579,269
Provision for outstanding claims, ceded *(Note 4.2)*, *(Note 17)*	12,681,856	30,957,945
Receivables from reinsurance companies *(Note 12)*	16,218,921	24,928,259
Reserve for unearned premiums, ceded *(Note 17)*	6,368,822	6,304,078
Total	**54,366,055**	**81,769,551**

There is no impairment losses recognized for reinsurance assets.

Reinsurance liabilities	31 December 2013	31 December 2012
Deferred commission income *(Note 19)*	372,409	934,576
Total	**372,409**	**934,576**

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

	31 December 2013	31 December 2012
Premiums ceded during the period *(Note 17)*	(126,125,413)	(103,520,733)
Reserve for unearned premiums, ceded at the beginning of the period *(Note 17)*	(6,304,078)	(10,425,185)
Reserve for unearned premiums, ceded at the end of the period *(Note 17)*	6,368,822	6,304,078
Premiums earned, ceded *(Note 17)*	**(126,060,669)**	**(107,641,840)**
Claims paid, ceded during the period *(Note 17)*	29,935,358	28,938,420
Provision for outstanding claims, ceded at the beginning of the period *(Note 17)*	(30,957,945)	(39,326,332)
Provision for outstanding claims, ceded at the end of the period *(Note 17)*	12,681,856	30,957,945
Claims incurred, ceded *(Note 17)*	**11,659,269**	**20,570,033**
Commission income accrued from reinsurers during the period *(Note 32)*	1,490,245	2,361,093
Deferred commission income at the beginning of the period *(Note 19)*	934,576	819,526
Deferred commission income at the end of the period *(Note 19)*	(372,409)	(934,576)
Commission income earned from reinsurers *(Note 32)*	**2,052,412**	**2,246,043**
Changes in provision for outstanding claims, reinsurers' share *(Note 17)*	**322**	**(1,823,617)**
Total, net	**(112,348,666)**	**(86,649,381)**

(Currency: Turkish Lira (TL))

11 Financial assets

As at 31 December 2013 and 2012, the Company's financial assets are detailed as follows:

	31 December 2013	31 December 2012
Financial assets held for trading	30,273,915	50,694,431
Available for sale financial assets	466,974,184	310,126,411
Total	**497,248,099**	**360,820,842**

As at 31 December 2013 and 2012, the Company's financial assets held for trading are detailed as follows:

	31 December 2013			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Private sector bonds - TL	13,090,000	13,104,069	13,202,186	13,202,186
Eurobonds issued by Private sector	3,075,000	4,745,106	6,396,988	6,396,988
		17,849,175	**19,599,174**	**19,599,174**
Non-fixed income financial assets:				
Equity shares		2,129,282	908,463	908,463
Investment funds and forward transaction and option market contracts – TL		-	-	-
Investment funds and forward transaction and option market contracts – FC		7,743,600	9,766,278	9,766,278
		9,872,882	**10,674,741**	**10,674,741**
Total financial assets held for trading		**27,722,057**	**30,273,915**	**30,273,915**

	31 December 2012			
	Face value	**Cost**	**Fair value**	**Carrying value**
Debt instruments:				
Private sector bonds – TL	18,380,000	18,399,952	18,959,449	18,959,449
Eurobonds issued by Private sector	2,300,000	3,395,963	4,257,009	4,257,009
		21,795,915	**23,216,458**	**23,216,458**
Non-fixed income financial assets:				
Equity shares		3,218,757	2,653,962	2,653,962
Investment funds – TL		13,000,000	13,869,901	13,869,901
Investment funds – FC		7,743,600	10,954,110	10,954,110
		23,962,357	**27,477,973**	**27,477,973**
Total financial assets held for trading		**45,758,272**	**50,694,431**	**50,694,431**

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

As at 31 December 2013 and 2012, the Company's available for sale financial assets are as follows:

	31 December 2013			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds – TL	260,542,235	265,962,105	268,291,941	268,291,941
Private sector bonds – TL	43,421,032	43,402,220	43,920,979	43,920,979
		309,364,325	**312,212,920**	**312,212,920**
Non-fixed income financial assets:				
Equity shares		48,180,838	79,158,002	79,158,002
Investment funds		78,003,573	75,603,262	75,603,262
		126,184,411	**154,761,264**	**154,761,264**
Total available-for-sale financial assets		**435,548,736**	**466,974,184**	**466,974,184**

	31 December 2012			
	Face value	Cost	Fair value	Carrying value
Debt instruments:				
Government bonds – TL	165,696,582	172,742,154	184,902,143	184,902,143
Private sector bonds - TL	20,218,073	20,048,334	20,464,504	20,464,504
		192,790,488	**205,366,647**	**205,366,647**
Non-fixed income financial assets:				
Equity shares		71,450,070	104,759,764	104,759,764
		71,450,070	**104,759,764**	**104,759,764**
Total available-for-sale financial assets		**264,240,558**	**310,126,411**	**310,126,411**

All debt instruments presented above are traded in the capital markets. As at 31 December 2013, equity shares classified as available for sale financial assets with a carrying amount of TL 4,541,942 are not publicly traded (31 December 2012: TL 4,517,033).

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

There is no financial asset that is overdue but not impaired among the Company's financial investments portfolio.

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
2013	26,891,618	25,630,918
2012	111,001,156	(1,260,700)
2011	(166,766,456)	(112,261,856)

(Currency: Turkish Lira (TL))

11 Financial assets *(continued)*

Details of the financial assets issued by related parties of the Company's are as follows:

	31 December 2013			
	Face value	**Cost**	**Fair value**	**Carrying value**
Available for sale financial assets - Private sector bonds	5,320,000	5,320,000	5,405,505	5,405,505
Financial assets held for trading – Investment funds		7,743,600	9,766,278	9,766,278
Available for sale financial assets – Investment funds		78,003,573	75,603,262	75,603,262
Available for sale financial assets – Equity shares		39,788,176	71,280,097	71,280,097
Total		**130,855,349**	**162,055,142**	**162,055,142**

	31 December 2012			
		Cost	**Fair value**	**Carrying value**
Available for sale financial assets - Private sector bonds	9,470,000	9,470,000	9,543,794	9,543,794
Financial assets held for trading – Investment funds		20,743,600	24,824,011	24,824,011
Available for sale financial assets – Equity shares		35,068,846	67,292,597	67,292,597
Total		**65,282,446**	**101,660,402**	**101,660,402**

As at 31 December 2013 and 2012, the movement of the financial assets is presented below:

	31 December 2013		
	Trading	**Available-for-Sale**	**Total**
Balance at the beginning of the period	**50,694,431**	**310,126,411**	**360,820,842**
Unrealized exchange differences on financial assets	3,346,055	-	3,346,055
Acquisitions during the period	20,491,380	497,223,002	517,714,382
Disposals (sale and redemption)	(40,543,020)	(330,538,945)	(371,081,965)
Change in the fair value of financial assets	(3,714,931)	13,981,232	10,266,301
Change in amortized cost of the financial assets	-	(28,742,000)	(28,742,000)
Bonus shares acquired	-	4,924,484	4,924,484
Balance at the end of the period	**30,273,915**	**466,974,184**	**497,248,099**

	31 December 2012		
	Trading	**Available-for-Sale**	**Total**
Balance at the beginning of the period	**85,950,860**	**220,587,319**	**306,538,179**
Unrealized exchange differences on financial assets	(628,171)	-	(628,171)
Acquisitions during the period	21,309,949	499,667,216	520,977,165
Disposals (sale and redemption)	(65,185,987)	(460,929,345)	(526,115,332)
Change in the fair value of financial assets	9,247,780	6,829,980	16,077,760
Change in amortized cost of the financial assets	-	37,873,389	37,873,389
Bonus shares acquired	-	6,097,852	6,097,852
Balance at the end of the period	**50,694,431**	**310,126,411**	**360,820,842**

(Currency: Turkish Lira (TL))

12 Loans and receivables

	31 December 2013	31 December 2012
Receivables from main operations *(Note 4.2)*	185,157,785	185,066,883
Prepaid taxes and funds *(Note 19)*	8,019,284	9,551,587
Other receivables *(Note 4.2)*	128,059	110,476
Other current asset	2,046	1,952
Total	**193,307,174**	**194,730,898**
Short-term receivables	193,307,174	194,730,898
Medium and long-term receivables	-	-
Total	**193,307,174**	**194,730,898**

As at 31 December 2013 and 2012, receivables from main operations are detailed as follows:

	31 December 2013	31 December 2012
Receivables from insurance companies	49,529,434	46,710,143
Receivables from agencies, brokers and intermediaries	39,071,853	43,088,018
Receivables from reinsurance companies *(Note 10)*	16,218,921	24,928,259
Total receivables from insurance operations, net	**104,820,208**	**114,726,420**
Cash deposited to insurance and reinsurance companies	80,337,577	70,340,463
Doubtful receivables from main operations	10,917,347	9,375,964
Provision for doubtful receivables from main operations	(10,917,347)	(9,375,964)
Receivables from main operations	**185,157,785**	**185,066,883**

As at 31 December 2013 and 2012, mortgages and collaterals obtained for receivables are disclosed as follows:

	31 December 2013	31 December 2012
Letters of guarantees	4,547,054	3,159,911
Mortgage notes	2,041	2,041
Total	**4,549,095**	**3,161,952**

Provisions for overdue receivables and receivables not due yet

a) Receivables under legal or administrative follow up (due): TL 10,917,347 for main operations (31 December 2012: TL 9,375,964) and TL 63,177 (31 December 2012: TL 232,377) for other receivables.

b) Provision for premium receivables (due): None (31 December 2012: 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.*

13 Derivative financial assets

As at 31 December 2013 and 2012, the Company does not have derivative financial instruments.

14 Cash and cash equivalents

As at 31 December 2013 and 2012, cash and cash equivalents are as follows:

	31 December 2013		31 December 2012	
	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	13,024	24,735	24,735	14,067
Bank deposits	603,569,750	677,202,128	677,202,128	582,272,771
Cash and cash equivalents in the balance sheet	**603,582,774**	**677,226,863**	**677,226,863**	**582,286,838**
Bank deposits – blocked	(500)	(500)	(500)	(500)
Time deposits with maturities longer than 3 months	(85,071,502)	(316,005,626)	(316,005,626)	(57,151,184)
Interest accruals on bank deposits	(1,488,436)	(2,357,988)	(2,357,988)	(2,160,164)
Cash and cash equivalents presented in the statement of cash flows	**517,022,336**	**358,862,749**	**358,862,749**	**522,974,990**

As at 31 December 2013 and 2012, bank deposits are further analyzed as follows:

	31 December 2013	31 December 2012
Foreign currency denominated bank deposits		
- time deposits	107,411,745	113,609,701
- demand deposits	6,085,663	4,930,531
Bank deposits in Turkish Lira		
- time deposits	490,056,266	558,553,759
- demand deposits	16,076	108,137
Cash at banks	**603,569,750**	**677,202,128**

(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 2013 and 2012, the shareholding structure of the Company is presented below:

	31 December 2013		31 December 2012	
Name	**Shareholding amount (TL)**	**Shareholding rate (%)**	**Shareholding amount (TL)**	**Shareholding rate (%)**
Türkiye İş Bankası AŞ	471,323,817	76.64	471,323,817	76.64
Millî Reasürans TAŞ Mensupları Yardımlaşma Sandığı Vakfı	64,840,594	10.54	64,840,594	10.54
Groupama Emeklilik AŞ	36,163,765	5.88	36,163,765	5.88
T.C. Başbakanlık Hazine Müsteşarlığı	20,724,061	3.37	20,724,061	3.37
T.C. Ziraat Bankası AŞ	15,310,652	2.49	15,310,652	2.49
Other	6,637,111	1.08	6,637,111	1.08
Paid in Capital	**615,000,000**	**100.00**	**615,000,000**	**100.00**

As at 31 December 2013, the issued share capital of the Company is TL 615,000,000 (31 December 2012: TL 615,000,000) and the share capital of the Company consists of 61,500,000,000 (31 December 2012: 61,500,000,000 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.

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.

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 2013	**31 December 2012**
Legal reserves at the beginning of the period	49,622,694	49,622,694
Transfer from 2012/2011 profit	-	-
Legal reserves at the end of the period	49,622,694	49,622,694

(Currency: Turkish Lira (TL))

15 Equity *(continued)*

As at 31 December 2013 and 2012, "Other Reserves and Retained Earnings" includes only extraordinary reserves.

Extraordinary Reserves

The movement of extraordinary reserves is as follows:

	31 December 2013	31 December 2012
Extraordinary reserves at the beginning of the period	5,512,899	5,512,899
Transfer from profit	-	-
Extraordinary reserves at the end of the period	5,512,899	5,512,899

Other capital reserves

As of 31 December 2013, in accordance with the revision of TAS 19 TL (265,270) of actuarial gains and losses, which are presented in profit or loss is presented under "other capital reserves".

Movement of other profit reserves is presented below:

	31 December 2013	31 December 2012
Other profit reserves at the beginning of the period	-	-
Actuarial gains/losses	(265,270)	-
Other profit reserves at the end of the period	(265,270)	-

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 2013, total amount of statutory reserves allocated as mentioned method is TL 39,500,000 (31 December 2012: TL 39,500,000).

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 2013, foreign currency translation loss amounting to TL 9,246,073 (31 December 2012: TL 3,588,736 loss) stems from Singapore Branch whose functional currency is US Dollars.

Valuation of financial assets

As at 31 December 2013 and 2012, movement of fair value reserves of available for sale financial assets and associates are presented below:

	31 December 2013	31 December 2012
Fair value reserves at the beginning of the period	(1,260,700)	(112,261,856)
Change in the fair value during the period *(Note 4.2)*	34,780,063	134,341,612
Deferred tax effect	(6,308,651)	(23,882,132)
Net gains transferred to the statement of income *(Note 4.2)*	(1,974,743)	677,095
Deferred tax effect	394,949	(135,419)
Fair value reserves at the end of the period	25,630,918	(1,260,700)

16 Other reserves and equity component of DPF

As at 31 December 2013 and 2012, other reserves are explained in detail in Note 15 – *Equity* above.

As at 31 December 2013 and 2012, the Company does not hold any insurance or investment contracts which contain a DPF.

(Currency: Turkish Lira (TL))

17 Insurance contract liabilities and reinsurance assets

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

As at 31 December 2013 and 2012, technical reserves of the Company are as follows:

	31 December 2013	31 December 2012
Reserve for unearned premiums, gross	356,231,478	393,337,225
Reserve for unearned premiums, ceded *(Note 10)*	(6,368,822)	(6,304,078)
Reserves for unearned premiums, net	**349,862,656**	**387,033,147**
Provision for outstanding claims, gross	691,389,592	649,962,970
Provision for outstanding claims, ceded *(Note 10)*	(12,681,856)	(30,957,945)
Provision for outstanding claims, net	**678,707,736**	**619,005,025**
Reserve for unexpired risks, gross	5,896,463	1,576,374
Reserve for unexpired risks, ceded *(Note 10)*	(577)	(255)
Reserve for unexpired risks, net	**5,895,886**	**1,576,119**
Equalization provision, net	**21,791,287**	**18,263,349**
Life mathematical provisions	**641,636**	**1,020,079**
Total technical provisions, net	**1,056,899,201**	**1,026,897,719**
Short-term	1,035,107,914	1,008,634,370
Medium and long-term	21,791,287	18,263,349
Total technical provisions, net	**1,056,899,201**	**1,026,897,719**

As at 31 December 2013 and 2012, movements of the insurance liabilities and related reinsurance assets are presented below:

Reserve for unearned premiums	31 December 2013		
	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the period	393,337,225	(6,304,078)	387,033,147
Premiums written during the period	925,151,498	(126,125,413)	799,026,085
Premiums earned during the period	(962,257,245)	126,060,669	(836,196,576)
Reserve for unearned premiums at the end of the period	**356,231,478**	**(6,368,822)**	**349,862,656**

Reserve for unearned premiums	31 December 2012		
	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the period	413,348,322	(10,425,185)	402,923,137
Premiums written during the period	1,030,780,980	(103,520,733)	927,260,247
Premiums earned during the period	(1,050,792,077)	107,641,840	(943,150,237)
Reserve for unearned premiums at the end of the period	**393,337,225**	**(6,304,078)**	**387,033,147**

(Currency: Turkish Lira (TL))

17 Insurance liabilities and reinsurance assets *(continued)*

Provision for outstanding claims	31 December 2013		
	Gross	Ceded	Net
Provision for outstanding claims at the beginning of the period	649,962,970	(30,957,945)	619,005,025
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	660,356,162	(11,659,269)	648,696,893
Claims paid during the period	(618,929,540)	29,935,358	(588,994,182)
Provision for outstanding claims at the end of the period	**691,389,592**	**(12,681,856)**	**678,707,736**

Provision for outstanding claims	31 December 2012		
	Gross	Ceded	Net
Provision for outstanding claims at the beginning of the period	631,050,815	(39,326,332)	591,724,483
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the period	740,053,146	(20,570,033)	719,483,113
Claims paid during the period	(721,140,991)	28,938,420	(692,202,571)
Provision for outstanding claims at the end of the period	**649,962,970**	**(30,957,945)**	**619,005,025**

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.

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.

(Currency: Turkish Lira (TL))

17 Insurance liabilities and reinsurance assets *(continued)*

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

None.

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

None.

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

None.

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

None.

Profit share distribution rate of life insurances

None.

Deferred commission expenses

The Company capitalizes commissions paid to the intermediaries related to policy production under short-term and long-term prepaid expenses. As at 31 December 2013, short-term deferred expenses amounting to TL 87,498,692 (31 December 2012: TL 102,260,739) totally consist of deferred commission expenses.

As at 31 December 2013 and 2012, the movement of deferred commission expenses is presented below:

	31 December 2013	31 December 2012
Deferred commission expenses at the beginning of the period	102,260,739	94,680,589
Commissions accrued during the period *(Note 32)*	211,953,982	234,177,910
Commissions expensed during the period *(Note 32)*	(226,716,029)	(226,597,760)
Deferred commission expenses at the end of the period	**87,498,692**	**102,260,739**

18 Investment contract liabilities

None.

(Currency: Turkish Lira (TL))

19 Trade and other payables and deferred income

	31 December 2013	31 December 2012
Payables arising from reinsurance operations	41,083,420	36,566,230
Short/long term deferred income and expense accruals	3,519,550	4,201,902
Taxes and other liabilities and similar obligations	1,156,680	897,529
Due to related parties *(Note 45)*	86,156	412,535
Other payables	312,611	121,029
Total	**46,158,417**	**42,199,225**
Short-term liabilities	46,158,417	42,182,558
Long-term liabilities	-	16,667
Total	**46,158,417**	**42,199,225**

As at 31 December 2013 and 2012, 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 372,409 (31 December 2012: TL 934,576).

As at 31 December 2013 TL 3,042,211 (31 December 2012: TL 3,123,239) of short/long term deferred income and expense accruals is composed by mainly personnel premium and profit distribution accruals.

Corporate tax liabilities and prepaid taxes are disclosed below:

	31 December 2013	31 December 2012
Taxes paid during the year	(8,019,284)	(9,551,587)
Corporate tax liabilities	-	-
Prepaid assets, net *(Note 12)*	**(8,019,284)**	**(9,551,587)**

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

None

20 Financial liabilities

None (31 December 2012: None).

(Currency: Turkish Lira (TL))

21 Deferred Taxes

As at 31 December 2013 and 2012, deferred tax assets and liabilities are attributable to the following:

	31 December 2013	**31 December 2012**
	Deferred tax assets / (liabilities)	**Deferred tax assets / (liabilities)**
Deferred tax effect of current period tax losses	19,165,698	25,185,010
Provision for the pension fund deficits	7,263,205	6,219,079
Income accruals	(2,946,065)	(3,085,318)
Valuation differences in subsidiaries	(1,721,655)	8,116,381
Reserve for unexpired risks	1,179,024	315,224
Provisions for employee termination benefits	1,168,838	1,064,643
Equalization provision	360,459	175,666
Provision for doubtful receivables	277,378	231,673
Difference in depreciation methods on tangible and intangible assets between tax regulations and the Reporting Standards	(225,983)	(209,524)
Valuation differences in financial assets	216,935	(907,645)
Discount of receivables and payables	(27,475)	(115,710)
Deferred tax assets, net	**24,710,359**	**36,989,479**

As at 31 December 2013, the Company has deductible tax losses presented below with maturities and amounts in detail. The Company has recognised deferred tax assets on these tax losses because it is probable that future taxable profit will be available in accordance with the Company's projections.

	31 December 2013
31 December 2016	95,828,488
Deductible tax losses	**95,828,488**

Movement of deferred tax assets as at 31 December 2013 and 2012 are given below:

Movement of deferred tax (assets) / liabilities:	**31 December 2013**	**31 December 2012**
Opening balance at 1 January	**36,989,479**	**78,191,494**
Recognised in profit or loss	(6,036,785)	(17,319,883)
Recognised in equity	(6,242,335)	(23,882,132)
Closing balance at 31 December	**24,710,359**	**36,989,479**

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 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 Gazzette 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 Gazzette 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.

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.

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.

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 36,316,026 (31 December 2012: TL 31,095,395) is accounted as "Provision for pension fund deficits" in the accompanying unconsolidated financial statements.

(Currency: Turkish Lira (TL))

22 Retirement benefit obligations *(continued)*

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 2013 and 2012, technical deficit from pension funds comprised the following:

	31 December 2013	31 December 2012
Net present value of total liabilities other than health	(75,085,832)	(68,578,765)
Net present value of insurance premiums	14,130,474	13,312,832
Net present value of total liabilities other than health	**(60,955,358)**	**(55,265,933)**
Net present value of health liabilities	(12,130,190)	(10,967,935)
Net present value of health premiums	7,744,271	7,295,668
Net present value of health liabilities	**(4,385,919)**	**(3,672,267)**
Pension fund assets	**29,025,251**	**27,842,805**
Amount of actuarial and technical deficit	**(36,316,026)**	**(31,095,395)**

Plan assets are comprised of the following items:

	31 December 2013	31 December 2012
Properties	18,270,000	17,680,000
Cash and cash equivalents	3,658,902	5,469,413
Associates	6,995,082	4,556,404
Securities portfolio	4,786	4,786
Other	96,481	132,202
Total plan assets	**29,025,251**	**27,842,805**

(Currency: Turkish Lira (TL))

23 Provision for other liabilities and charges

As at 31 December 2013 and 2012; the provisions for other risks are disclosed as follows:

	31 December 2013	31 December 2012
Provision for pension fund deficits *(Note 22)*	**36,316,026**	**31,095,395**
Provision for employee termination benefits	**5,844,190**	**5,323,213**
Total provision for other risks	**42,160,216**	**36,418,608**

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

	31 December 2013	31 December 2012
Provision at the beginning of the period	5,323,213	4,588,628
Interest cost *(Note 47)*	385,213	338,556
Service cost *(Note 47)*	366,258	338,541
Payments during the period *(Note 47)*	(562,080)	(427,805)
Actuarial differences *(Note 47)*	331,586	485,293
Provision at the end of the period	**5,844,190**	**5,323,213**

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".

(Currency: Turkish Lira (TL))

29 Insurance rights and claims

	31 December 2013		31 December 2012	
	Life	**Non-Life**	**Life**	**Non-Life**
Claims paid, net off reinsurers' share	(6,596,545)	(582,397,637)	(6,018,305)	(686,184,266)
Changes in provision for outstanding claims, net off reinsurers' share	(407,807)	(59,294,904)	(326,893)	(26,953,649)
Changes in reserve for unearned premium, net off reinsurers' share	(389,342)	37,559,833	344,181	15,545,809
Changes in reserve for unexpired risks, net off reinsurers' share	-	(4,319,767)	-	67,333,685
Change in equalization provision, net off reinsurers' share	(265,425)	(3,262,513)	(252,279)	(3,640,558)
Change in life mathematical provisions, net off reinsurers' share	378,443	-	357,622	-
Total	**(7,280,676)**	**(611,714,988)**	**(5,895,674)**	**(633,898,979)**

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

As at and for the years ended 31 December 2013 and 2012, the operating expenses are disclosed as follows:

	31 December 2013		31 December 2012	
	Life	**Non life**	**Life**	**Non life**
Commission expenses *(Note 17)*	9,126,591	217,589,438	7,330,952	219,266,808
Commissions to the intermediaries accrued during the period (Note 17)	*9,243,376*	*202,710,606*	*7,235,972*	*226,941,938*
Changes in deferred commission expenses (Note 17)	*(116,785)*	*14,878,832*	*94,980*	*(7,675,130)*
Employee benefit expenses *(Note 33)*	847,224	30,195,955	827,918	28,347,207
Foreign exchange losses	130,722	22,447,446	87,332	17,272,937
Administration expenses	20,922	7,541,137	30,710	6,715,863
Commission income from reinsurers *(Note 10)*	(66,285)	(1,986,127)	(93,781)	(2,152,262)
Commission income from reinsurers accrued during the period (Note 10)	*(88,165)*	*(1,402,080)*	*(89,453)*	*(2,271,640)*
Change in deferred commission income (Note 10)	*21,880*	*(584,047)*	*(4,328)*	*119,378*
Outsourced benefits and services	-	648,828	-	642,733
Other	5	7,794,530	40	6,887,788
Total	**10,059,179**	**284,231,207**	**8,183,171**	**276,981,074**

33 Employee benefit expenses

As at and for the years ended 31 December 2013 and 2012, employee benefit expenses are disclosed as follows:

	31 December 2013		31 December 2012	
	Life	**Non life**	**Life**	**Non life**
Wages and salaries	543,890	22,167,861	659,698	20,311,410
Employer's share in social security premiums	87,881	4,890,202	103,623	4,593,417
Pension fund benefits	215,453	3,137,892	64,597	3,442,380
Total *(Note 32)*	**847,224**	**30,195,955**	**827,918**	**28,347,207**

(Currency: Turkish Lira (TL))

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 2013	31 December 2012
Corporate tax expense:		
Corporate tax provision	-	-
Deferred taxes:		
Origination and reversal of temporary differences	(6,036,785)	(17,319,883)
Total income tax expense / (income)	**(6,036,785)**	**(17,319,883)**

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 2013 and 2012 is as follows:

	31 December 2013		31 December 2012	
Profit/(loss) before taxes	**28,675,699**	**Tax rate (%)**	**115,668,701**	**Tax rate (%)**
Taxes on income per statutory tax rate	5,735,140	20.00	23,133,740	20.00
Tax exempt income	(1,842,303)	(6.42)	(1,704,485)	(1.47)
Prior period foreign branch financial losses recognized in current year deferred tax	-	-	(4,345,240)	(3.76)
Non-deductible expenses	2,143,948	7.48	235,868	0.20
Total tax expense recognized in profit or loss	**6,036,785**	**21.06**	**17,319,883**	**14.97**

36 Net foreign exchange gains

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

37 Earnings per share

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

	31 December 2013	31 December 2012
Net profit / (loss) for the period	22,638,914	98,348,818
Weighted average number of shares	61,500,000,000	61,500,000,000
Earnings / (loss) per share (TL)	0.00037	0.00160

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, 3.5% of the remaining amount is distributed to the Founder Shares and up to 3% of the remaining amount not exceeding three-wages is distributed to personnel, based on the suggestion of the Board of Directors and decision of the General Assembly.

- 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 Ordinary General Meeting of the Company held on 28 March 2013, the Company has profit amounting to TL 98,348,818 for 2012, it has been decided unanimously that the profit distribution is not made and offsetted by losses in previous years.

(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

"Milli Reasürans Türk Anonim Şirketi Mensupları Yardımlaşma Sandığı Vakfı" was established by Milli Rasürans Türk Anonim Şirketi, in accordance with the Turkish Commercial and Civil Laws which is examined by Tax Audit Commitee inspectors due to the Company payments what are fulfilled obligations to the foundation owing to deed of the foundaton 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 initiated related to 2007 and 2008, also as of the report date there are cases against/on behalf of us and also for the against result cases the case has been moved to a higher court. In addition, some part of the payment orders submitted to us for the following periods are subjected to litigation and for the other part of the cases compromise were made to relevant parties.

As of the report date, the Company has not reserved provision for related tax assessments, because there is not any certain case (31 December 2012: None).

43 Commitments

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

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

TL commitments	31 December 2013	31 December 2012
Within one year	354,413	306,429
Between two to five years	-	306,429
More than 5 years	-	-
Total of minimum rent payments	**354,413**	**612,858**

44 Business combinations

None.

(Currency: Turkish Lira (TL))

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 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Türkiye İş Bankası A.Ş	424,898,538	261,860,771
T.C. Ziraat Bankası A.Ş	-	74,547,309
Other	103	713
Banks	**424,898,641**	**336,408,793**
Equity shares of the related parties	71,280,097	67,292,597
Investment funds founded by İş Portföy Yönetimi A.Ş. *(Note 11)*	61,658,497	8,803,200
Investment funds founded by İş Yatırım Menkul Değerler A.Ş. *(Note 11)*	13,944,765	5,066,701
Investment funds founded by İşbank GmbH *(Note 11)*	9,766,278	10,954,110
Bonds issued by İş Finansal Kiralama A.Ş. *(Note 11)*	5,405,505	524,342
Bonds issued by İş Bankası A.Ş. *(Note 11)*	-	9,019,452
Financial assets	**162,055,142**	**101,660,402**
Axa Sigorta A.Ş	7,348,938	233,841
Anadolu Sigorta	5,441,770	42,889
Allianz Sigorta A.Ş	2,334,720	1,147,259
Ziraat Sigorta A.Ş.	914,258	-
Ziraat Hayat ve Emeklilik	631,966	-
Groupama Sigorta A.Ş	529,594	-
Anadolu Hayat Emeklilik A.Ş	114,048	123,852
İstanbul Umum Sigorta A.Ş	89,576	76,182
Ergo Sigorta A.Ş	18,245	18,245
Receivables from main operations	**17,423,115**	**1,642,268**
Due to shareholders	72,450	72,450
Due to other related parties	13,706	48,579
Due to related parties	**86,156**	**121,029**
Ergo Sigorta A.Ş	6,290,123	5,887,219
Güven Sigorta T.A.Ş	746,997	457,086
Groupama Sigorta A.Ş	57,003	441,295
Axa Sigorta A.Ş	52,740	49,762
İstanbul Umum Sigorta A.Ş	41,830	39,554
Allianz Sigorta A.Ş	37,892	37,236
AvivaSa Emeklilik A.Ş.	372	-
Anadolu Sigorta	-	10,681,643
Payables from main operations	**7,226,957**	**17,593,795**

(Currency: Turkish Lira (TL))

45 Related party transactions *(continued)*

No guarantees have been taken against receivables from related parties.

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

No guarantees, commitments, guarantee letters, advances and endorsements given in favour of shareholders, associates and subsidiaries.

The transactions with related parties during the years ended 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Anadolu Sigorta	79,126,226	81,739,057
Axa Sigorta A.Ş	40,679,330	36,830,622
Allianz Sigorta A.Ş	29,752,319	25,933,759
Ergo Sigorta A.Ş	20,126,753	32,774,685
Groupama Sigorta A.Ş	9,227,875	7,800,594
Ziraat Sigorta A.Ş.	6,668,139	-
Ziraat Hayat ve Emeklilik	2,236,068	-
Anadolu Hayat Emeklilik A.Ş	777,148	1,040,773
AvivaSa Emeklilik A.Ş	147,535	614,282
Güven Sigorta T.A.Ş	36	87
Premiums received	**188,741,429**	**186,733,859**
Anadolu Sigorta	199,994	77,047
Ergo Sigorta A.Ş	12,818	50,790
Groupama Sigorta A.Ş	3,615	17,606
Axa Sigorta A.Ş	1,816	10,434
Güven Sigorta T.A.Ş	591	3,332
Allianz Sigorta A.Ş	18	57
İstanbul Umum Sigorta A.Ş	4	4
Premiums ceded	**218,856**	**159,270**
Ergo Sigorta A.Ş.	1,721	16,763
Anadolu Sigorta	1,422	32,636
Allianz Sigorta A.Ş.	2	4
Güven Sigorta T.A.Ş.	(377)	2,764
Axa Sigorta A.Ş.	(968)	7,265
Groupama Sigorta A.Ş.	(2,096)	15,728
Commissions received	**(296)**	**75,160**
Anadolu Sigorta	12,937,882	19,355,996
Axa Sigorta A.Ş	7,453,799	6,811,293
Allianz Sigorta A.Ş	7,208,680	6,401,483
Ergo Sigorta A.Ş	3,206,199	8,165,773
Ziraat Sigorta A.Ş.	1,584,204	-
Groupama Sigorta A.Ş	1,569,297	1,486,282
Anadolu Hayat Emeklilik A.Ş	293,709	231,115
AvivaSa Emeklilik A.Ş	116,677	375,709
Güven Sigorta T.A.Ş	(16,700)	67,137
Commissions given	**34,353,747**	**42,894,788**

(Currency: Turkish Lira (TL))

45 Related party transactions *(continued)*

	31 December 2013	31 December 2012
Anadolu Sigorta	32,251,600	64,186,324
Axa Sigorta A.Ş	29,923,899	40,265,158
Ergo Sigorta A.Ş	18,813,359	32,858,939
Allianz Sigorta A.Ş	10,687,045	14,010,468
Groupama Sigorta A.Ş	5,083,342	6,244,647
Ziraat Sigorta A.Ş.	3,127,877	-
Ziraat Hayat ve Emeklilik	1,447,702	-
Güven Sigorta T.A.Ş.	1,255,493	1,173,115
Anadolu Hayat Emeklilik A.Ş	125,444	208,621
AvivaSa Emeklilik A.Ş	97,033	28,695
Claims paid	**102,812,794**	**158,975,967**
Anadolu Sigorta	274,548	379,280
Groupama Sigorta A.Ş	164,896	197,390
Axa Sigorta A.Ş	118,737	110,320
Ergo Sigorta A.Ş	75,352	129,934
Güven Sigorta T.A.Ş	62,798	59,022
İstanbul Umum Sigorta A.Ş	15,759	11,393
Allianz Sigorta A.Ş	12,111	8,849
Reinsurance's share of claims paid	**724,201**	**896,188**
Axa Sigorta A.Ş	1,422,610	132,307
Ergo Sigorta A.Ş	612,076	88,524
Anadolu Sigorta	322,750	-
Allianz Sigorta A.Ş	136,473	154,583
Groupama Sigorta A.Ş	134,495	6,920
Ziraat Sigorta A.Ş.	24,875	-
Anadolu Hayat Emeklilik A.Ş	2,869	784
AvivaSa Emeklilik A.Ş	122	313
Other income	**2,656,270**	**383,431**
Ergo Sigorta A.Ş	323,749	397,072
Axa Sigorta A.Ş	254,596	752,758
Allianz Sigorta A.Ş	82,705	323,688
Groupama Sigorta A.Ş	22,614	79,396
Anadolu Sigorta	10,251	721,041
Ziraat Sigorta A.Ş.	5,750	-
Ziraat Hayat ve Emeklilik	2,331	-
Anadolu Hayat Emeklilik A.Ş	465	3,958
AvivaSa Emeklilik A.Ş	16	79
Other expenses	**702,477**	**2,277,992**

46 Subsequent events

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

(Currency: Turkish Lira (TL))

47 Other

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

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 2013 and 2012, details of rediscount and provision expenses are as follows:

Provision Expenses	31 December 2013	31 December 2012
Provision for pension fund deficits	(5,220,631)	(5,925,148)
Provision expenses for doubtful receivables (*)	(1,372,183)	256,659
Provision for employee termination benefits *(Note 23)*	(189,391)	(734,585)
Other	1,798	(1)
Provisions	**(6,780,407)**	**(6,403,075)**

(*) Provision income stems from foreign exchange translation effect on doubtful receivables from main operations amounting to TL (1,541,383) and provision expense on doubtful receivables from other receivables amounting to TL 169,200.

	31 December 2013	31 December 2012
Rediscount income / (expense) from reinsurance receivables	1,350	(419,487)
Rediscount income / (expense) from reinsurance payables	25,646	272,434
Total of rediscounts	**26,996**	**(147,053)**